



## Version 3 – 25 March 2014

The world's largest importer of dairy products, and Australia's second largest market (in both volume and value); China is an important player in world dairy markets.

### Chinese Dairy Imports

China imported 1.5 million tonnes of dairy products during the 2012/13 financial year, worth US\$5.2 billion. The top 5 products by value and volume are shown in Figures 2 and 3.

Dairy imports have increased by 40% over the past 5 years (2008/09 to 2012/13). In product categories where 2012/13 imports exceeded US\$25 million, the biggest growth has been in milk (1004%), WMP (387%), lactose (355%), ice cream (284%), and butter (270%).

The majority of the liquid milk imported into China is UHT, as it can be imported, transported and stored with much greater ease than fresh or pasteurised milk.

The change in total dairy imports, the market share of major suppliers, and the total value of imports, is shown in Figure 1.

There is an element of seasonality to China's dairy imports. Imports of WMP, infant powder, cheese, and milk, generally peak in December. The peak for SMP imports is February/March, and Whey powder November. Many products experience a substantial dip in imports around the Lunar New Year.

### Australian Market Share

Australia exported 72,500 tonnes of dairy products to China during the 2012/13 financial year, worth US\$230 million. The top 5 products by value and volume are shown in Figures 4 and 5.

In product categories where 2012/13 exports exceeded US\$1 million, the biggest growth in export value for Australia over the past 5 years has been in ice cream (26,000%), lactose (4000%), milk (945%), yogurt (680%), and cheese (340%).

Of the 6 major dairy categories imported by China, Figure 6 shows the changes in Australia's market share, and the volume and value exported.

### Market Developments

China is Australia's fastest growing dairy market. Higher household incomes, increased urbanisation and changing dietary preferences have seen consumption of dairy products rise significantly in recent years. The Food and Agricultural Organisation of the United Nations (2013) report that consumption of milk and dairy products (except butter) rose from 9.5 kilograms per person in 2000 to 29.8 kilograms in

2009. Increased urbanisation is likely to see continued growth in Chinese dairy demand, as incomes increase and distribution and sales channels for dairy products improve.

China has been buying huge quantities of dairy products from the internationally traded market in recent times, reflecting a widely reported shortfall in domestic supply. The melamine adulteration incident in 2008, and subsequent food safety issues, has seen increased government-imposed regulation and reorganisation of the dairy industry, constraining growth in domestic production. The Chinese government also has a number of dairy policies in place to increase milk production, including accelerating large-scale farming, dairy breeding, feed programs, and increased monitoring and supervision of milk safety and quality.

### Tariff Environment

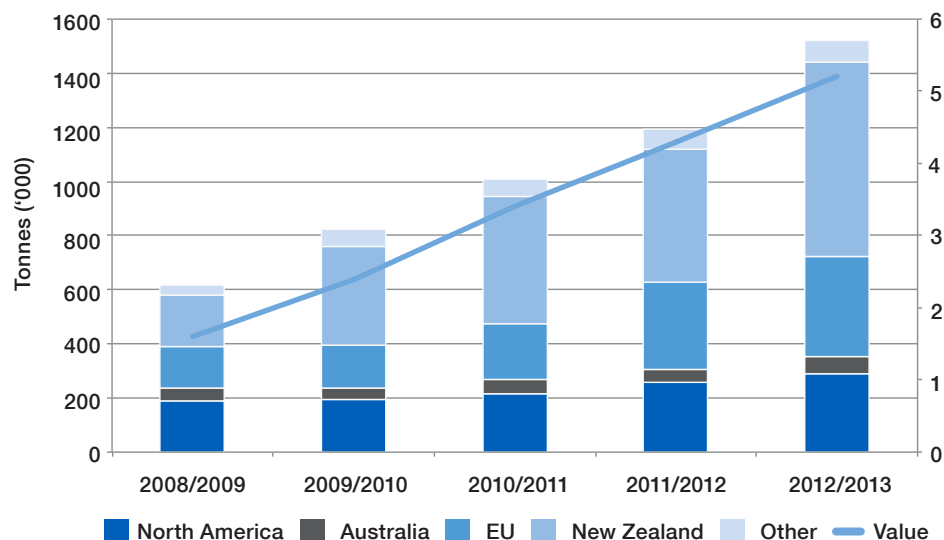
Australia and China agreed to commence negotiations on a Free Trade Agreement (FTA) in 2005. An agreement has not yet been reached. A summary of current tariffs charged on Australian product for the major dairy categories imported by China can be found in Figure 7.

The China-New Zealand FTA came into effect in 2008, providing a commercial advantage to New Zealand, which has seen their market share increase considerably. For example, in 2014 New Zealand pays a 4.2% tariff on milk powders, and this will continue to reduce until reaching 0% in 2019.

### Key International Marketing Programs and Activities

Dairy Australia manages a number of marketing programs and activities in China. These include the China Dairy Scholarship program (bringing technical and marketing managers from major Chinese, Taiwanese, and Hong Kong dairy and food companies to experience the Australian dairy industry), and Greater China Alumni Program for past scholarship program participants. Dairy Australia also manages the Dairy Seminar Program series across Mainland and Greater China, and the Australian dairy industry is further represented through the China Dairy Industry Association Conference.

**Figure 1. Chinese dairy imports**



Source: GTIS

**Figure 6. Australia's exports to China**

	Market Share (USD)		Volume (thousand tonnes)		Value (million USD)	
	2008/09	2012/13	2008/09	2012/13	2008/09	2012/13
Milk	9.2	16.1	2.0	21.0	2.1	21.6
WMP	9.5	3.4	12.7	12.3	33.9	57.9
Cheese	16.9	23.6	3.0	10.4	10.1	44.8
SMP	20.7	7.0	11.3	9.4	29.5	36.0
Lactose	0.9	7.4	0.3	7.0	0.3	11.3
Total imports	8.8	5.0	50.1	72.5	134.5	229.8

Source: ABS, EU Commission, Statistics NZ, Statistics Japan, GTIS

**Figure 7. China dairy tariffs**

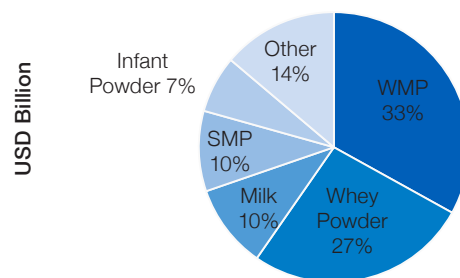
Tariff Category	Product Category	Applied Tariff (%)
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter.	15
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter.	10
0406	Cheese and curd	12-15
1702	Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavoring or coloring matter; artificial honey, whether or not mixed with natural honey; caramel.	10-30

Source: Applied Tariffs are drawn from the Dairy Australia publication Dairy Market Regulations 2013. Where Australia does not have a specific tariff agreement in place, the Applied Rate for qualifying product is the MFN rate. Where a specific tariff agreement exists, the Applied Rate for qualifying product is as per that agreement. The countries with specific agreements in place are: Indonesia (AANZFTA), Malaysia (MAFTA), Philippines (AANZFTA), Singapore (SAFTA), Thailand (TAFTA), and the USA (AUSFTA).

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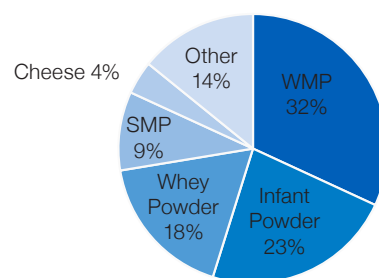
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**Figure 2. Top dairy imports by volume (China)**



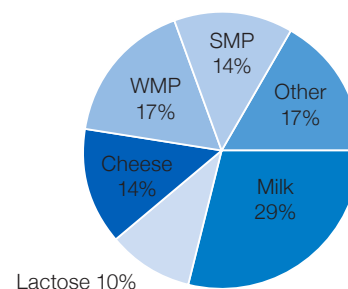
Source: GTIS

**Figure 3. Top dairy imports by USD value (China)**



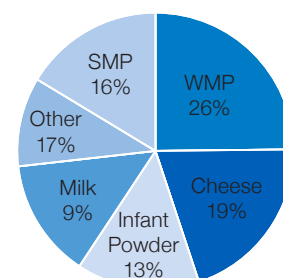
Source: GTIS

**Figure 4. Top Australian dairy exports by volume (China)**



Source: ABS

**Figure 5. Top Australian dairy exports by USD value (China)**



Source: ABS