



MARKET BRIEF

CHINA

Global exports to China

- Rank #1 in the global dairy market (by volume).
- Destination for more than 3,074 thousand tonnes of dairy product, worth US\$9,425 million (in 2019/20).
- Exports to China have increased by 43.3% over five years.
- The biggest volume growth (product categories exceeding US\$20 million) has been in:
 - Cream (319%)
 - Protein (290%)
 - Yoghurt (117%)
 - Lactose (85%)
 - WMP (67%)
- The biggest volume decline (product categories exceeding US\$20 million) has been in:
 - Buttermilk (-40%)
 - Condensed Milk (-22%)

Australian market share

- Rank #4 in the share of China import volume.
- Destination for close to 198 thousand tonnes of Australian dairy product, worth US\$566 million (in 2019/20).
- Exports to China have increased by 36.6% over five years.
- The biggest volume growth (product categories exceeding US\$1 million) has been in:
 - Protein (2714%)
 - Condensed Milk (419%)
 - Ice Cream (289%)
 - Yoghurt (129%)
 - WMP (88%)
- The biggest volume decline (product categories exceeding US\$1 million) has been in:
 - Butter (-35%)
 - Infant Powder (-35%)

Market developments

As a rapidly evolving economy, China is the world's largest dairy market, importing more than 3,074 thousand tonnes of dairy products in 2019/20. Chinese dairy imports increased by 43.3% over the last five years, despite steady growth in domestic milk production, reflecting an overall increase in local consumption of dairy in the country. With Australian export volumes to China growing by 36.6% over the past five years, Chinese consumers have been increasingly enjoying Australian dairy products, as middle-class appetite for upmarket foods grows.

Over the past five years, cheese consumption has been on the rise in China. Despite being originally perceived as a luxury, cheese is progressively becoming more sought after by Chinese residents as they look to incorporate a more westernised diet. In response to this increasing demand, Australian cheese exports to China have increased by 42% over the last five years, trading over 17 thousand tonnes of cheese in 2019/20, accounting for 16% of China's cheese imports. Australian cheese is held in high regard by Chinese consumers, based on the level of quality and food safety standards upheld by Australian producers.

Liquid milk remains the largest Australian dairy product to China by volume. Worth over US\$80 million, milk imports from Australia have grown 27% over the past five years, as Chinese consumers look to add foods of higher nutritional value to their diets. The fastest growing product line in percentage terms over the last five years is milk protein concentrate (MPC), surging 2714% from imported volumes in 2015/16, albeit off a low base.

Whole and skim milk powders (WMP and SMP) were among the most imported Australian dairy products in 2019/20 with WMP and SMP imports growing 88% and 73%, respectively, over the past five years. Combined, the export of these products is worth close to US\$208 million. Demand has been steadily rising from consumers and the food manufacturing sector, urging China to turn to the global markets for milk powder imports to fill supply gaps.

Australian infant powder has been in high demand for many years, with exports into China worth over US\$108 million. In January 2018, changes to food safety laws meant domestic or international infant powder products were required to obtain formula registration from the China Food and Drug Administration (CFDA). Subsequently, infant formula exports to China decreased globally, with Australia's exports to China falling 35% over the last five years. This decline does not however capture infant formula products purchased within Australia and shipped to China via unofficial trade channels, such as the Diagou trade. Australian infant formula remains popular with many Chinese consumers, who continue to prefer foreign products following the melamine incidents in 2008.

In 2018, a trade war began between the US and China, after the US imposed tariffs on more than US\$250 billion worth of Chinese products. As China retaliated by imposing increased tariffs on US\$110 billion of US goods, including dairy products, dairy imports from the US consequently plummeted. The commencement of the 'Phase One' agreement between the US and China has since worked to resolve these tensions, with China promising to import more US agricultural products, potentially increasing export competition into the market going forward. Despite a number of challenges to the trade relationship between Australia and China during 2020, impacting several agricultural sectors, the Australian dairy industry has not faced significant disruption. Dairy trade between Australia and China has continued to flow.

Tariff environment

In 2008, New Zealand and China signed a free trade agreement, allowing New Zealand significant commercial advantage through lower dairy tariffs. Since the China-Australia FTA came into effect in December 2015, tariffs for dairy products have gradually been decreasing, with step-downs applied each January. Tariffs for all dairy products will be abolished by 2026. A summary of current tariffs for major dairy categories imported by China can be found in Figure 7*.

Key international marketing programs and initiatives

Dairy Australia is involved in a number of marketing programs and activities in China. These include the China Dairy Scholarship program which exposes managers from major dairy food companies to the Australian dairy sector, and the China Alumni Program for past scholars. Dairy Australia regularly visits China and presents seminars to customers in key markets.

Figure 1 Dairy imports

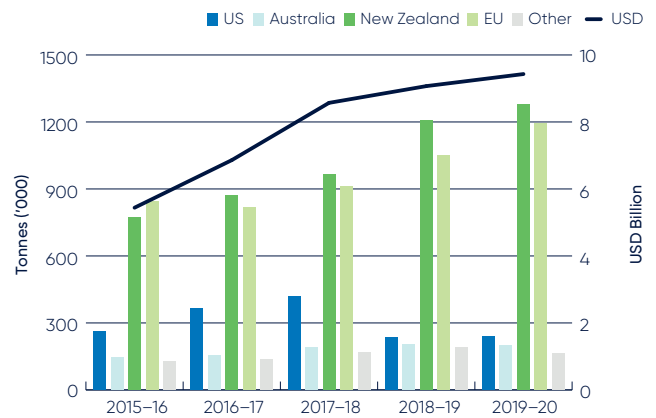


Figure 2 Top dairy exports to China by volume

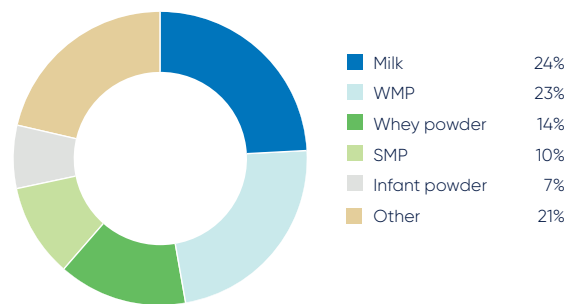


Figure 3 Top dairy exports to China by USD value

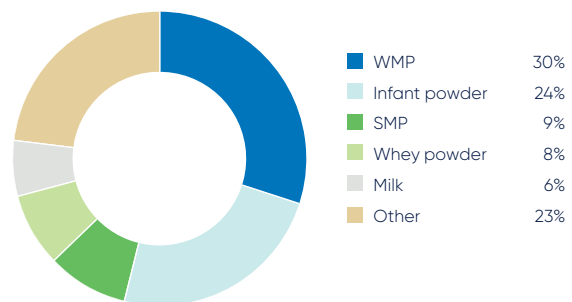


Figure 4 Top Australian dairy exports by volume

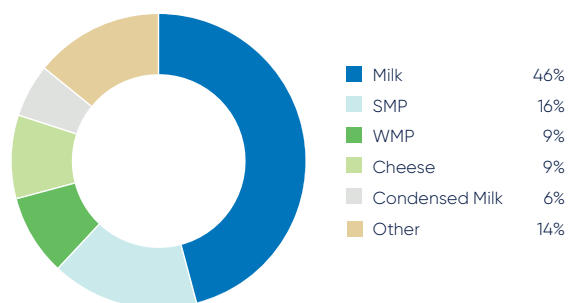


Figure 5 Top Australian dairy exports by USD value

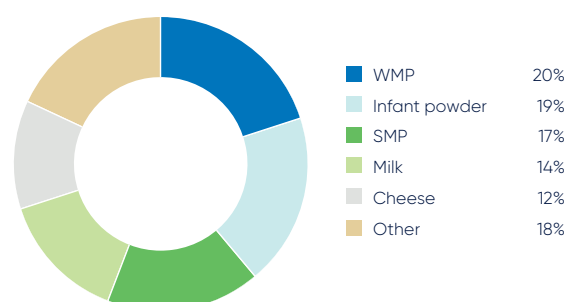


Figure 6 Australia exports

Product group	Market share (USD%)		Tonnes ('000)		Value (Million USD)	
	2015–16	2019–20	2015–16	2019–20	2015–16	2019–20
WMP	5.0	3.9	9.7	18.2	59.1	111.8
Infant Powder	11.4	4.7	13.1	8.5	183.9	108.4
SMP	9.9	12.0	18.3	31.7	51.2	96.0
Milk	12.9	14.3	71.0	90.3	60.6	80.7
Cheese	19.0	13.4	17.9	17.8	62.0	67.4
Total	6.7	7.1	144.7	197.7	440.7	566.1

Figure 7 Dairy tariffs

Tariff category	Product category	Applied tariff %
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	4.5
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter	4.2
0406	Cheese and curd: fresh (unripened or uncured) cheese, including whey cheese, and curd: Grated or powdered cheese, of all kinds: Processed cheese, not grated or powdered	3.6
1901	Powdered formulas: food preparations of goods of headings No. 04.01 to 04.04, not containing cocoa or containing less than 5% by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included: Preparations for infant use, put up for retail sale	0

FOR FURTHER INFORMATION

Email eliza.redfern@dairyaustralia.com.au or
T 03 9694 3762.

Applied Tariffs are drawn from Integration Point. 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: China (ChAFTA), Indonesia (AANZFTA), Japan (JAEPA) The Republic of Korea (KAFTA), Malaysia (MAFTA), Philippines (AANZFTA), Singapore (SAFTA), Thailand (TAFTA), and the USA (AUSFTA).

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Dairy Australia Limited ABN 60 105 227 987
E enquiries@dairyaustralia.com.au
T +61 3 9694 3777
F +61 3 9694 3701
dairyaustralia.com.au