

# MARKET BRIEF

## GREATER CHINA

### Global exports to China in 2018–19

- Ranked first in the global dairy market (by volume)
- Destination for more than 2,832 thousand tonnes of dairy product, worth US\$8,859 million (April 2018 to March 2019)
- Exports to China have increased by 33.1 per cent over five years.
- The biggest volume growth (product categories exceeding US\$20 million) has been in:
  - Yoghurt (867 per cent)
  - Cream (780 per cent)
  - Buttermilk (223 per cent)
  - Milk (205 per cent)
  - Infant Powder (139 per cent).
- The biggest volume decline (product categories exceeding US\$20 million) has been in:
  - WMP (-20 per cent)
  - SMP (-1 per cent).

### Australian market share in 2018–2019

- Ranked fourth in the share of China import volume
- Destination for more than 194 thousand tonnes of Australian dairy product, worth US\$564 million (April 2018 to March 2019)
- Exports to China have increased by 96.9 per cent over five years
- The biggest volume growth (product categories exceeding US\$1 million) has been in:
  - Condensed milk (1,663 per cent)
  - Milk (293 per cent)
  - Infant Powder (193 per cent)
  - SMP (87 per cent)
  - Cheese (66 per cent).

- The biggest volume decline (product categories exceeding US\$1 million) has been in:
  - Ice cream (-57 per cent)
  - Lactose (-51 per cent)
  - WMP (-31 per cent)
  - Yoghurt (-13 per cent).

### Market developments

China is the world's largest dairy importer and the Chinese marketplace is rapidly evolving. Over the past five years to 2018–19 Chinese imports increased by 33.1 per cent despite growth in the domestic Chinese dairy industry. China is Australia's largest export market worth US\$564 million. Chinese consumers are increasingly enjoying Australian dairy products particularly due to some mistrust in domestically produced dairy goods and the growing appetite in China's middle class for upmarket Australian foods.

Consumption of dairy has been growing since the 1990s. The Chinese government, expanding middle class and growing health awareness are responsible for this. In 2017, yoghurt sales overtook milk sales for the first time. Domestic yoghurt sales have risen by 108.6 per cent from 2013 to 2017 compared to milk that grew by only 18 per cent over the same time.

Cheese consumption in China has traditionally been quite uncommon. However, retail sales of cheese are expected to grow by 13 per cent per annum until 2021. Approximately 47 per cent of cheese consumers are aged 20 to 29, with cheesecake being the preferred cheese-based product ahead of sliced cheese.

Additionally, cheese is being added to school lunch menus and many companies are targeting children for new cheese products. Notwithstanding overall growth, most cheese consumption still occurs in tier one cities where people have high incomes, are highly educated and more exposed to western foods. Much to Australia's advantage, Chinese consumers typically recognise products based on their country of origin and Australian goods are viewed favourably in terms of safety and quality.

In 2018, a trade war began between the US and China, when the US imposed tariffs on more than US\$250 billion worth of Chinese products. China retaliated by imposing tariffs of five-25 per cent on US\$110 billion of US goods, including dairy products. Consequentially, imports from the US in 2018-19 has decreased by 23 per cent compared to the year prior. This has created uncertainty within global markets, and seen increased exports from other regions to China, such as from Australia. Australian exports to China have grown 46.7 per cent over the twelve months to March 2019.

In light of this trade dispute, China is seeking to become over 60 per cent self-sufficient in infant formula (a significant growth from the current 47 per cent). This could impact Australia's infant formula exports. Currently, six of the top ten brands in China are foreign owned and China is seeking to promote a fairer competition between domestically produced infant formula and imported products. However, China may face difficulties in getting local consumers to purchase domestically produced product as their trust remains tarnished from contaminated formula back in 2008.

### Tariff environment

In 2008 New Zealand and China signed a free trade agreement which has allowed New Zealand significant commercial advantage in lower tariffs. Since the China-Australia FTA came into force in December 2015 tariffs for dairy products have gradually been reducing, with step-downs each January from 2016. 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 activities

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 Greater China alumni program for past scholars. Dairy Australia regularly visits China and presents seminars to customers in key markets.

Figure 1 Dairy imports

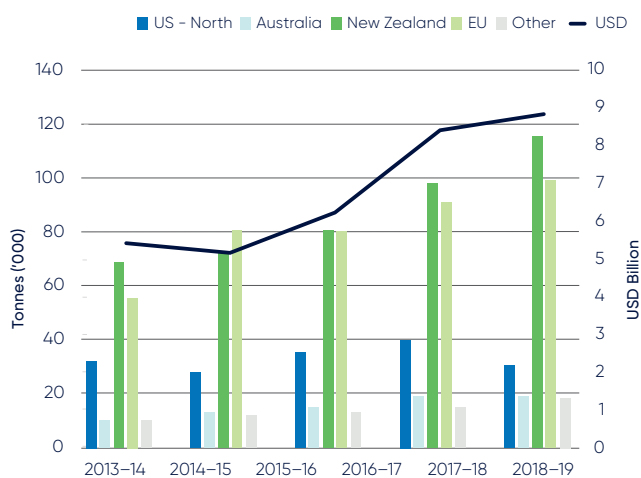


Figure 2 Top dairy imports by volume

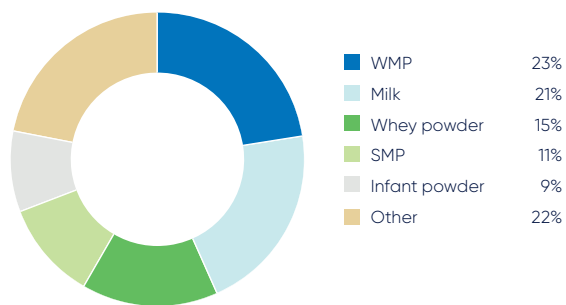


Figure 3 Top dairy imports by USD value

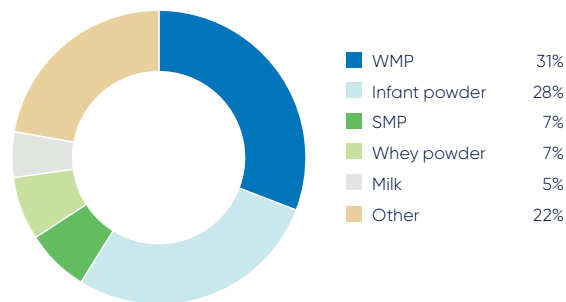


Figure 4 Top Australian dairy exports by volume

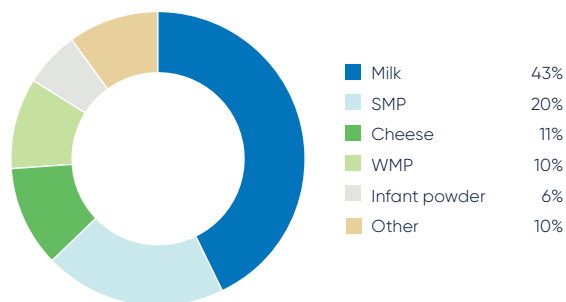
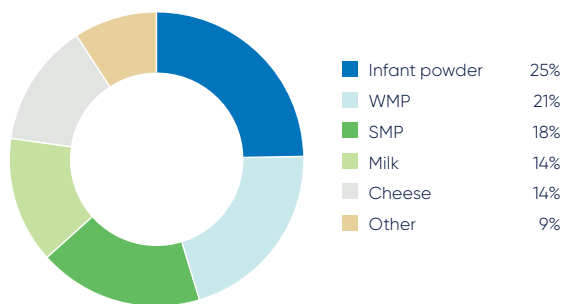


Figure 5 Top Australian dairy exports by USD value



**Figure 6** Australia's exports

Product group	Market share (USD)		Volume (1000 of tonnes)		Value (Million USD)	
	2014–15	2018–19	2014–15	2018–19	2014–15	2018–19
Infant powder	1	6	1.6	11.4	15.5	139.5
WMP	2	4	4.5	18.5	26.3	117.3
SMP	6	16	12.5	38.7	46.3	100.4
Milk	18	17	55.4	84.3	59.0	77.7
Cheese	22	18	16.0	21.6	67.2	76.5
Total	5	6	103.4	194.1	252.5	564.1

**Figure 7** Dairy tariffs

Tariff category	Product category	Applied tariff %
401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	7.5
402	Milk and cream, concentrated or containing added sugar or other sweetening matter	5.8
406	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	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**

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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: India (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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