

# Market Brief China



## Calendar year 2022

### GLOBAL EXPORTS TO CHINA

Rank #1 in the global dairy market (by volume)

Destination for over 3,100,000 tonnes of dairy product, worth close to US\$12 billion (in 2022)

Exports to China have increased by 14% over five years (2018 – 2022).

The biggest volume growth (product categories exceeding US\$20 million) has been in:

- Protein 110%
- Cream 92%
- Milk products 103%
- Casein 75%

The biggest volume decline (product categories exceeding US\$20 million) has been in:

- Ice cream -24%
- Infant powder -17%
- Condensed milk -20%

### AUSTRALIAN MARKET SHARE

Rank #4 in the share of China's import volume

Destination for close to 260,000 tonnes of Australian dairy product, worth almost US\$876 million (in 2022)

Exports to China have increased by 40% over five years (2018 – 2022)

The biggest volume growth (product categories exceeding US\$1 million) has been in:

- Protein 8611%
- Milk 62%
- SMP 82%
- Condensed milk 58%

The biggest volume decline (product categories exceeding US\$1 million) has been in:

- Infant powder -47%
- WMP -38%

### Market developments

China is the world's largest dairy market, importing more than 3,100,000 tonnes of product in 2022. In the dairy commodity markets, China is generally perceived as the key price driver, however a protracted dedication to covid-zero policies resulted in a slowdown of import volumes over the last two years. Compared to the year prior, global exports to China fell 19 per cent in 2022, the first decline after consecutive years of growth from 2014. This also saw imports of Australian dairy products to China remain flat over the same period. Although China has recently relaxed its COVID-19 eradication policies, a resumption in growth is likely some way off.

Overtime, improved consumer purchasing power has increased the appetite for more upmarket foods. Historically, dairy has been seen as a luxury food, however its consumption has been fuelled by China's rapidly growing economy and increased proportion of the world's middle-class population. Additionally, the COVID-19 pandemic brought a renewed recognition of dairy's health benefits, which has also supported its consumption. Following this theme, local sources suggest the use of functional ingredients in dairy products are becoming more popular amongst consumers, with sales of products containing lactoferrin especially rising.

Local milk production has strengthened over the last two years. However, China's determined pursuit of complete COVID-19 eradication hindered domestic distribution of dairy and consequently the consumption of fresh products. With the volume of dairy imported into China falling in response, global exports of whole milk powder (WMP) and whey powder fell 45 per cent and 20 per cent respectively, over the past 12 months. Behind milk, these are the second and third largest products by volume imported into the country.

In 2022, ultra-high temperature (UHT) milk accounted for 49 per cent of Australian dairy exports to China (by volume). Imports of milk from Australia have surged 62 per cent over the past years, supported in part by increased preference for pre-packed UHT milk by Chinese consumers, especially throughout strict lockdowns. With imported UHT sitting at a price competitive point to domestically produced product, exports to China are expected to continue growing.

Exports of SMP into China are expected to slow on account of increased domestic milk powder stocks. Australian exports of skim milk powder (SMP) have increased 82 per cent over the last five years, making up 24 per cent of total Australian dairy imported into China. Chinese buyers continue to appreciate the consistent quality of Australian milk powders. 2022 is anticipated to be the fourth consecutive year where WMP exports have met the quota without activation of the safeguard by China.

Over the past five years, China's imports of infant powder have continued to follow the declining trend since changes made to food safety laws in January 2018. Despite infant powder being of high demand for many years following the melamine incidents in 2008, such changes meant domestic and international infant powder products were required to obtain formula registration from the China Food and Drug Administration (CFDA). As a result of this process, infant formula exports dropped globally, with Australia sending 47 per cent less product to China since 2018.

What this decline does not capture however, is the product purchased and shipped via unofficial trade channels, such as the Diagou trade. Since the initial COVID-19 outbreak and associated travel restrictions, this type of purchasing has been significantly impacted. Additionally, a steadily decreasing birth-rate and aging population across China weighs on demand for infant powder and consequently the volume of imported product.

Following the 2018 trade war, competition in the market was intensified by the commencement of the 'Phase One' agreement between the United States (US) and China. Over 2022, US exports accounted for 15 per cent (by volume) of total global exports to China, growing 7 per cent over the last four years. Additionally, over this period New Zealand (NZ) remained the top exporter of dairy to China, accounting for 40 per cent of all exports. An upgrade to the New Zealand-China Free Trade Agreement (NZCFTA) occurred in April 2022, which is likely to maintain and even expand New Zealand's dominance in the market. Despite broader political tension between China and Australia in recent years, Australia has maintained its position as a key exporter of dairy, with total exports growing by 40 per cent over the past five years.

## Tariff environment

In 2008, New Zealand and China signed a free trade agreement, providing New Zealand with significant commercial advantage through lower dairy tariffs. This was recently updated in April 2022, maintaining duty-free access for all dairy products as well as the removal of the milk powder safeguard by 2024. Since the China-Australia FTA (ChAFTA) came into effect in December 2015, tariffs for dairy products have been gradually declining. Tariffs for all dairy products are due to be abolished by 2026. A summary of current tariffs for major dairy categories imported by China can be found in Table 2.

## 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 China Alumni Program for past scholars. Outside of COVID-19 travel restrictions, Dairy Australia regularly visits China and presents seminars to customers in key markets.

Figure 1 Dairy imports

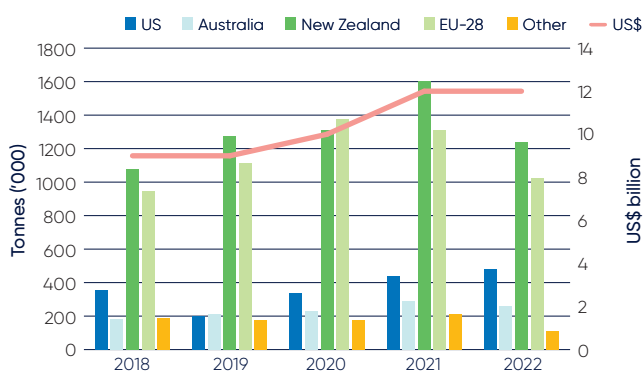


Figure 2 Top dairy exports to China by volume

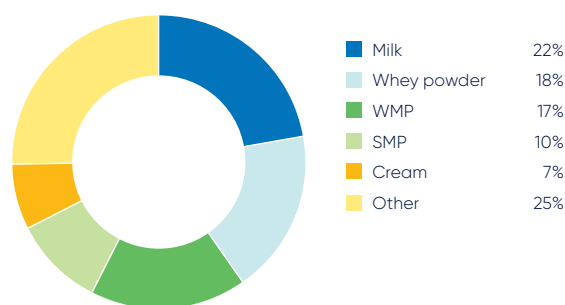
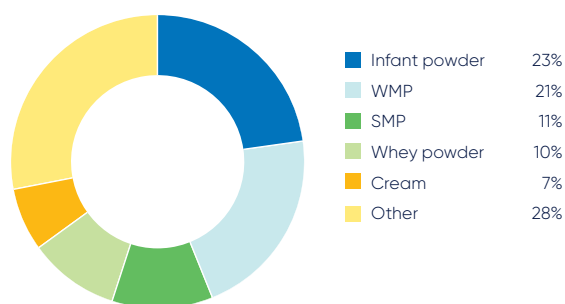
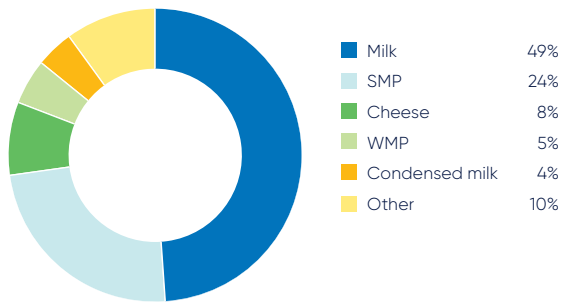


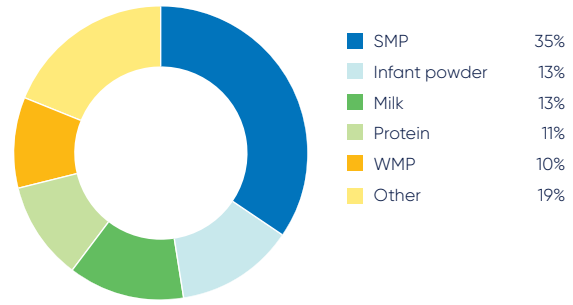
Figure 3 Top dairy exports to China by US\$ value



**Figure 4** Top Australian dairy exports by volume



**Figure 5** Top Australian dairy exports by US\$ value



**Table 1** Australia exports

Product group	Market share (US\$ %)		Volume ('000)		Value (million US\$)	
	2018	2022	2018	2022	2018	2022
Milk	17	17	78.3	126.8	73.1	110.3
SMP	15	23	34.5	62.6	91.3	303.6
Cheese	17	12	20.6	20.0	73.3	85.2
WMP	5	4	19.7	12.2	120.4	86.5
Condensed Milk	14	35	6.5	10.2	9.6	16.0
<b>Total</b>	<b>7</b>	<b>7</b>	<b>185.0</b>	<b>258.9</b>	<b>580.9</b>	<b>876.1</b>

**Table 2** Dairy tariffs

Tariff category	Product category	Applied tariff %
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	1.5
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter	2.5
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	1.2
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 de-fatted basis, not elsewhere specified or included: Preparations for infant use, put up for retail sale	0.0

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).

**FURTHER INFORMATION**

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