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**Report Highlights:**

Post increased its estimate of raw milk production in 2024 due to a larger dairy cow inventory. Imports of fluid milk, whole milk powder (WMP), and skimmed milk powder (SMP) are estimated to all decline in 2024 due to higher domestic milk production. Cheese and butter imports are estimated to decline moderately because of economic headwinds that continue influencing consumption. Post estimates whey and whey product imports in 2024 to decline as demand shrinks in both food use and feed use owing to declining birth rates and a lower piglet inventory.

## EXECUTIVE SUMMARY

*The forecasts and revised estimates provided in this report are issued by FAS China and are not official USDA data.*

**Fluid milk:** Post revised its 2024 estimate of raw milk production higher due to a larger dairy cow inventory. Fluid milk imports in 2024 are expected to decline due to higher domestic ultra-high temperature processing (UHT) milk production and flat domestic demand in the UHT milk market.

**Whole Milk Powder:** Post revised upwards its estimate of WMP production in 2024 due to higher expected volumes of raw milk production. Higher domestic WMP production is expected to result in a further decline of WMP imports in 2024.

**Skim Milk Powder:** Post increased its estimate of SMP production in 2024 with some minor growth from 2023. Post expects weak market demand, higher domestic WMP and SMP production and higher domestic WMP inventory to temper demand and lower SMP imports in 2024.

**Cheese:** Domestic cheese production in 2024 remains limited. Post revised its estimate of cheese imports in 2024 to stay at 2023 levels. Although consumption in the hotel, restaurant, and institutional (HRI) sector are expected to increase, retail sales are expected to decline.

**Butter:** Post lowered its estimate of butter imports in 2024 to decline from 2023 due to lower consumption.

**Whey and whey products:** Post estimates that imports of whey and whey products in 2024 will decline as demand in both food use and feed use will drop owing to declining birth rates and a lower piglet inventory.

## FLUID MILK

**Table 1. China: Production, Supply, and Distribution for Fluid Milk**

Dairy, Milk, Fluid	2022		2023		2024	
Market Begin Year	Jan 2022		Jan 2023		Jan 2024	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Units: 1000 Head, 1000 MT						
Cows In Milk	6400	6400	6500	6600	6450	6650
Cows Milk Production	39200	39320	41000	41970	41500	42500
Other Milk Production	1150	950	1200	980	1200	1000
Total Production	40350	40270	42200	42950	42700	43500
Other Imports	977	977	750	814	800	750
Total Imports	977	977	750	814	800	750
Total Supply	41327	41247	42950	43764	43500	44250
Other Exports	24	24	25	25	25	26
Total Exports	24	24	25	25	25	26
Fluid Use Dom. Consum.	16250	16170	16720	16500	17000	16700
Factory Use Consum.	25053	25053	26205	27239	26475	27524
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	41303	41223	42925	43739	43475	44224
Total Distribution	41327	41247	42950	43764	43500	44250

**Note:** Not Official USDA Data

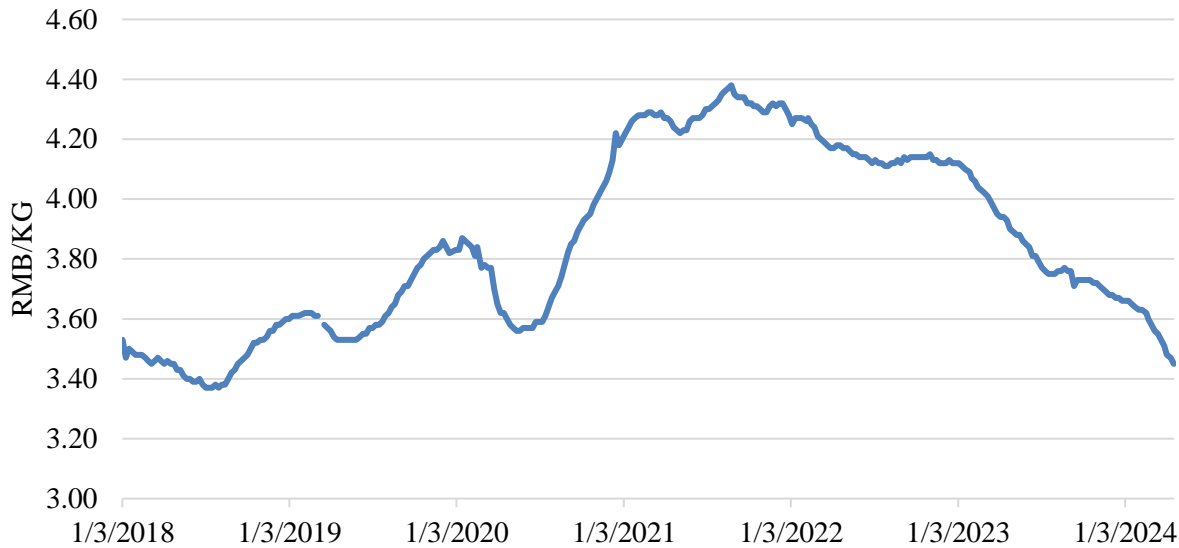
### PRODUCTION

Post increased its 2024 estimate of raw milk production but with a slower growth rate in 2024 than 2023. In addition, Post raised its 2023 estimate of raw milk production as farmers retained more low-efficient dairy cows than expected in 2023.

### Low Raw Milk Prices Pushed Out More Small Farms

Growth in raw milk production continues to outpace consumption creating an oversupply in the Chinese market. According to a media report, a leading industry expert commented that the raw milk surplus of major dairy processors was 15,000 metric tons (MT)/day in March 2024, which was significantly higher than that in 2023. Raw milk prices continued to decline in the first 4 months of 2024 with an even sharper drop than 2023 (see **Chart 1**).

**Chart 1. China: Average Raw Milk Farm Gate Prices<sup>1</sup>**



**Source:** Ministry of Agriculture and Rural Affairs (MARA)

The continued decline in reported milk prices is hurting dairy farms and making many operate at a loss. According to an industry survey on the production and operation status of 155 farms in March 2023, almost 60 percent of the farms were selling milk at prices below the cost of production. As milk prices continued to decline considerably throughout 2023, the percentage of farms selling their milk at a loss at the end of 2023 reached more than 70 percent.

Small- and medium-sized dairy farms started exiting the market in 2023. Industry data shows that less than 50 percent of dairy farms are independently owned. Most dairy farms are large farms owned by dairy processors or have long term contracts with dairy processors. Smaller dairy farms are forced to sell some of their milk to dealers at extremely low prices when there is an oversupply of raw milk and dairy processors limit purchasing their raw milk, forcing many to exit the market. Sources indicated that dairy processors tend to pay more to their own farms, which could be one of the reasons that larger dairy farms were still profitable in 2023. Despite low milk prices, industry data shows that the average cattle inventory of farms selling raw milk to certified raw milk purchasing stations across the country at the end of 2023 increased by over 40 percent year-over-year (YOY).

### **Raw Milk Production Growth from Higher Cow Inventory and Higher Efficiencies**

Dairy cow inventories continued to grow as fewer low-efficient dairy cows were removed from the total herd than post anticipated in 2023. The National Bureau of Statistics (NBS) reported that the cattle inventory<sup>2</sup> grew by almost 3 percent in 2023. One major reason for the growth is attributed to herd

<sup>1</sup> The average price from the 10 leading raw milk production provinces and autonomous regions of Hebei, Shanxi, Inner Mongolia, Liaoning, Heilongjiang, Shandong, Henan, Shaanxi, Ningxia, Xinjiang. Industry sources indicate farm gate prices refer to the price dairy processors pay to dairy farmers. However, as mentioned in this report, because dairy farmers cannot sell all their milk to dairy processors, sometimes they must sell to dealers at extremely low prices. It can be lower than RMB 1/KG. Farm gate prices normally don't include prices paid to dealers.

<sup>2</sup> Cattle number here includes both dairy cattle and beef cattle.

expansions at large dairy farms. The top 40 dairy cattle breeding groups had 3 million dairy cows in stock in 2023, an increase of 35 percent from 2021. One industry opinion offered to explain herd expansion despite low milk prices is that dairy processors do not have enough incentive to reduce the cow inventory at the dairy farms they own. Rather, the vertically integrated dairy processing operations can balance lower raw milk prices as an input for their operations and still achieve a net benefit on the processing side of their business and sales.

Low beef prices also curbed incentives to reduce dairy cow inventories. Beef prices started to decline in 2023 and continued to decline in 2024 due to a beef supply and demand imbalance (see **Chart 2**). Industry members report that when the beef price is attractive, dairy farms cull inefficient cows and sell them for beef. With beef prices as low as they are at present, dairy farms have less motivation to cull cows, especially when the cost of purchasing replacement cows a few years ago was much higher. As such, with beef prices at current levels, farmers are not recouping their investment. Additionally, as smaller farms exit the market, some are selling their cows to other farms and not necessarily culling the animals.

**Chart 2. China: Domestic Beef Prices**



Source: MARA

Improved dairy cow genetics and better herd management practices has also led to higher efficiency rates, which has contributed to higher milk production. In 2023, in a national test with almost 2 million dairy cows participating, the average milk volume per cow tested was 10.6 MT, an increase of 300 kilograms/cow from 2022.

### **Marginal Growth from Other Milk Production**

Milk production in China mainly comes from cow milk. Other milk production is minimal and includes goat milk, horse milk, and camel milk. Goat milk production slowly increased with new investments aimed at increasing production. In 2024, China's largest dairy goat farm with 50,000 high-standard dairy goats in Inner Mongolia, went into a trial milking operation. The total production capacity is about 120 MT/day of fresh milk. Provincial and local-level government efforts also support the development of the

goat milk industry. Shaanxi Province released its “100-Billion Goat Milk Industry Action Plan” to build two modern dairy goat industrial parks with the aim of maintaining more than 85 percent of the national market share of domestic goat dairy production in 2024. Post forecasts other milk production to continue to grow by small volumes in 2024.

## **CONSUMPTION**

Post increased its estimate for total milk consumption in 2024 on higher factory use. Post lowered its 2024 estimate for fluid use but raised its 2024 estimate for factory use. In addition, Post lowered its 2023 estimate for fluid use to show a slower growth in fluid milk consumption due to the stable fluid milk market.

Fluid milk use is estimated to have marginal YOY growth, while industrial use will experience larger growth. Fluid milk use is mainly to produce products including UHT milk, pasteurized milk, yogurt, and milk drinks. Among these products, UHT milk is the major fluid milk product produced from raw milk. Markets of other products may fluctuate following consumer trends, but the UHT milk market has been relatively stable in recent years. In 2024, post expects the UHT milk market to stay stable.

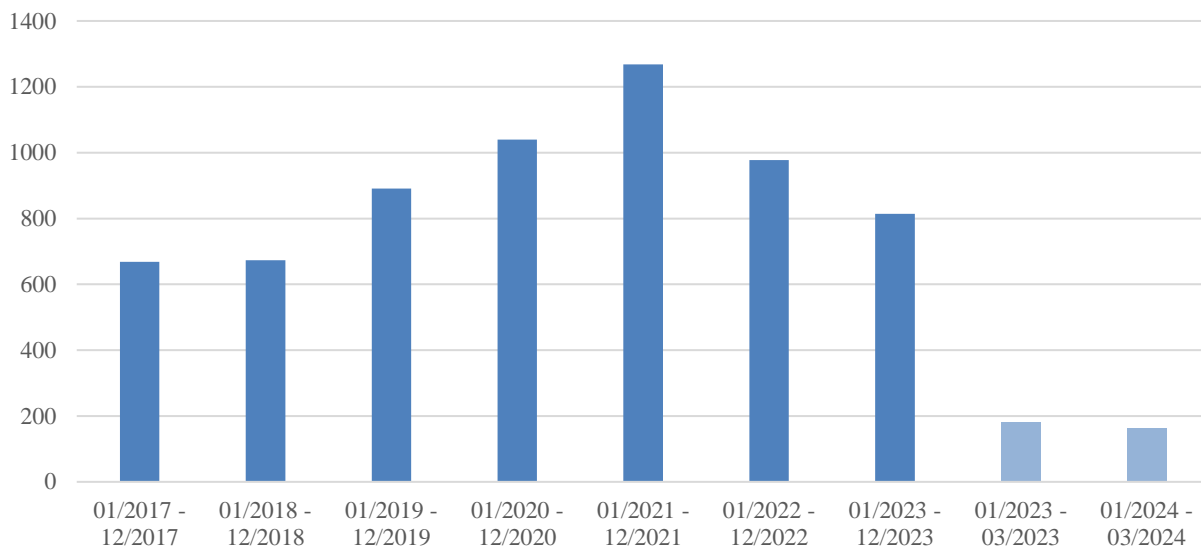
Fluid milk is mostly consumed in Chinese cities. According to industry data, fluid milk consumption in smaller cities is growing, while fluid milk consumption in larger cities is declining. Post believes this is because per capita consumption still has room to grow in smaller cities, while the fluid milk market is already at an equilibrium in larger cities. In addition, some affluent consumers have started to shift from fluid milk to higher-end dairy products such as cheese.

As raw milk production is revised higher, post expects more raw milk will go towards factory use, mainly whole milk powder (WMP) and skim milk powder (SMP). Production of other dairy products, such as cheese and butter, will continue to be limited in 2024.

## **TRADE**

Post lowered its estimate of fluid milk imports in 2024 due to higher domestic UHT milk production and stable UHT milk consumption. In Q1 2024, fluid milk imports declined over 10 percent from the same period last year (see **Chart 3**).

**Chart 3. China: Imports of Fluid Milk**



**Source:** Trade Data Monitor, LLC

China mostly imports UHT milk, with a negligible amount of pasteurized milk. UHT milk is the dominant product in the Chinese fluid milk market. As raw milk in China is mainly used to produce UHT milk, domestic UHT milk dominates the market. China also imports UHT milk to supplement the market as some consumers believe in the safety and quality of imported products. In 2024, post estimates higher domestic UHT production from higher raw milk production. The UHT milk market in China has been generally stable in recent years. Given slow economic prospects, post does not expect the UHT milk market to expand significantly in 2024. This could result in domestic UHT milk products taking more market share from imported UHT milk.

The pasteurized milk market is a much smaller market and is also dominated by domestic pasteurized milk products. Industry data showed that over 99 percent of pasteurized milk is produced domestically. Imported pasteurized milk volumes will have a negligible impact on overall fluid milk imports. Additionally, industry contacts generally believe the pasteurized milk market will not see fast expansion like it did in previous years. Pasteurized milk prices are generally higher than UHT milk prices. Consumers in China will likely remain conservative on “high-end” foods such as pasteurized milk products.

## WHOLE MILK POWDER

**Table 2. China: Production, Supply, and Distribution for Whole Milk Powder**

Dairy, Dry Whole Milk Powder	2022		2023		2024	
Market Begin Year	Jan 2022		Jan 2023		Jan 2024	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Units: 1000 MT						
Beginning Stocks	150	150	150	150	175	175
Production	1050	1050	1175	1200	1175	1240
Other Imports	699	699	445	430	425	420
Total Imports	699	699	445	430	425	420
Total Supply	1899	1899	1770	1780	1775	1835
Other Exports	3	3	13	11	5	10
Total Exports	3	3	13	11	5	10
Human Dom. Consumption	1746	1746	1582	1594	1625	1680
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1746	1746	1582	1594	1625	1680
Total Use	1749	1749	1595	1605	1630	1690
Ending Stocks	150	150	175	175	145	145
Total Distribution	1899	1899	1770	1780	1775	1835

**Note:** Not Official USDA Data

### PRODUCTION

Post increased its estimate of WMP production in 2024 due to higher estimated volumes of fluid milk production. Sources indicated the ending inventory of domestic WMP in 2023 was higher than 2022. With higher production in 2024 and higher carry-in stocks, the total supply in 2024 is estimated higher than 2023 volumes.

Dairy processors normally produce WMP due to seasonal imbalances between raw milk production and consumption. China mainly produces fluid milk with its raw milk supply. As WMP has a longer shelf-life than fluid milk, when there is a surplus of raw milk that the fluid market cannot absorb, processors will produce WMP to reserve the excess raw milk.

In 2024, as growth of raw milk production is expected to outpace consumption growth, processors will produce more WMP. However, WMP production is not profitable for dairy processors, so they often limit raw milk purchases to prevent more WMP production. Sources indicate that it's hard for farms who do not have purchasing contracts with processors to sell their milk, forcing them to sell at extremely low prices. Farms who have a contract with processors may also find it hard to fully sell their raw milk production as many processors put a cap of the volume they purchase.



Some provincial governments provide subsidies to dairy processors to help ameliorate losses from WMP production. In the first few months of 2024, major dairy production regions that provided subsidies to dairy processors for purchasing raw milk and WMP production included Hebei and Inner Mongolia. The Department of Agriculture and Rural Affairs of Hebei Province announced subsidies for dairy processing enterprises that purchase raw milk in Hebei from January 1 to May 31, 2024. According to the announcement, 10 percent of raw milk purchased by dairy processing enterprises in Hebei will be provided a milk powder production subsidy of RMB 500/MT (U.S. \$69.3/MT) from the provincial government, and RMB 300/MT (U.S. \$41.6/MT) from the city/county government. The department of Industrial Information of the Inner Mongolia Autonomous Region also announced a similar subsidy policy for dairy processing enterprises that purchase raw milk for milk powder production from March 1 to May 31.

## **CONSUMPTION**

Post lowered its estimate of WMP consumption, but there is still modest YOY growth in 2024. Dairy processors either use their own WMP as ingredients for production of processed food and drinks, such as baked goods, reconstituted milk, reconstituted yogurt, and milk drinks, or sell the WMP on the market. WMP and SMP are interchangeable in many products such as dairy drinks and baked goods. NBS indicated promising prospects in the processed food and drinks industry in 2024, which would benefit both WMP and SMP consumption.

Among products that could use WMP as ingredients, there are opportunities in the adult milk (i.e., non-infants or children) powder market in 2024. Although adult milk powder market is a much smaller market compared to infant formula market, sales of adult milk powder witnessed quick growth, especially in medium-large<sup>3</sup> cities. Sources indicate the sales of adult milk powder saw over 8 percent YOY growth in 2023. Industry data shows that domestically manufactured adult milk powder has a 70 percent market share among all adult milk powder brands in 2023.

Although WMP consumption is expected to grow, the growth will be limited. Post expects that processed food consumption using WMP in 2024 will not surpass 2022 levels as consumers bought more processed food during pandemic lockdowns and the policy period of “zero Covid”. Currently the growth of domestic WMP production has outpaced consumption. Post continues to hear from industry contacts about large domestic WMP inventories and concerns about these retained volumes on WMP imports.

## **TRADE**

Post lowered its estimate of WMP imports in 2024 because of the large WMP supply and reported inventories. Industry sources reported a large ending inventory in 2023 of domestically produced WMP and that dairy processors continue to produce more WMP due to the oversupply of fluid milk. In the past, dairy processors preferred imported WMP that had better quality control and standard nutrition levels. According to contacts, domestic processors would not invest in improving quality control and nutritional standards in WMP production as they often lost money. Contacts shared that this often held

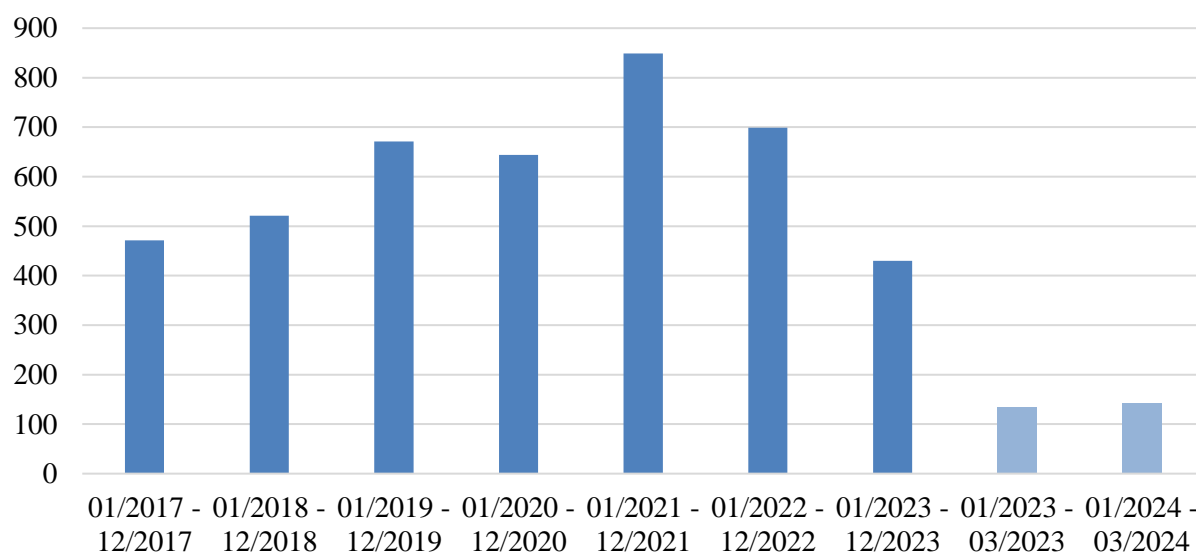
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<sup>3</sup> Large cities such as Beijing and Shanghai also witnessed sales growth of adult milk powder, but compared to medium-large cities, growth of large cities is much slower as fluid milk is expected to be the main product in large cities.

back the domestic WMP sector and gave a preference towards imported WMP. Industry contacts, however, say that food processors are starting to accept domestic WMP as the nutritional content<sup>4</sup> in domestically produced WMP is often higher than imported WMP since there are no additional steps to standardize nutritional levels in China.

Post expects WMP imports to be lower in 2024 than 2023 due to large domestic WMP and SMP production volumes even though there were marginally greater imports of WMP in the first quarter of 2024 than in the first quarter of 2023 (see **Chart 4**). Industry contacts believe the higher imports in the beginning of this year are from orders made last year that just arrived and cleared customs.

**Chart 4. China: Imports of WMP**



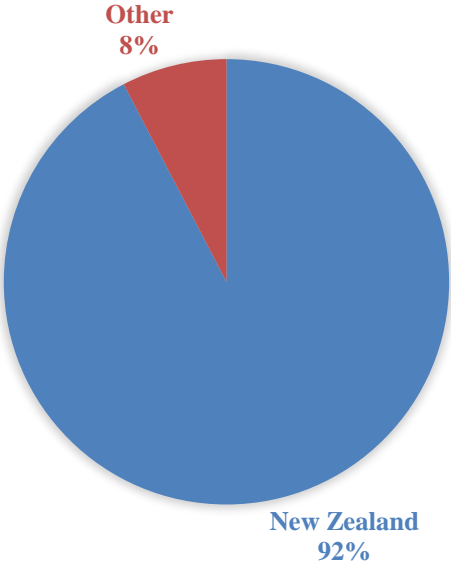
**Source:** Trade Data Monitor, LLC

The safeguard measures<sup>5</sup> for China’s milk powder imports from New Zealand ended in 2023. As overall WMP imports in 2024 should decline, post estimates that imports from New Zealand will also follow the general trend. As for market share, compared to SMP imports where New Zealand still has room to grow (see SMP section), New Zealand already has over 90 percent of the market share of imported WMP through the Q1 of 2024 which was like full year 2023 data, too. (see **Chart 5**).

<sup>4</sup> A recent industry report indicates the daily average milk protein rate from dairy farms with more than 3,000 lactating cows could reach 3.43 percent.

<sup>5</sup> The 2008 free trade agreement between China and New Zealand gradually reduced tariffs on New Zealand dairy products imported into China to zero by 2019. However, special safeguard measures for milk, milk powder, butter, and cheese returns the tariff to the most-favored-nation tariff once the import volume exceeds the import trigger level. The applicable period for the special safeguard measures for milk, butter, and cheese products was from 2009 to 2021, and the applicable period of the special safeguard measures for milk powder is from 2009 to 2023. Milk powder includes WMP and SMP. The HS Codes include: 04021000, 04022100, 04022900, and 04029100.

**Chart 5. China: Imports of WMP in Q1 2024 (by Origin)**



**Source:** Trade Data Monitor, LLC

## SKIM MILK POWDER

**Table 3. China: Production, Supply, and Distribution for Skim Milk Powder**

Dairy, Milk, Nonfat Dry	2022		2023		2024	
Market Begin Year	Jan 2022		Jan 2023		Jan 2024	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Units: 1000 MT						
Beginning Stocks	0	0	0	0	0	0
Production	25	25	30	30	30	31
Other Imports	335	335	355	344	340	320
Total Imports	335	335	355	344	340	320
Total Supply	360	360	385	374	370	351
Other Exports	1	1	1	3	1	1
Total Exports	1	1	1	3	1	1
Human Dom. Consumption	359	359	384	371	369	350
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	359	359	384	371	369	350
Total Use	360	360	385	374	370	351
Ending Stocks	0	0	0	0	0	0
Total Distribution	360	360	385	374	370	351

**Note:** Not Official USDA Data

### PRODUCTION

Post increased its estimate of SMP production in 2024 with some minimal growth over 2023. This growth is in line with the growth of butter production.

Although China's domestic production of both butter and SMP are limited, increased raw milk production, and declining raw milk prices could encourage more production of butter and SMP as WMP production remains not profitable. As butter production is more profitable, dairy processors frequently produce SMP as a by-product of butter manufacturing. But as butter production (see Butter Section) is limited due to its quality issues and consumption limitations, SMP production remains minimal.

Industry sources commented that the quality of domestically produced SMP is unstable sometimes. Compared to the production process of WMP, the production process of SMP requires more processing and the flavor of domestically produced SMP remains inconsistent.

### CONSUMPTION

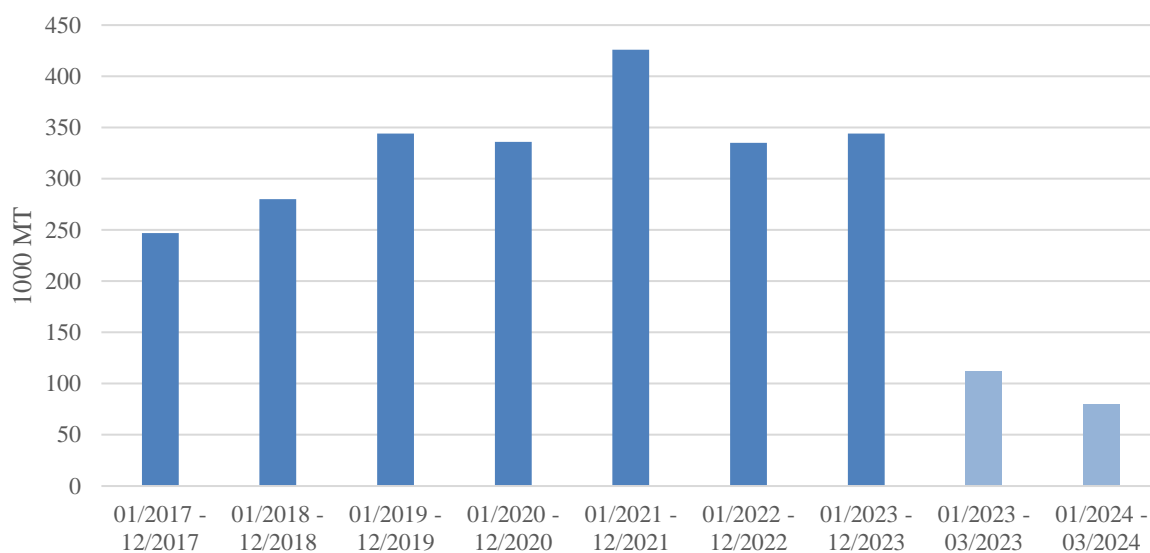
Post revised down its forecast of SMP consumption in 2024 on trend with the decline in 2023.

WMP and SMP are often interchangeable in processed food such as dairy beverages, and bakery products. However, market demand for processed food has generally been weak in the beginning of 2024. For example, sources indicated some major beverage companies do not need to order more ingredients as they currently have high inventories of beverage products. In addition, food processors have shared that they may prefer WMP or even fluid milk over SMP if prices are competitive. Consumption of SMP will remain consistent in products that require no fat or controlled fat content such as dietary foods or foods with medical purposes.

## TRADE

Post lowered its estimate of SMP imports in 2024. Weak market demand, higher domestic WMP and SMP production and higher domestic WMP inventory are expected to reduce demand for imported SMP. In Q1 2024, SMP imports declined YOY from 112,000 MT to 80,000 MT (see **Chart 6**).

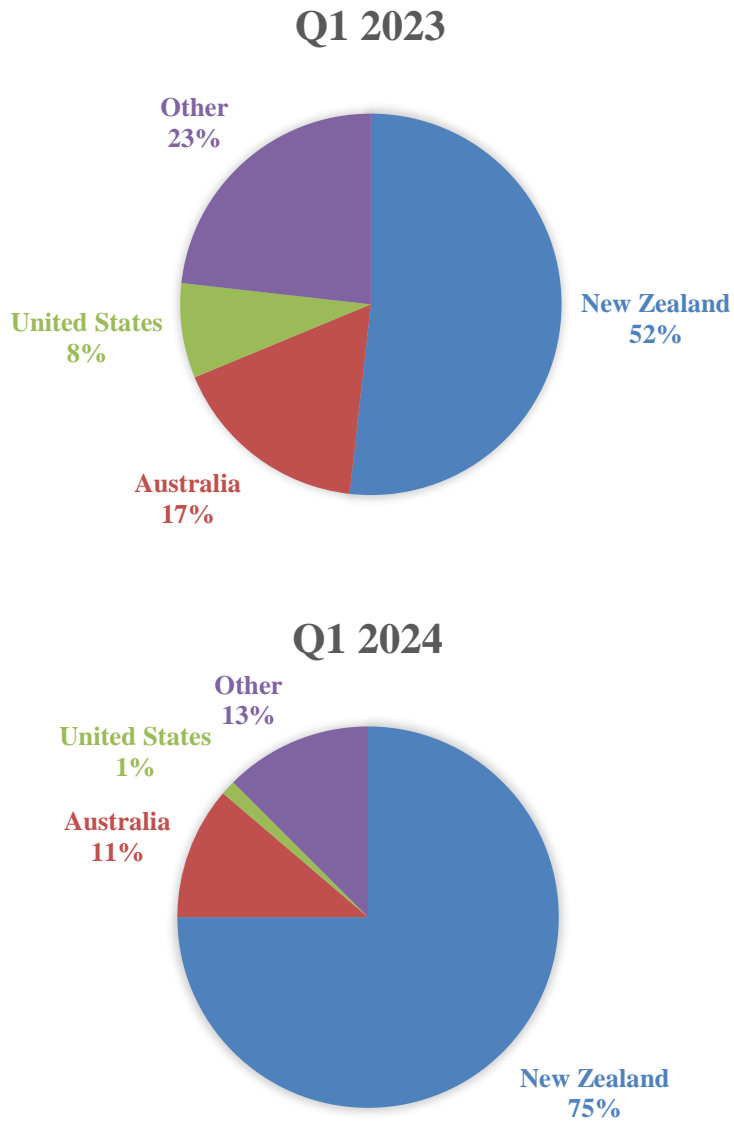
**Chart 6. China: SMP Imports**



**Source:** Trade Data Monitor, LLC

As noted in the WMP trade section, 2023 was the last year for special safeguard measures on milk powder and 2024 is the year when New Zealand receives preferential tariffs with no limit for milk powder products. Post expects New Zealand's market share will increase in comparison to other suppliers like Australia, the United States, and Finland due to the tariff-rate advantage. In YOY comparison for Q1 of 2023 and 2024, the New Zealand market share increased from 52 percent to 75 percent (see **Chart 7**).

**Chart 7. China: Comparison between Imports of SMP in Q1 2023 & Q1 2024 (by Origin)**



**Source:** Trade Data Monitor, LLC

## CHEESE

**Table 4. China: Production, Supply, and Distribution for Cheese**

Dairy, Cheese	2022		2023		2024	
Market Begin Year	Jan 2022		Jan 2023		Jan 2024	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Units: 1000 MT						
Beginning Stocks	0	0	0	0	0	0
Production	20	20	25	25	28	28
Other Imports	145	145	172	178	180	175
Total Imports	145	145	172	178	180	175
Total Supply	165	165	197	203	208	203
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	165	165	197	203	208	203
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	165	165	197	203	208	203
Total Use	165	165	197	203	208	203
Ending Stocks	0	0	0	0	0	0
Total Distribution	165	165	197	203	208	203

**Note:** Not Official USDA Data

### PRODUCTION

Post estimates domestic cheese production in 2024 to remain in line with official USDA estimates. Sources indicated only about 20 percent of cheese produced in China is natural cheese, the rest is processed cheese using imported natural cheese as an ingredient. As demand for natural cheese is limited and can be met by imported natural cheese, there is not enough incentive for producers to largely expand natural cheese production.

Industry data shows a slowly growing trend of natural cheese production in China in recent years and post expects this trend to continue with the gradual growth of natural cheese demand. Some local cheese producers produce natural cheese products that they differentiate from imported production. For example, post sees some locally produced natural cheese emerging in the marketplace with special flavor (or health benefits) such as lower salt content.

Subsidies on natural cheese production in major raw milk production areas could encourage more natural cheese production. For example, in March 2024, the Department of Industrial Information of Inner Mongolia Autonomous Region announced subsidies to dairy processors that purchase raw milk in Inner Mongolia for natural cheese production. The subsidies were based on the company's natural

cheese production from raw milk in the previous year and were set at a subsidy of RMB 2,000/MT (U.S. \$277/MT) will be provided for each additional metric ton produced.

## CONSUMPTION

Post decreased its estimate of 2024 cheese consumption to be in line with 2023 levels. Post expects cream cheese, Mozzarella, and cheddar to remain popular in the Chinese market.

Contacts report that HRI is a promising sector for cheese consumption. Sources indicated cheese consumption growth in 2023 mainly came from HRI as this sector was gradually recovering from the pandemic lock down during the zero Covid years. In 2024, cheese consumption is estimated to increase in this sector, but the pace could slow as the economy faces headwinds.

Retail sector cheese consumption is estimated to decline. The main cheese product in retail is lollipop cheese – a type of processed cheese marketed towards children. Sources indicated lollipop cheese was popular in recent years as it's a new product and consumers are educated that cheese is good for children's health. Contacts report, however, that the product is declining in popularity as consumers gradually realize that actual cheese content in lollipop cheese is low. One major lollipop cheese producer in China reported a major sales decline in 2023 due to the weak lollipop cheese market. Besides lollipop cheese, retail consumption of other cheese products is estimated to remain flat as cheese product prices are considered relatively high-priced and contacts share that this influences consumption though there are no currently available price elasticities to support the perception.

### Image 1. China: Cheese Products in Retail<sup>6</sup>



<sup>6</sup> The name of domestically produced cheese can be called Mozzarella cheese in China.



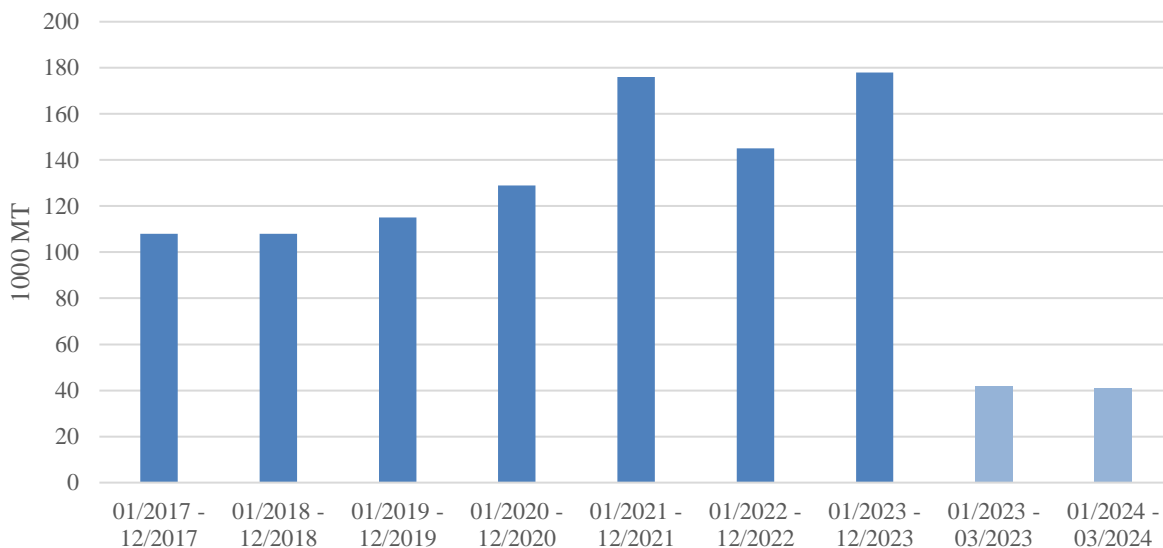
**Image 2. China: Modern Retail Wall of Cheese**



## TRADE

Post revised its estimate for cheese imports in 2024 to be marginally lower than 2023 levels. As imported cheese is considered a high-end product in China, its market is largely influenced by economic circumstances. In Q1 2024, cheese imports showed a marginal decline (see **Chart 8**).

**Chart 8. China: Imports of Cheese**



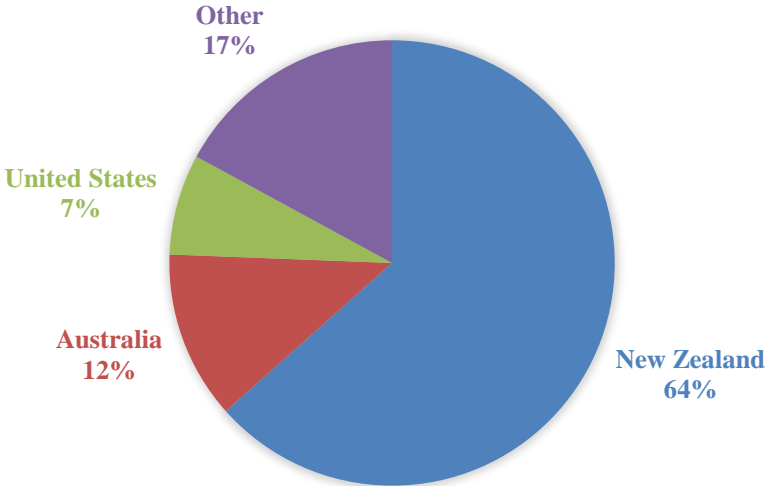
**Source:** Trade Data Monitor, LLC

China imports both fresh cheese and processed cheese. Some fresh cheese is used to produce processed cheese and cheese products. As China's cheese supply mainly relies on imported cheese, consumption trends for imported cheese will be in line with general market trends: post expects market opportunities for imported cheese for the HRI sector would grow while demand in retail will decline. As sales of lollipop cheese for children in retail in decline, imported cheese used as ingredients for lollipop cheese will decline accordingly. Sources indicated that some processed cheese producers who expanded their

production lines are not running at full capacity. In Q1 2024, fresh cheese imports which could also be used to produce lollipop cheese also saw decline. The decrease in cheese imports being used for further processing could be offset by cheese used in HRI as cheese consumption continues to expand in both western style cuisine and Chinese style cuisine. In Q1 2024, despite the decline of overall cheese imports, imports of grated or powdered cheese witnessed 20 percent growth.

In Q1 2024, New Zealand remained the top cheese supplier, accounting for over 60 percent of the market share, followed by Australia and the United States (see **Chart 9**). Although the United States only accounts for a small market share, it witnessed import growth in Q1 2024. With years of education on cheese, some consumers in affluent areas have gradually developed the knowledge to differentiate between processed cheese and natural cheese and are branching into different cheese types.

**Chart 9. China: Imports of Cheese in Q1 2024 (by Origin)**



Source: Trade Data Monitor, LLC

## BUTTER

**Table 5. China: Production, Supply, and Distribution for Butter**

Dairy, Butter	2022		2023		2024	
Market Begin Year	Jan 2022		Jan 2023		Jan 2024	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Units: 1000 MT						
Beginning Stocks	0	0	0	0	0	0
Production	109	13	110	17	115	18
Other Imports	153	153	138	140	140	130
Total Imports	153	153	138	140	140	130
Total Supply	262	166	248	157	255	148
Other Exports	2	2	2	2	2	2
Total Exports	2	2	2	2	2	2
Domestic Consumption	260	164	246	155	253	146
Total Use	262	166	248	157	255	148
Ending Stocks	0	0	0	0	0	0
Total Distribution	262	166	248	157	255	148

**Note:** Not Official USDA Data

### PRODUCTION

Post increased its butter production estimate slightly higher in 2024. Butter production in 2024 should see some growth from 2023 in line with the overall increase in processed dairy products resulting from the supply and demand imbalance in the fluid milk sector and low milk prices. Domestic butter production is mostly a byproduct of cream, with limited butter and anhydrous milk fat (AMF). Industry indicated that the production combination of SMP and butter could generate higher profit than WMP production for dairy processors. However, further growth of domestic butter production may be curbed by its quality issues. For example, sources indicated domestically produced cream - after being whipped, cannot form the desired foams as well as imported cream. Accordingly, contacts shared that domestically produced cream is often used in lower-end milk drinks.

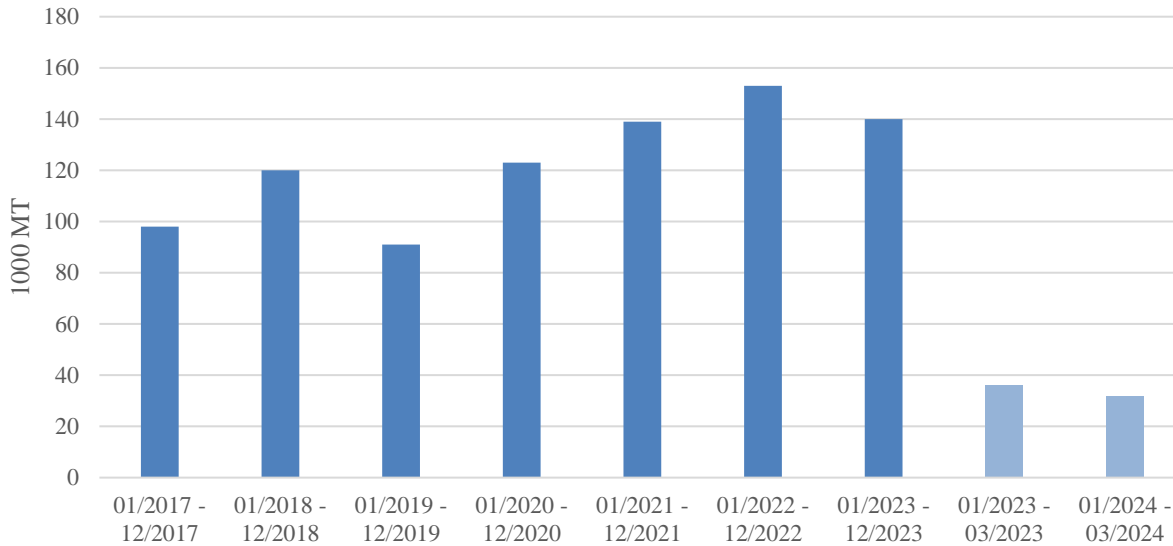
### CONSUMPTION

Post lowered its estimate of butter consumption in 2024. Butter (including cream and AMF) is mainly used in bakery products, yoghurt, ice cream, reconstituted milk, milk drinks and food service. Sources indicated that although butter is more expensive, high-end food processors especially in high-end bakeries continue to use butter instead of plant-based (or artificial) products to promote the concept of a healthy diet. However, due to consumers outlook towards challenges in the economy, consumption in Q1 2024 of products that butter applies to has been slower than expected. Post estimates that lower butter consumption will persist through the remainder of 2024.

## TRADE

Post lowered its estimate of butter imports in 2024 due to lower consumption. In Q1 2024, butter imports declined by almost 10 percent YOY (see **Chart 10**).

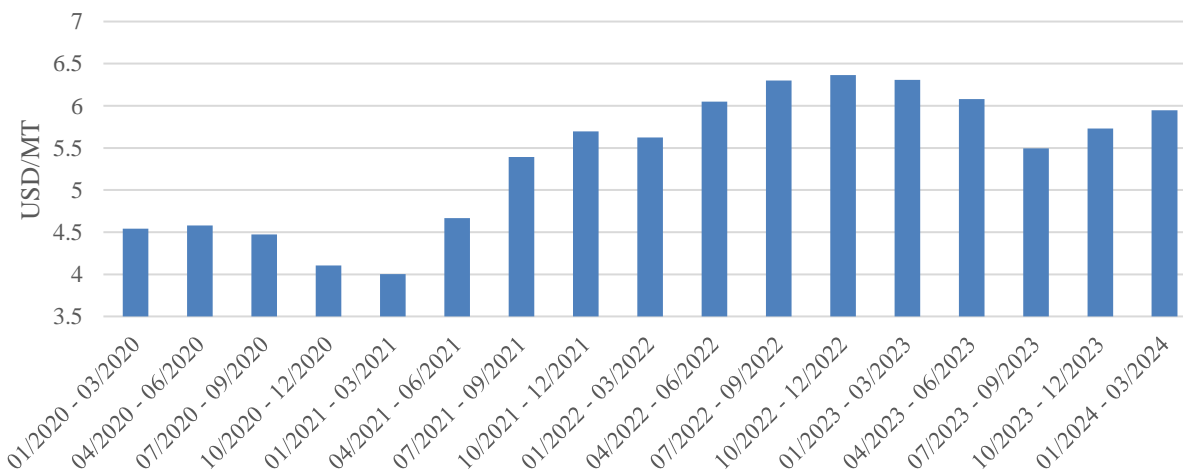
**Chart 10. China: Imports of Butter**



Source: Trade Data Monitor, LLC

In Q1 2024, demand for products that require butter as ingredients has been weak. Imported butter prices in Q1 2024 were also lower compared to Q1 2023 (see **Chart 11**). Sources indicated butter suppliers are lowering sales prices to adapt to the market. However, butter prices in Q1 2024 were still at high levels compared to the last 5 years. Sources indicated that suppliers butter inventories has been at low levels which contributes to current high prices.

**Chart 11. China: Imported Butter Prices**



Source: Trade Data Monitor, LLC

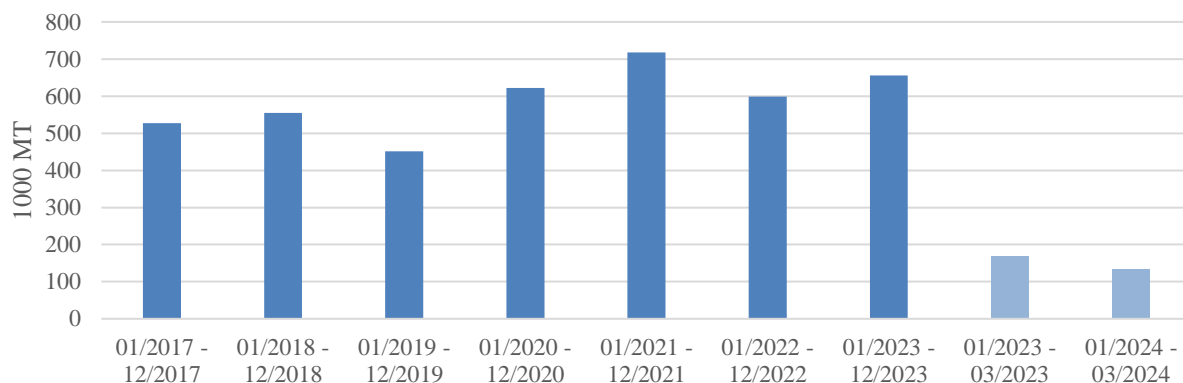
In Q1 2024, New Zealand remained the dominant supplier in the market accounting for almost 90 percent of the market share. The volume of butter imported from the United States is negligible.

In the end of 2023 and early 2024, China opened market access to more supplying countries for dairy product exports to China. Countries that gained market access for cream and AMF include Pakistan<sup>7</sup> and Austria<sup>8</sup>. Post expects China’s import volumes from those countries to be limited as they are not major dairy supplying countries.

## WHEY AND WHEY PRODUCTS

Post estimates imports of whey and whey products in 2024 to decline as demand could shrink in both food use and feed use. China is experiencing declining birth rates which moderates food use demand and a lower piglet inventory which curbs demand for feed use. In Q1 2024, imports of whey and modified whey products (HS040410) declined by over 20 percent (see **Chart 12**).

**Chart 12. China: Imports of Whey and Modified Whey Products**



**Source:** Trade Data Monitor, LLC

<sup>7</sup> In November 2023, GACC published notice that Pakistan gained market access to export dairy products to China. Dairy products refer food processed with cow milk or camel milk as the main raw material originating in the Islamic Republic of Pakistan, including milk powder, whey powder, and whey protein powder, colostrum powder, sterilized milk, modified milk, fermented milk, cheese and processed cheese, cream, anhydrous cream etc.

<sup>8</sup> In March 2024, GACC published notice that Austria gained market access to export dairy products to China. Dairy products refer to foods originating from Austria, processed from cow milk, goat milk and sheep milk as the main raw materials, and subject to appropriate heat treatment, including pasteurized milk, sterilized milk, modified milk, fermented milk, cheese and processed cheese, cream, anhydrous cream, condensed milk, milk powder, whey powder, whey protein powder, colostrum powder, casein, milk mineral salts, milk-based infant formula and premixes ( or base powder) etc.

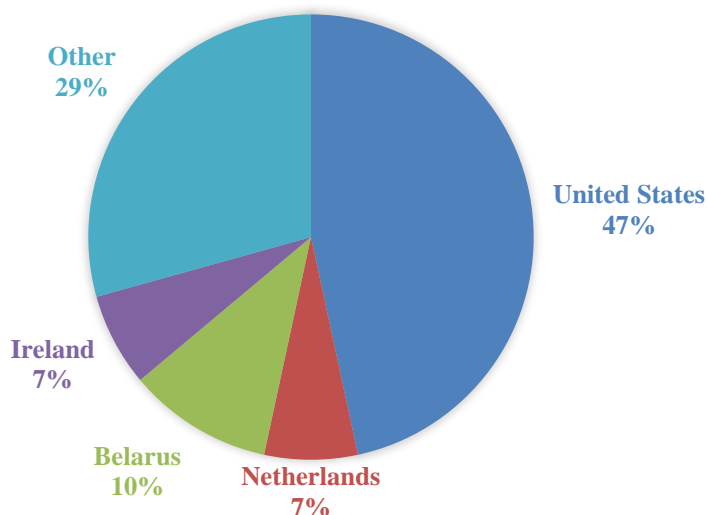
As China's whey production is minimal, the industry mainly relies on imported whey and whey-related products to meet domestic demand. Imported whey products, depending on grades, can be used as food ingredients or feed ingredients.

Industry sources indicated as food ingredients, imported whey products is used mainly in infant formula. Post forecasts that declining birth rates could continue to depress whey imports in 2024. Imported whey products can also be used in protein powder / drinks and health care products (such as supplemental foods for elderly people). As these are emerging sectors, which are relatively smaller compared to the infant formula sector, consumption of whey products in these sectors remains limited.

In feed use, whey products are mainly used in piglet feed. Losses among swine producers caused by prolonged low swine prices resulted in a reduction of inefficient sows. NBS reported that the sow inventory had declined to 41.4 million at the end of 2023. Post estimates a lower piglet inventory in 2024. For this reason, whey products consumption in feed will also decline.

Contacts indicated most major dairy exporting countries can supply both food grade and feed grade whey products. The United States is the dominant supplier of whey and modified whey products with around half of the market share as it has competitive advantages on both quality and price (see **Chart 13**). Importers of U.S. whey and whey related products are eligible for tariff exclusions under the Section 301 exclusion process (see Appendix section for more information). Importers commented that they import whey products not only from the United States, but also from other countries due to concerns over bilateral issues. Still, in Q1 2024, U.S. market share remained at similar levels with previous years as overall demand from the world and from the United States was lower.

**Chart 13. China: Imports of Whey and Modified Whey Products in Q1 2024 (by Origin)**



Source: Trade Data Monitor, LLC

## APPENDIX

### *Retaliatory Section 301 tariffs*

The People's Republic of China maintains retaliatory Section 301 tariffs on most U.S. dairy products. In December, 2023, the People's Republic of China extended tariff exclusions on whey for feed use (HS04041000, protein content by weight 2-7 percent and lactose content of 76-88 percent) through July 31, 2024 (See GAIN [CH2023-0195](#) Report).

On February 18, 2020, the State Council Tariff Commission (SCTC) announced a tariff exclusion process for U.S. agricultural commodities impacted by Section 301 retaliatory tariffs levied by the People's Republic of China. Importers may apply for tariff exclusions which are approved on a case-by-case basis. These exclusions do not automatically extend to all importers. Please refer to GAIN Report [CH2020-0106](#) for more information on the exclusion process.

**Table 6. China: Tariffs on U.S.-Origin Dairy Products**

HS Code (8-digit)	Description	MFN Rate	Section 301	Total Applied Tariff
		Jan 1, 2024	Feb 14, 2020,	Jan 1, 2024
04011000	Milk & Cream, Fat ≤ 1%, Not Concentrated or Sweetened	15%	27.5%	42.5%
04012000	Milk & Cream, 1%	15%	27.5%	42.5%
04014000	Milk & Cream, 6%	15%	27.5%	42.5%
04015000	Milk & Cream, Fat > 10%, Not Concentrated or Sweetened	15%	27.5%	42.5%
04021000	Milk & Cream in Solid Forms, Fat ≤ 1.5%, Concentrated*	10%	25.0%	35.0%
04022100	Milk & Cream in Solid Forms Of >1.5% Fat, Concentrated	10%	25.0%	35.0%
04022900	Milk & Cream in Solid Forms Of >1.5% Fat, Concentrated	10%	25.0%	35.0%
04029100	Milk & Cream Not in Solid Form, Concentrated	10%	25.0%	35.0%
04029900	Milk & Cream Not in Solid Form, Concentrated, Sweetened	10%	25.0%	35.0%
04032010	Yogurt: Whether or not concentrated, other than the permitted additives, only containing added sugar or other sweetened matter or flavored or containing added fruit, nuts, or cocoa	10%	27.5%	37.5%
04032090	Yogurt,	10%	25%	35%
04039000	Buttermilk, Curdled/Fermented/Acidified Milk & Cream	20%	27.5%	47.5%
04041000	Whey and Modified Whey**	2%	25%	27.0%
04049000	Products With Natural Milk Constituents	20%	25.0%	45.0%
04051000	Butter	10%	25.0%	35.0%
04052000	Dairy Spreads	10%	25.0%	35.0%
04059000	Other Fats & Oils Derived from Milk	10%	25.0%	35.0%
04061000	Fresh Cheese, Incl. Whey Cheese, Curd	12%	27.5%	39.5%
04062000	Grated Or Powdered Cheese	8%	27.5%	35.5%
04063000	Processed Cheese, Not Grated or Powdered	8%	27.5%	35.5%
04064000	Blue-Veined Cheese, Other-Veined Cheese Prod	8%	27.5%	35.5%
04069000	Cheese, Nesoi	8%	27.5%	35.5%

\*SCTC enumerated Milk & Cream in Solid Form (HS04021000) and Whey for Feed Use (HS0404100), among other products, in the February 18, 2020 announcement.

\*\*SCTC announced a tariff exclusion for Whey for Feed Use (HS0404100), among other products, effective from January 1, 2024, to July 31, 2024. See GAIN Report [CH2023-0195](#) for more information.

**Attachments:**

No Attachments