Market Brief **Greater China**

Version 2 – August 2016

Australia's largest market for dairy, Chinese imports continue to grow year on year. Australia's reputation for quality and food safety remain important for Chinese consumers.

Global Exports to Greater China** in 2015/2016

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

Destination for 1,420.5 thousand tonnes of dairy product, worth US $3,756.7 million.

Exports to Greater China have increased by 29.8% over 5 years.

The biggest volume growth (product categories exceeding US$20 million) has been in: Buttermilk (1607%), Milk (1008%), Yogurt (626%), Condensed Milk (594%) and Butter (206%).

The biggest volume decline (product categories exceeding US$20 million) has been in: Lactose (-22%), WMP (-17%), Whey Powder (-16%) and Milk Products (-1%).

Australian Market Share in 2015/2016

Rank at #8 in the share of Greater China's import volume.

Destination for 88.9 thousand tonnes of Australian dairy product, worth US $245.8 million.

Exports to Greater China have increased by 46.0% over 5 years.

The biggest volume growth (product categories exceeding US$1 million) has been in: Milk (1599%), Condensed Milk (683%), Infant Powder (225%), Butter (122%) and Cheese (90%).

The biggest volume decline (product categories exceeding US$1 million) has been in: WMP (-71%), Whey Powder (-53%) and SMP (-4%).

Tariff Environment

Australia and China concluded negotiations for the China-Australia FTA in November 2014, and the agreement entered into force in December 2015, with a reduction in tariff rates for all dairy products. Thereafter tariffs will step down each January from 2016, until being abolished in 2026. A summary of current tariffs for the major dairy categories imported by China can be found in Figure 7 *.

Market Developments

Greater China is Australia's largest dairy market by volume. China remains the largest importer of dairy products, demand for imports weakened in 2014/2015, due to growth in domestic production and carry-over of large existing stocks. Since then, Chinese demand has rebounded in the second half of 2015/2016, with the value of Australian exports doubling. Within China, the market for consumer goods has become much more sophisticated, with strong growth in sales from chain supermarkets and convenience stores, which have superior logistics and cold storage chains.

In the future, with widespread penetration of China's first tier cities such as Beijing and Shanghai, further growth in FMCGs is expected to come from lower -tier cities, located in more regional areas. As incomes rise, consumer tastes also appear to be changing, with a greater preference for fresh rather than UHT or reconstituted product.

A series of food safety incidents have pushed the issue to the fore for Chinese consumers and regulators. As part of an ongoing response, the government has undertaken greater regulatory oversight and reorganisation of the dairy industry. At the same time, imports of infant formula have grown strongly, including through the so-called grey market and e-commerce channels.

Monitoring and enforcement of these markets has now become much more stringent. The Chinese Certification and Accreditation Administration, (CNCA), now requires registration of all dairy factories, and for infant formula plants, pre-registration audits will also be required. Dairy products exported to to China must be made in a registered plant. From October 2016, companies selling infant formula in China must gain brand and formulation registration with the China Food and Drug Administration (CFDA).

Manufacturers will be limited to three brands, and three unique formulations per brand. The Chinese government has also sought to regulate cross-border online sales of food products, introducing a so-called 'positive list', and requiring products to comply with local food safety and packaging requirements. Given ongoing uncertainty surrounding the implementation of these regulations, exporters should seek advice from experienced and reliable partners in China regarding compliance.

Key International Marketing Programs and Activities

Dairy Australia runs the China Dairy Scholarship program which exposes participants to the Australian dairy sector, and the Greater China Alumni Program for past scholarship participants. Dairy Australia has an in-country representative to present seminars on Australian Dairy, and also collaborates with Austrade to promote Australian dairy products through events such as the Australia Week In China business mission.

***** *Figures shown on the overleaf*

*** Greater China includes the People's Republic of China as well as the Hong Kong and Macau SARs.*

Figure 1 Dairy imports (Greater China)

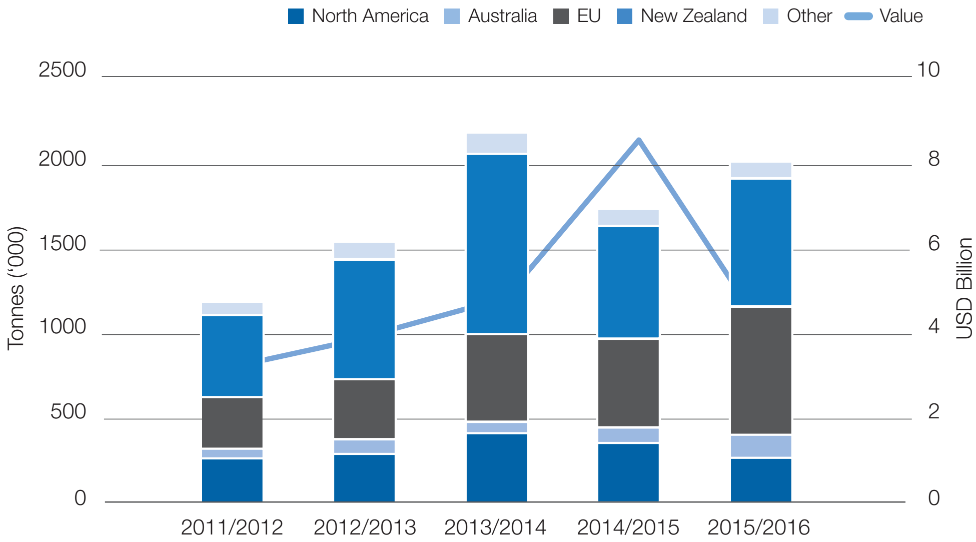

Figure 2 Top dairy imports by volume (Greater China)

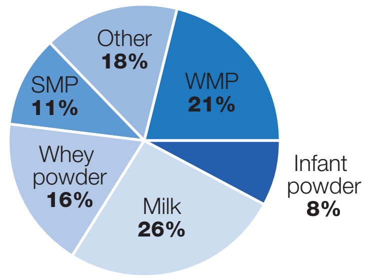

Figure 3 Top dairy imports by USD value (Greater China)

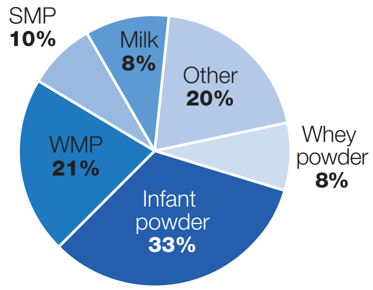

Figure 4 Top Australian dairy exports by volume (Greater China)

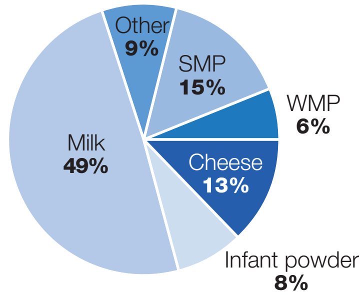

Figure 5 Top Australian dairy exports by USD value (Greater China)

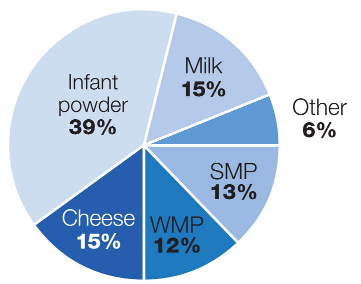

Figure 6 Australia's exports (Greater China)

	Market Share (USD)		Volume (thousand tonnes)		Value (million USD)	
	2010/11	2014/15	2010/11	2014/15	2010/11	2014/15
Cheese	25.0	19.2	7.1	17.1	37.8	60.5
Infant powder	2.5	8.4	2.0	11.3	18.1	155.3
Milk	9.4	12.9	6.2	66.7	6.7	58.6
SMP	9.2	9.5	14.1	21.0	48.2	53.3
WMP	1.2	4.3	2.1	7.9	11.9	48.0
Total imports	**4.6**	**7.1**	**47.6**	**136.1**	**168.1**	**399.2**

Figure 7 Dairy tariffs (Greater China)

Tariff Category	Product Category	Applied Tariff
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	12%
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter	8.3%
0406	Cheese and curd	3.6 - 16%
1901	Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40% by wieght of cocoa cal-culated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings No. 04.01 to 04.04, not containing cocoa or containing less than 5% by wieght of cocoa cal-culated on a totally defatted basis, not elsewhere specific or included:	9 - 9.6%

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: Indonesia (AANZFTA), Japan (JAEPA) The Republic of Korea (KAFTA), Malaysia (AANZFTA), Philippines (AANZFTA), Singapore (SAFTA), Thailand (TAFTA), and the USA (AUSFTA).

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