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## China Dairy Products Sector Brief (1996)

There potential for Canadian dairy exports into China and this brief gives an introduction to the characteristics of the China market, the activities of Canada's main competitors, and address some of the critical concerns surrounding dairy marketing and importation.

### Market Characteristics

There is a prevalent misconception that the Chinese populace is lactose intolerant and that the dairy industry shows limited potential on the Chinese mainland. It is true that a large majority of the population has had in the past little exposure to dairy products, however consumption of dairy products nationwide has doubled from 258,000 tons in 1991 to 525,000 tons in 1995. Yoghurt dominates the dairy sector in terms of volume taking up about 80% of all consumption, followed by milk (powdered and fresh), ice cream, cheese, and butter. The product showing the fastest growth in retail sales and volume out of all dairy products is liquid and powdered milk .

The consumers of yoghurt, milk products, and ice cream are urban residents, predominantly in China's coastal provinces, who have been educated on the health benefits of dairy products and have a willingness to try foreign products. For example, milk and milk powder is primarily marketed to parents of children and the elderly for its health benefits and not as a dietary staple as in Canada. In addition, ice cream is fast becoming a favourite snack food as joint-venture brands are penetrating the market with ice cream freezers appearing in city kiosks and supermarkets. Cheese and butter are restricted primarily to the markets that are the most open to foreign products -Beijing, Shanghai, Guangzhou - and have a sizable expatriate population to complement local consumption and sales.

Chinese consumers will base their purchasing decision primarily on price, however, in the case of dairy products quality has more of an effect on the purchasing decision than in other food categories. In many cases, the quality of foreign dairy products far surpasses the limited selection of local products and has led to increased imported product sales.

With the above information in mind, there is potential for Canadian dairy products in China if properly marketed. Areas that show greatest potential are cheese and milk products, either liquid or powdered. Other products that show growth are the ice cream and frozen yogurt sector, which are enjoying 20% yearly growth in sales. Despite the fact that most ice cream is produced locally by foreign brand names under joint-venture operations, some ice cream is being imported for use in restaurants. Particular markets to be aimed at are the economically prosperous coastal cities. In terms of age groups, dairy products, such as ice cream, have actually been marketed as a health snack for the elderly while milk in all forms is marketed as a nutritional supplement for young children.

### Competitors

In 1995 , 24,000 tonnes of dairy products at a value of US\$ 21million was imported into China. The growth in value of imports has risen 196% during the time from 1991-1995. According to statistics, Hong Kong is the largest exporter of dairy products. However, this is misleading as

Hong Kong is merely playing a middle-man role with the leading supplier nations being Australia and New Zealand, and lesser supplying nations being the Netherlands, France, Switzerland, and Denmark.

With the exception of yoghurt, most forms of dairy products have been imported or have been produced and marketed in China by the establishment of joint-venture production facilities by such companies as Kraft, Walls, and Nestle. The more "exotic" products, such as cheeses and butter, have been restricted to the coastal metropolis of Beijing/Tianjin, Shanghai, and Guangzhou. Milk and milk powder has had more widespread distribution and has been marketed to coastal and inland provinces.

Powdered Milk: Australia, New Zealand, The Netherlands

Milk (UHT treated): Australia

Butter: New Zealand, Australia, Denmark

Cheese: Australia, New Zealand, France, Switzerland, the Netherlands

### **Regulations Specific to Product**

In general dairy products will have to pass through the following bureaus for inspection when product is being imported and prior to Customs clearance:

1. *China Commodity Inspection Bureau* checks products for quality, weight, and quantity .
2. *China Animal and Plant Quarantine* inspection is concerned with health and sanitation of imported animal and plant based products.
3. *Health Inspection Bureau* will test for pesticides, antibiotics and other visible and non-visible problems. This bureau also administers and approves labelling requirements for processed food products

If a dairy product is fully processed and will not be re-packaged in China it may fall under new labelling requirements as administered by the *China Health Inspection Bureau*. As of September 1, 1996 imported food items must have a Chinese language label approved by the *China Health Inspection Bureau* with the following information:

- Chinese name of the product · Date of Production
- English name of the product · Shelf life
- Ingredients · Method of Storage
- Net weight · Importer
- Country of the origin · Address

Specific import duty rates for selected dairy products are as follows. These rates are levied on the CIF (Cost + Insurance + Freight) of the imported product.

#### ***Product Import Duty Rate***

Yoghurt 65%

Cheese 65%

Milk 30%

Butter 65%

Ice Cream 65%

In addition to the customs import tariff there is a Value Added Tax (VAT) of 17% levied on the total of CIF and the China Import duty.

### **Critical Concerns Specific to Product**

The critical concerns specific to the importation and marketing of Canadian dairy products into China include:

- lack of adequate refrigeration in transportation and handling.
- high import tariff rates on the majority of products
- consumer education - marketing the Chinese consumers an "exotic" product that does not have a local counterpart
- determining the Chinese palette - for example: cheese importers and joint-venture manufacturers have discovered that the local market prefers mild and processed cheeses.
- competition - especially in the areas of powdered and liquid milk. These dairy products are the most widely accepted by the Chinese consumer and also have the most aggressive advertising and marketing campaigns in the food sector.
- labelling - the new Chinese language labelling law, which has now come into effect, may have a negative impact on cost and pricing of Canadian products.

### **Contacts**

Producers and exporters of Canadian dairy products who wish to enter the China market may wish to contact the following organizations for further assistance.

#### ***Canadian Embassy Beijing***

*Address:*

19 Dongzhimenwai Street  
Chaoyang District  
Beijing 100600  
People's Republic of China  
Tel: (86-10) 6532-3536  
Fax: (86-10) 6532-4072  
*Internet Address:* [td.beijing@beijing03.x400.gc.ca](mailto:td.beijing@beijing03.x400.gc.ca)

#### ***Canadian Consulate General Shanghai***

*Address:*

West Tower, Suite 604,  
American International Centre  
at Shanghai Centre  
1376 Nanjing Xi Lu  
Shanghai 200040

People's Republic of China  
Tel: (86-21) 6279-8400  
Fax: (86-21) 6279-8401

***Consulate of Canada Guangzhou***

*Address:*

Room 801,  
China Hotel Office Tower  
Liu Hua Lu  
Guangzhou 51005  
People's Republic of China  
Tel: (86-20) 8666-0569  
Fax: (86-20) 8667-2401  
*Internet Address:* [dfaitprc@p1.apfnet.org](mailto:dfaitprc@p1.apfnet.org)

***Commission for Canada Hong Kong***

*Address:*

13th Floor, Tower 1  
Exchange Square  
8 Connaught Place  
Hong Kong  
Tel: (852) 2847-7414  
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*Internet Address:* [td.hkong@hkong02.x400.gc.ca](mailto:td.hkong@hkong02.x400.gc.ca)

**China Import and Export Corp. of State Farms**

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Xisi  
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Tel: 86-10-6603-3905  
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**China Processed Food Import and Export Company subsidiary of China National Cereals, Oils, and Foodstuffs Import and Export Corp. (COFCO)**

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