

***CHEESE  
IN CHINA:  
A MARKET  
ANALYSIS***

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# China Contact

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# Introduction

## Report Coverage

- This report covers the market for cheese and cheese products in the People's Republic of China.



## Executive Summary

China is changing rapidly and so are its tastes. As a consumer society emerges, so new products are appearing with increasing regularity. Dairy products are among them. Rising average annual incomes, greater ownership of fridges and freezers, increased exposure to western and international cuisines and a greater array of goods in the supermarket are all combining to increase sales of dairy products in China.

Historically, dairy and milk-based products were rare in China. A high incidence rate of lactose intolerance, low level of milk and dairy production, no cultural history of cheese and other dairy products combined to keep the market restricted. Add to this the mammoth transportation problems, southern climate, poor storage and packaging and dairy products were not the easiest things to produce and sell either for local or international companies.

But, tastes have changed. The arrival of the fast-food chains, western-style supermarkets, greater awareness concerning the health benefits of dairy products and the emergence of a generation both willing and able to try new products and the market for dairy products has made great strides in China.

Despite not being a traditional food product in China, dairy products are emerging as one of the fastest growing sectors of the market in China at the moment. There are any number of reasons for this – calcium awareness, a growing taste for western products, improved earnings, increased availability – amongst them. Not least is the presence of foreign dairy companies, both as active importers in to the market and latterly as manufacturers in China. The New Zealand Dairy Board was so pleased with import success that it has now opened a factory. Walls and Nestlé have come to dominate the ice cream and Popsicle markets due to lack of local competition.

There are currently approximately 1,000 dairy enterprises in China, of which 90% have a capacity of processing less than 100 tons of fresh milk daily. Many dairy farms have increasingly outdated equipment and technology despite growing levels of investment and this is meaning that they are losing out to foreign funded joint ventures and imports.

## Other Access Asia Reports of Possible Interest

Other related reports by Access Asia include:

- Powdered Milk in China: A Market Analysis
- Breakfast Cereals in China: A Market Analysis
- Ready Meals in China: A Market Analysis
- Baby Foods in China: A Market Analysis
- Dried Foods in China: A Market Analysis
- Canned Foods in China: A Market Analysis
- Chilled Food in China: A Market Analysis
- Confectionery in China: A Market Analysis
- Soft Drinks in China: A Market Analysis
- Savoury Snacks in China: A Market Analysis
- Fresh Food in China: A Market Analysis
- Frozen Food in China: A Market Analysis
- Fruit & Vegetables in China: A Market Analysis
- Fresh & Processed Meat in China: A Market Analysis
- Soya Products in China: A Market Analysis
- Baked Goods in China: A Market Analysis
- Salt in China: A Market Analysis
- Sugar in China: A Market Analysis
- Honey in China: A Market Analysis
- Eggs in China: A Market Analysis
- Cereal Products in China: A Market Analysis
- Retailing in China – A Two-Volume Study: A Market Analysis
- Convenience Store Retailing in Shanghai: A Market Briefing
- Fast Food & Organised Catering in China: A Market Analysis

## Glossary

AICs – Administrations of Industry and Commerce

BOC – Bank of China

CAA – China Advertising Association

CASS – Chinese Academy of Social Studies

CCFA – China Chain Store & Franchise Association

CCP – Chinese Communist Party

CCTV – China Central Television

CDMA – China Direct Marketing Association

CICT – Consolidated Industrial and Commercial Tax

CNDFMC – China National Duty Free Merchandise Corporation

COFCO – China National Cereals, Oils & Foodstuffs Import and Export Corporation

CRFT – China Radio, Film and Television Group

C-store – convenience store

DIY – do-it-yourself

ETC – Economic and Trade Commission

FDI – foreign direct investment

FIE – foreign-invested enterprise

FMCG – fast-moving consumer goods

GATT – General Agreement on Trade & Tariffs

GDP – gross domestic product

HoReCa – hotel, retail & catering

IPO – initial public offering

ISO – International Standard Organisation

JV – joint venture

KG – kilogram

MII – Ministry for Information Industries

MIT – Ministry of Internal Trade

ML – millilitres

MNC – multinational company

MOFTEC – Ministry of Foreign Trade and Economic Relations

Mofcom – Ministry of Commerce (successor to Moftec, the Ministry of Foreign Trade and Economic Cooperation)

Mu – Chinese measurement of land

NBS – National Bureau of Statistics

OTC – over the counter

PBOC – People’s Bank of China

PoS – point-of-sale

PRC – People’s Republic of China

PRD – Pearl River Delta

RMB– Renminbi, China’s unit of currency

SAIC – State Administration of Industry & Commerce

SAM – Self-Administered Municipality

SARFT – State Administration of Radio, Film and Television

SAR – special administrative region

SARS – severe acute respiratory syndrome

SDA – State Drug Administration

SETC – State Economic Trade Commission

SEZ – special economic zone

SOE – state-owned enterprise

SPPA – State Press and Publication Administration

TCM – traditional Chinese medicine

TEDA – Tianjin Economic Development Area

VAT – Value-Added Tax

WOFE – wholly owned foreign enterprise

WHO – World Health Organisation

WTO – World Trade Organisation

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## Fast Facts



Area:	9,596,960 sq km
Population (2004):	1,301,243,000
Capital:	Beijing (population 14.81million)
Government:	Single-party communist dictatorship under Chinese Communist Party (CCP)
Ethnic groups:	Han Chinese (92%) 55 minority nationalities (8%)
Languages:	Mandarin Chinese (official); numerous other Chinese dialects and minority languages
Religions:	Predominantly atheist; Buddhist communities in Tibet and Qinghai; Muslim communities in Xinjiang, Gansu and Ningxia; Christianity, Daoism and Confucianism increasingly popular
Currency:	Renminbi (RMB) or Yuan = 10 jiao or 100 fen
GDP per capita (2004):	US\$ 1,333.17

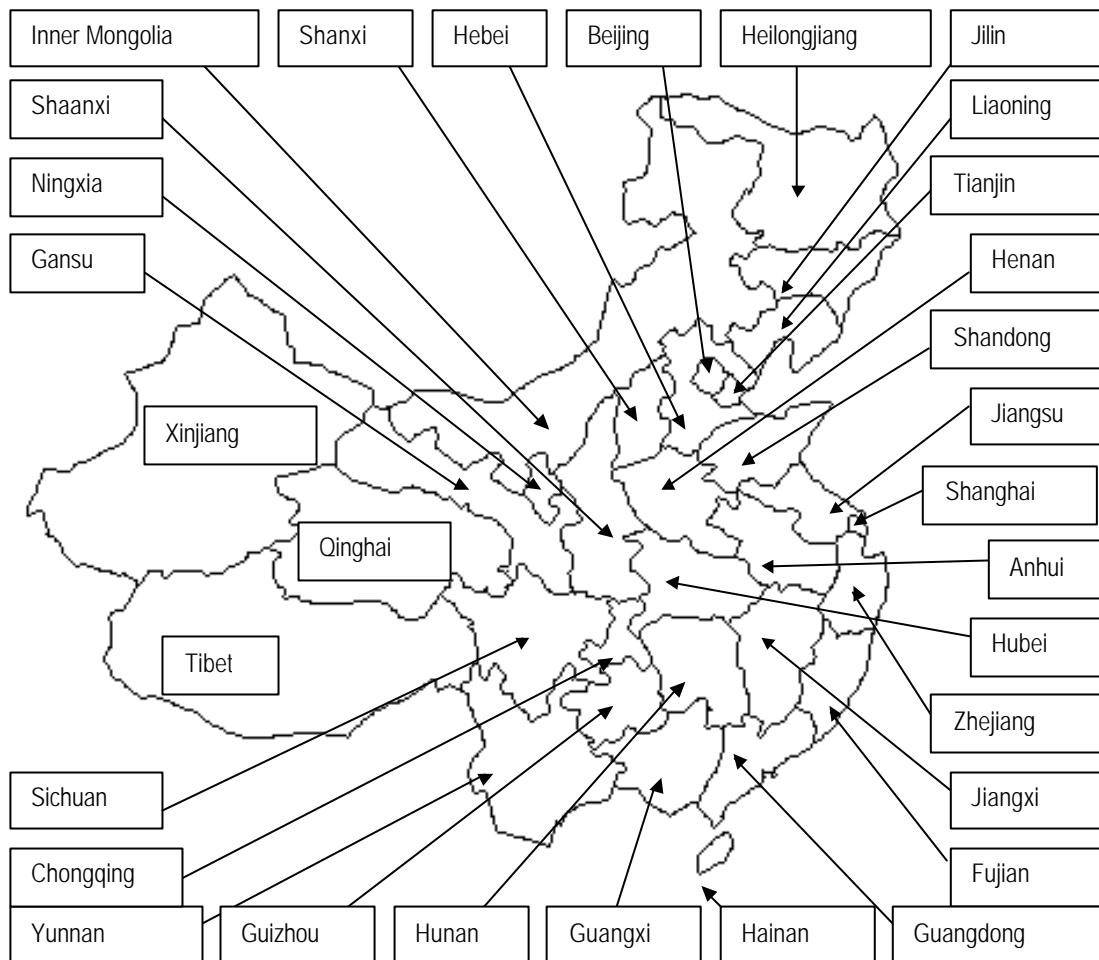


## Regions of China

China is divided into 22 provinces, five autonomous regions and four municipalities, with the national capital in Beijing. The country also has two special administrative regions (SARs): Hong Kong, a former British Crown Colony which reverted to Chinese sovereignty in 1997; and the former Portuguese colony of Macau which was handed back to China in 1999. Both SARs officially retain economic and political independence, and as such are not covered in the scope of this report.

China's five autonomous regions - Inner Mongolia, Guangxi Zhuang, Ningxia Hui, Xinjiang Uygur and Tibet - are provinces in all but name. The difference in categorisation stems from the fact that these regions mainly comprise minority peoples. Although the central government allocates additional government resources for the preservation of minority culture and language in these autonomous regions, in practice Han Chinese culture has pervaded these areas and Han Chinese figures predominate in politics and business.

**Map A.1 CHINA: PROVINCES AND MUNICIPALITIES**



Source: Access Asia

China's four municipalities - Beijing, Shanghai, Tianjin and Chongqing - all enjoy provincial status. Chongqing, the newest municipality and formerly a part of Sichuan province, was created in 1997. Provincial status bestows

greater political and economic freedom on these municipalities – including the authority to approve foreign-invested projects worth up to US\$ 30 million.

Eight other major cities - Dalian, Guangzhou, Harbin, Ningbo, Qingdao, Shenyang, Wuhan and Xi'an - enjoy "deputy province-level" economic status, granting them a relatively high degree of economic autonomy.

China's coastal provinces have been the principal beneficiaries of economic reform over the past 25 years. Growth in cities down the eastern seaboard has raised living standards sharply, leaving the country's inland provinces far behind. The central government fears that this growing wealth gap could spark social unrest across the Chinese hinterland – particularly in the country's traditionally restive autonomous regions.

Beijing and its inland provincial administrations have sought to stimulate economic growth in central and western China through greater foreign direct investment (FDI). To lure foreign companies, the government is investing heavily in the transportation and communication networks in these areas. Infrastructure development in central and western China is a priority in the Tenth Five-Year Plan (2001-2005), Beijing's blueprint for national development for the first half of the decade. The Plan also calls for further modernisation of existing industries - such as agriculture and mineral extraction – and a fresh drive to grow new industries.



# 1 China's Dairy Products Market

## 1.1 Overview



Pizza and fast food chains, like Pizza Hut above in Shanghai, have introduced Cheese as an ingredient to many Chinese consumers.  
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- The total market for dairy products in China increased in value to RMB77.55bn (US\$9.37bn) by 2004, having risen in value by 113.33% over 1998.
- The dairy products market has risen in significance to the overall food market, rising from 2.45% in 1998, to 3.05% by 2004.
- The largest sector in the market in both volume and value terms is for ice cream, which reached a total value of RMB 56.25bn (US\$6.80bn) by 2004, rising by 114.21% since 1998. Next largest was yoghurt, which reached a value of RMB 15.08bn (US\$1.82bn) in 2004, up by 107.63% since 1997.
- The other sectors, in order of total sector value growth between 1998 and 2004, are liquid milk (120.87%), cheese (111.69%), butter (109.44%) and cream (36.96%).
- Ice cream and yoghurt together still represented 91.99% of the total market value in China in 2003, and 66.69% of the total market volume.
- Chinese consumers are beginning to adopt dairy products in much greater quantities into their normal diet.
- The market is becoming increasingly competitive, and the industry is undergoing a period of consolidation through mergers and acquisitions.
- The Chinese government has been promoting greater consumption of dairy products among Chinese consumers, aware of the need for many Chinese to increase the amount of calcium consumed in the average diet.
- Marketing and advertising of dairy products is now much more sophisticated, and receives much greater amounts of investment, thanks to the rise in competition in the market.
- The spread of retail chains such as supermarkets and convenience stores is helping to improve distribution of dairy products to end consumers.
- The total dairy products retail market in China is expected to grow by just under 35% in constant value terms between 2005 and 2009, from about RMB82.73bn (US\$10.00bn) in value in 2005, to just under RMB111.47bn (US\$13.47bn) by 2009.
- A major way that cheese is entering the Chinese diet is through the expansion and growing popularity of chains such as McDonald's and Pizza Hut who are introducing many consumers to cheese based products

## 1.2 China's Total Food & Beverage Market

### 1.2.1 Total Food Market: Food and Non-food Sales

An historical comparison of food and non-food retail sales provides an insight into the evolving habits of the Chinese consumer. Over the past five years, non-food sales have gradually overtaken food sales in terms of value.

**Table 1.1 TOTAL CURRENT VALUE RETAIL SALES BY FOOD AND NON-FOOD, 1998-2004\***

<i>RMB bn, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Food	1,483.44	1,532.22	1,685.03	1,811.32	2,050.60	2,255.09	2,543.28
Non-food	1,528.54	1,666.98	1,823.99	1,974.79	2,255.93	2,488.74	2,828.08
TOTAL	3,011.97	3,199.20	3,509.02	3,786.11	4,306.52	4,743.83	5,371.36

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

This reflects a move away from essential purchases (typically fresh market produce required for day-to-day living) towards desired purchases (more expensive durable consumer goods for China's growing number of urban households).

The slower rate of growth in food sales also underlines a growing tendency amongst China's emerging urban middle class to buy fewer groceries and to eat out more - thus contributing to food services, which are not included in food retail sales. Average food price indices have also remained slow in growth, adding to the slow value growth rate.

### 1.2.2 Total Food Market: Food/Non-food Sales Split

Retail food sales have consistently declined as a proportion of total retail sales - thanks largely to higher disposable incomes and an increasing tendency to eat out. Although the value of average weekly grocery shopping is higher than ever, the contents of shopping baskets have changed. Local consumers are now buying more packaged and processed foods, which command higher prices.

**Table 1.2 % BREAKDOWN OF SALES BY FOOD AND NON-FOOD, 1998-2004\***

%	1998	1999	2000	2001	2002	2003	2004
Food	49.25	47.89	48.02	47.84	47.62	47.54	47.35
Non-food	50.75	52.11	51.98	52.16	52.38	52.46	52.65
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

However, the major development in spending has been in fast-moving consumer goods (FMCG) sectors such as clothing, footwear, personal products - cosmetics, eyewear, jewellery - and durable goods such as mobile phones. Furthermore, consumers are spending more on big-ticket items for the home: such as personal computers, DVD players, white goods, electronic toys and home furnishings.

### 1.2.3 Total Food Market: Urban and Rural Split

Overall food spending has declined as a proportion of overall retail sales in both urban and rural areas. Although more expensive food products are available, fiercer competition in the retail food market and the rapid growth in restaurants – notably fast-food outlets – have helped to keep prices down.

The split between food and non-food sales is very similar between rural and urban regions, with food sales continuing to represent the most significant portion of spending throughout.

**Table 1.3 TOTAL CURRENT VALUE RETAIL SALES BY FOOD AND NON-FOOD, 1998-2004\***

<i>RMB bn, current prices</i>	1998	1999	2000	2001	2002	2003	2004
<b>Urban retail sales</b>							
Food	897.10	946.62	1,046.62	1,126.65	1,284.16	1,412.71	1,513.02
Non-food	674.30	748.17	833.58	935.04	1,087.74	1,202.19	1,307.45
Urban total	1,571.40	1,694.79	1,880.20	2,061.68	2,371.90	2,614.90	2,820.47
<b>Rural retail sales</b>							
Food	586.33	585.60	638.40	684.68	766.44	842.38	1,030.26
Non-food	854.24	918.81	990.41	1,039.75	1,168.19	1,286.55	1,520.63
Rural total	1,440.58	1,504.41	1,628.81	1,724.43	1,934.63	2,128.93	2,550.89
<b>TOTAL RETAIL SALES</b>	<b>3,011.97</b>	<b>3,199.20</b>	<b>3,509.02</b>	<b>3,786.11</b>	<b>4,306.52</b>	<b>4,743.83</b>	<b>5,371.36</b>
<b>% analysis</b>							
Urban food	29.78	29.59	29.83	29.76	29.82	29.78	28.17
Urban non-food	22.39	23.39	23.76	24.70	25.26	25.34	24.34
Rural food	19.47	18.30	18.19	18.08	17.80	17.76	19.18
Rural non-food	28.36	28.72	28.22	27.46	27.13	27.12	28.31
<b>TOTAL RETAIL SALES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

### 1.2.4 Total Food Market: Total Value Trends

Higher average incomes and increased product choice have enabled local consumers to become more choosy, with urban consumers buying more expensive cuts of meat, fresher seafood and even organic vegetables. Wealthier consumers are celebrating more – encouraged by longer public holidays – and spending more on alcoholic drinks. Urban consumers in particular have also developed more of a taste for dairy and bakery products – items not traditionally associated with the Chinese diet. And increasing prosperity has allowed consumers to lavish more attention on their children, with sales of confectionery and baby food surging in recent years.

The fast uptake in modern trade – chain store outlets such as Shanghai's ubiquitous c-stores – and increased purchasing power of teenagers and pre-teens has pushed snack food sales upwards. Japanese food products in supermarkets and an increasing number of Japanese restaurants in major cities are contributing to a trend for Japanese food in China. Sushi, udon, soba and ready-to-eat meals are especially popular amongst younger consumers.

**Table 1.4** CURRENT VALUE OF FOOD SALES BY MAJOR PRODUCT CATEGORY, 1998-2004\*

<i>RMB bn, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Fresh and dry vegetables	249.23	249.12	276.81	296.58	332.45	364.03	406.07
Fresh meat	187.38	190.75	213.49	230.85	261.25	288.31	324.84
Tobacco	188.92	175.73	194.43	206.05	223.60	239.47	259.79
Cereal products	183.80	200.46	211.98	225.61	256.75	280.55	317.10
Edible oils	83.89	80.29	87.89	92.42	101.14	108.81	118.69
Fresh fruit	86.10	90.66	96.67	102.26	115.20	125.13	140.16
Alcoholic drinks	197.40	221.50	242.08	264.18	307.54	344.06	399.24
Fresh seafood	43.01	44.64	50.27	54.79	62.58	69.52	78.96
Eggs	39.81	39.60	43.97	47.07	52.64	57.58	64.04
Sauces and condiments	33.94	36.45	39.66	42.70	48.79	53.75	60.97
<b>Dairy</b>	<b>36.35</b>	<b>39.66</b>	<b>45.31</b>	<b>50.60</b>	<b>58.99</b>	<b>66.75</b>	<b>77.55</b>
Bakery products	19.52	20.24	23.10	25.53	29.26	32.81	37.51
Bean curd	3.69	3.97	4.34	4.70	5.39	5.97	6.81
Baby foods	26.24	28.93	31.90	34.91	40.43	45.13	51.97
Canned food	12.00	11.67	12.72	12.33	15.57	18.27	22.17
Spreads	3.28	3.73	4.08	4.43	5.17	5.76	6.67
Soft drinks	19.30	21.26	23.85	26.37	30.67	34.44	39.83
Hot Drinks	12.60	13.53	14.76	15.83	18.07	19.84	22.48
Sugar	8.01	8.18	8.94	9.56	10.74	11.75	13.12
Confectionery	5.41	5.77	6.56	7.26	8.39	9.43	10.85
Salt	4.19	4.24	4.74	5.12	5.78	6.36	7.14
Savoury snacks	3.51	3.58	4.15	4.57	5.24	5.86	6.71
Frozen food	27.38	29.51	33.53	36.99	42.92	48.17	55.49
Dried food	2.36	2.34	2.48	2.59	2.84	3.04	3.32
Chilled food	6.10	6.43	7.29	8.02	9.23	10.32	11.81
<b>TOTAL</b>	<b>1,483.44</b>	<b>1,532.22</b>	<b>1,685.03</b>	<b>1,811.32</b>	<b>2,050.60</b>	<b>2,255.09</b>	<b>2,543.28</b>

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

### 1.2.5 Total Food Market: Urban Value Trends

The fastest and slowest growing sectors in the urban retail food market were, respectively, dairy products (109.47%) and dried food (38.01%). The fast-growing popularity of dairy products - a comparatively new component of the Mainland Chinese diet - typifies the encroachment of western eating habits amongst younger urban consumers in China.

An underlying trend in overall food spend in China's major cities is the shift away from basic daily shopping at the local wet market towards more expensive convenience foods. This trend will continue to develop: urban consumers, due to busier lifestyles and increased average incomes, have become much more reliant on convenience foods and eating out, and so have increased spending on both of these at a much greater rate than they have increased spending on basic foods.

**Table 1.5** URBAN FOOD SALES CURRENT VALUE BY MAJOR PRODUCT CATEGORY, 1998-2004\*

<i>RMB bn, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Fresh and dry vegetables	151.75	155.07	173.38	186.68	211.55	233.60	250.42
Fresh meat	114.14	118.73	133.73	145.33	166.14	184.62	198.79
Tobacco	117.48	112.33	124.63	130.26	142.63	155.17	164.08
Cereal products	111.91	124.79	132.77	142.01	163.25	177.26	188.49
Edible oils	51.08	49.98	55.05	58.17	64.46	70.36	74.60
Fresh fruit	52.43	56.43	60.55	64.37	73.29	79.43	84.37
Alcoholic drinks	118.64	136.05	149.64	163.44	190.59	211.29	227.61
Fresh seafood	26.19	27.79	31.49	34.48	39.77	44.38	47.98
Eggs	24.24	24.65	27.54	29.63	33.51	36.99	39.63
Sauces and condiments	20.57	22.59	24.73	26.75	30.86	33.90	36.36
<b>Dairy</b>	<b>22.13</b>	<b>24.69</b>	<b>28.38</b>	<b>31.85</b>	<b>37.44</b>	<b>42.51</b>	<b>46.34</b>
Bakery products	12.58	13.33	15.31	17.01	19.67	22.29	24.19
Bean curd	2.25	2.48	2.72	2.96	3.42	3.79	4.07
Baby foods	15.97	18.01	19.98	21.97	25.67	28.58	30.87
Canned food	8.11	7.89	8.60	8.31	8.60	6.74	4.89
Spreads	1.94	2.24	2.47	2.68	3.15	3.46	3.77
Soft drinks	13.65	15.32	17.23	18.96	22.07	24.82	27.14
Hot Drinks	7.25	7.87	8.61	9.15	10.46	11.45	12.34
Sugar	4.80	5.00	5.50	5.89	6.67	7.34	7.89
Confectionery	1.46	1.59	1.84	2.03	2.38	2.70	2.95
Salt	2.51	2.59	2.92	3.15	3.59	3.99	4.31
Savoury snacks	0.17	0.17	0.20	0.20	0.23	0.26	0.27
Frozen food	13.47	14.52	16.50	18.25	21.18	23.77	27.33
Dried food	0.22	0.22	0.24	0.24	0.27	0.29	0.30
Chilled food	2.16	2.30	2.62	2.87	3.31	3.71	4.02
<b>TOTAL</b>	<b>897.10</b>	<b>946.62</b>	<b>1,046.62</b>	<b>1,126.65</b>	<b>1,284.16</b>	<b>1,412.71</b>	<b>1,513.02</b>

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

### 1.2.6 Total Food Market: Rural Value Trends

Fruit and vegetable sales growth have been unspectacular, thanks principally to increased self-sufficiency amongst rural consumers – thus reducing retail demand for these goods. Liberalisation of sugar and tobacco prices has raised competition and lowered average spend on these products.

Meanwhile, fierce rivalry between baby food manufacturers has kept prices down, slowing market value growth, while the effects of the One Child Policy – particularly in rural areas - have also played a part.

**Table 1.6** VALUE OF RURAL FOOD SALES CURRENT VALUE BY MAJOR PRODUCT CATEGORY, 1998-2004\*

<i>RMB bn, current prices</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Fresh and dry vegetables	97.48	94.04	103.43	109.90	120.89	130.42	155.65
Fresh meat	73.25	72.01	79.76	85.52	95.10	103.69	126.04
Tobacco	71.44	63.41	69.80	75.79	80.97	84.31	95.72
Cereal products	71.89	75.68	79.21	83.60	93.49	103.30	128.61
Edible oils	32.81	30.31	32.84	34.25	36.68	38.44	44.09
Fresh fruit	33.67	34.23	36.12	37.89	41.90	45.70	55.79
Alcoholic drinks	78.76	85.45	92.44	100.74	116.95	132.77	171.63
Fresh seafood	16.82	16.85	18.78	20.31	22.81	25.13	30.98
Eggs	15.57	14.95	16.43	17.44	19.14	20.59	24.41
Sauces and condiments	13.37	13.86	14.94	15.96	17.93	19.85	24.61
<b>Dairy</b>	<b>14.22</b>	<b>14.97</b>	<b>16.93</b>	<b>18.75</b>	<b>21.55</b>	<b>24.25</b>	<b>31.21</b>
Bakery products	6.94	6.91	7.80	8.52	9.59	10.52	13.32
Bean curd	1.44	1.50	1.62	1.74	1.97	2.18	2.75
Baby foods	10.26	10.92	11.92	12.94	14.76	16.54	21.10
Canned food	3.90	3.78	4.12	4.02	6.96	11.53	17.27
Spreads	1.34	1.48	1.61	1.75	2.03	2.30	2.90
Soft drinks	5.64	5.94	6.61	7.41	8.60	9.61	12.70
Hot Drinks	5.35	5.66	6.15	6.68	7.61	8.39	10.14
Sugar	3.20	3.18	3.44	3.67	4.07	4.40	5.23
Confectionery	3.96	4.18	4.73	5.23	6.01	6.73	7.90
Salt	1.68	1.65	1.83	1.97	2.19	2.38	2.82
Savoury snacks	3.34	3.41	3.95	4.37	5.01	5.61	6.44
Frozen food	13.91	14.99	17.03	18.75	21.75	24.40	28.17
Dried food	2.14	2.11	2.24	2.35	2.57	2.75	3.01
Chilled food	3.94	4.13	4.67	5.15	5.91	6.60	7.79
<b>TOTAL</b>	<b>586.33</b>	<b>585.60</b>	<b>638.40</b>	<b>684.68</b>	<b>766.44</b>	<b>842.38</b>	<b>1,030.26</b>

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

## 2 China's Cheese and Cheese Products Market

### 2.1 Cheese Market: Total Market Size

The dairy products market is still relatively new in China, and has grown rapidly as consumer demand has first materialised and then flourished. In 1999, the average Chinese consumed less than seven kilograms of dairy products, significantly lower than the 40-kilogram average in Asia and the 94-kilogram global average, according to the Dairy Industry Association of China.

Part of the success of the market has been the general trend towards Chinese consumers eating more western-style foodstuffs over recent years. This trend is largely due to the rise in western companies becoming involved in the catering and food manufacturing industries in the last decade.

The Chinese government has also put its weight behind the development of the dairy products market, being conscious of the health benefits (namely increased calcium intake in the diet) of dairy products. This has also been one of the key marketing lines used to promote consumption of dairy products.

One of the main reasons that dairy products had not been more significant, is that agricultural land has always been at a premium in China, and putting aside large tracts of land for grazing cattle was previously uneconomic.

With the rise in demand for western-style foods, containing cheese, there has been a rise in the potential market value, thus making dairy farming more attractive to as a potential business.

The gradual rise in ownership of refrigerators, amongst urban households especially, has meant that more households are now equipped to store more fresh and chilled foods at home. This has created new opportunities for developing the markets for fresh and processed fish and seafood, which need to be refrigerated prior to cooking at home. Consequently, the real and potential demand for more of these products is now increasingly great.

**Table 2.1 HOUSEHOLD OWNERSHIP OF REFRIGERATORS BY URBAN/RURAL DIVIDE, 1998-2004\***

<i>Ownership per 100 households, year end</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Urban refrigerators	76.1	79.9	83.3	86.6	90.1	93.5	97.0
Rural refrigerators	9.3	10.9	12.4	13.8	15.3	16.7	18.1

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

The retail market for cheese has grown strongly over the past seven years, thanks to several key factors, these being:

- Increased consumer spending power, leading to raised consumer aspirations and the ability to make more frequent purchases of dairy products, as well as purchases of more expensive products;

- Rationalisation and consolidation of the domestic industry, which has improved industry productivity and profitability, and its raised the level of market supply;
- Development of more integrated distribution systems and infrastructure throughout China, leading to better chilled distribution around the country, from manufacturer to retailer, and;
- Increased market penetration of more organised retail outlets, with provision for better chilled and frozen display units, creating a larger overall outlet for dairy products.

The factors combined have led to not only raised consumer demand, but also improvements in the ability of the manufacturing and distribution industries to get products to consumers, in better condition. The manufacturing industry has also helped by improving the variety of product that it is able to supply.

The current value growth rates for the sector over the 1998-2004 historical review period by sector is as follows:

<i>Sector</i>	<i>% growth 1998-2004</i>
Cheese	111.69
TOTAL DAIRY	113.33

The volume growth rates for the sector over the 1998-2004 historical review period by sector is as follows:

<i>Sector</i>	<i>% growth 1998-2004</i>
Cheese	110.31
TOTAL DAIRY	96.04

**Table 2.2 CHEESE CURRENT VALUE & VOLUME RETAIL SALES IN CHINA, 1998-2004\***

	1998	1999	2000	2001	2002	2003	2004
<i>RMB m, current prices</i>							
Cheese	163.43	178.91	203.38	225.90	263.36	297.03	345.97
TOTAL DAIRY	36,353.22	39,656.58	45,310.25	50,597.47	58,993.24	66,752.75	77,553.28
<i>'000 tonnes</i>							
Cheese	0.85	0.99	1.13	1.21	1.44	1.59	1.79
TOTAL DAIRY	4,056.73	4,417.31	4,984.95	5,501.96	6,393.18	7,120.31	7,952.62

Source: Access Asia, trade sources, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates



## 2.2 Cheese Market: Sector Share

Cheese remain largely the preserve of the more well-heeled consumers of the main urban markets, who are more likely to have developed tastes for particularly western foods such as cheese, butter and cream.

The increased ownership of freezers and refrigerators, or fridge/freezers, has helped to create the kind of market environment that is beneficial to products that are temperature sensitive. The increased demand for products that can be stored in ambient conditions is not only due to their convenience, but also because the products now available are more sophisticated and appealing to consumers, than was the case in the past.

**Table 2.3** % BREAKDOWN OF CHEESE CURRENT VALUE & VOLUME RETAIL SALES IN CHINA, 1998-2004\*

	1998	1999	2000	2001	2002	2003	2004
<i>% value</i>							
Cheese	0.450	0.451	0.449	0.446	0.446	0.445	0.446
TOTAL DAIRY	100.000	100.000	100.000	100.000	100.000	100.000	100.000
<i>% volume</i>							
Cheese	0.021	0.022	0.023	0.022	0.022	0.022	0.023
TOTAL DAIRY	100.000	100.000	100.000	100.000	100.000	100.000	100.000

Source: Access Asia, trade sources, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

## 2.3 Cheese Market: Growth Rate

The continued growth in demand for western foods such a pizzas and burgers from fast-food outlets is creating the potential for sales of cheese, and supermarkets are now increasingly stocking cheeses, including cheese slices and spreads.

**Table 2.4** % ANNUAL GROWTH FOR CHEESE CURRENT VALUE & VOLUME RETAIL SALES IN CHINA, 1998-2004\*

	1998	1999	2000	2001	2002	2003	2004
<i>% current value annual growth</i>							
Cheese	12.49	9.47	13.68	11.07	16.58	12.79	16.48
TOTAL DAIRY	21.42	9.09	14.26	11.67	16.59	13.15	16.18
<i>% volume growth</i>							
Cheese	20.58	15.87	14.91	6.50	19.17	10.46	12.66
TOTAL DAIRY	18.88	8.89	12.85	10.37	16.20	11.37	11.69

Source: Access Asia, trade sources, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

## 3 Market Shares

### 3.1 Market Shares: Foreign Penetration

The growth dairy product imports and the growing number of foreign funded joint ventures has meant that the penetration rate of indigenous dairy products has decline from 60% in 1995 to 38% in 2000.

These percentages are most favourable to foreign JVs and imports in major cities such as Beijing and Shanghai.

**Table 3.1 FOREIGN PENETRATION OF CHINA'S DAIRY MARKET, 1995/2000**

<i>% share of total stock available</i>		
<b>Form of Producer</b>	<b>1995</b>	<b>2000</b>
JV & imported products	40	62
Domestic manufacturers	60	38
<b>TOTAL</b>	<b>100</b>	<b>100</b>

Source: Access Asia from dairy industry sources

The percentages below indicate the level of penetration in retail stock by foreign imported or foreign funded joint venture dairy products.

In part these high percentage penetration rates are due to the fact that many dairy products including butter and yoghurt and non-traditional foodstuffs in China. Additionally, a growing number of domestic manufacturers have restructured as foreign funded joint ventures.

The penetration of foreign brands is also due to the growing popularity of international dairy brands in China such as Nestle, Anlene and Morinaga.

**Table 3.2 FOREIGN PENETRATION OF CHINA'S CHEESE MARKET SECTORS 2004**

<i>Sector</i>	<i>% share of total stock</i>
Cheese	76

Source: Access Asia from dairy industry sources

## 4 Prices

### 4.1 Prices: Retail Price Indices

Retail prices in China have declined gradually since 1997, thanks to a slowdown in market competition. The rise in food prices used to be one of the most worrying trends in the domestic economy for the government, especially as these rises were creating substantial difficulties for many lower-income households, and the threat of social unrest should these difficulties persist. Price controls brought in for the sake of keeping basic food prices at a level to suit poorer households included the reintroduction of rationing on products such as grain and oil.

However, these measures were restricted in geographical spread and duration and generally prices have been allowed to increase according to the laws of the market economy. Moreover, as the internal market has matured, so the rise in spending has settled, and thus prices have also started to become less volatile. Over the last few years, the rise in competition in most consumer product markets has forced consumer prices down. Indeed, the Chinese economy is now facing chronic deflation due to the decline in consumer prices. This deflation was becoming more acute due to the lack of upward movement in property prices in China, largely due to oversupply in sectors of the property market.

However, since 2003, prices have begun to rise again due to a resurgence in spending by consumers, largely caused by a recovery in the retail market after the SARS episode, and people spending less on cars and property, following changes in legislation that has made it harder for people to take out loans on vehicles and property.

**Table 4.1 RETAIL PRICE INDICES BY BROAD SECTOR, 1998-2004\***

<i>1997=100.0</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Food	99.40	96.79	98.28	99.03	99.03	99.70	100.42
- canned food	99.40	98.07	99.59	100.36	100.34	101.04	101.77
- grain	99.40	89.29	90.69	91.37	91.37	92.00	92.66
- edibles oils & fats	99.40	98.55	100.07	100.84	100.83	101.53	102.26
- meat, poultry & eggs	99.40	98.24	99.77	100.54	100.52	101.22	101.95
- aquatic produce	99.40	98.16	99.68	100.45	100.43	101.13	101.86
- vegetables	99.40	96.48	97.96	98.72	98.71	99.38	100.10
- fresh fruits	99.40	89.32	90.71	91.41	91.40	92.02	92.68
- dried fruits	99.40	103.38	104.99	105.80	105.78	106.51	107.28
Catering trade	99.40	101.52	103.10	103.89	103.88	104.59	105.34
Beverages, tobacco & liquor	99.40	98.17	99.69	100.45	100.45	101.13	101.86
Clothing and footwear	99.40	100.36	101.92	102.70	102.68	103.40	104.15
Textiles	99.40	98.79	100.32	101.09	101.08	101.77	102.50
Medicines	99.40	101.25	102.81	103.60	103.59	104.31	105.06
Cosmetics	99.39	99.19	100.72	101.50	101.49	102.18	102.92
Newspapers & magazines	99.40	109.37	111.06	111.91	111.89	112.67	113.48
Stationery & sports goods	99.39	98.61	100.13	100.91	100.89	101.58	102.31
Daily use articles	99.39	99.18	100.72	101.48	101.48	102.17	102.91
Household appliances	99.40	92.74	94.18	94.89	94.90	95.54	96.23
Jewellery	99.40	94.82	96.30	97.03	97.03	97.69	98.39
Fuels	99.40	104.07	105.69	106.50	106.49	107.22	107.99
Building decoration materials	99.40	96.00	97.51	98.24	98.23	98.90	99.61
Mechanical/electrical products	99.40	92.61	94.05	94.77	94.77	95.41	96.10
AL RETAIL PRICES	99.40	97.69	99.21	99.97	99.95	100.65	101.38

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

## 4.2 Prices: Average Unit Values

**Table 4.2** AVERAGE UNIT RETAIL PRICES OF CHEESE IN CHINA, 1998-2004\*

<i>RMB/kg, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Cheese	192.01	181.40	179.46	187.17	183.10	186.95	193.28

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

## 4.3 Prices: Average Unit Value Growth Rates

**Table 4.3** % ANNUAL GROWTH OF AVERAGE UNIT RETAIL PRICES OF CHEESE IN CHINA, 1998-2004\*

<i>% annual average current price growth</i>	1998	1999	2000	2001	2002	2003	2004
Cheese	-6.71	-5.52	-1.07	4.29	-2.17	2.10	3.38

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

## 4.4 Prices: Selected Retail Prices

**Table 4.4 RETAIL PRICES ON SELECTED CHEESE PRODUCTS IN CHINA, 2004**

	RMB	Unit
<i>Cheese</i>		
Chesdale	36.00	12 singles
Kraft Cheddar Slices	33.98	12 singles
Kraft Thick Slices	45.80	12 singles
Anchor Cheddar	32.50	12 singles
Chesdale Processed Cheddar	35.00	250g
Kraft Trim Low Fat Cheese	36.00	250g
Kraft Portions cheese spread	20.50	160g
Primula Cheese Spread	24.30	125g
Kraft Philadelphia	34.70	250g
Flora Danika mini Camembert	44.90	125g

Source: Access Asia store check data

## 5 Outlook

### Statistical Note

All value forecast data is based upon per capita historical volume growth trends, being extrapolated into future years, and then multiplied by forecast population statistics, and calculated at constant 2004 prices

### 5.1 Dairy Outlook: Forecast Trends

- The total constant value market is forecast to reach a value of RMB111.47bn (US\$13.47bn) by 2009, up by 37.74% on 2005.
- The ice cream sector will continue to dominate the market, reaching a forecast value of RMB81.37bn (US\$9.83bn) by 2009, up by 35.42% on 2005.
- Continued government support for the dairy industry will help to attract new investment from within China and abroad, thus promoting the production and consumption of dairy foods.
- An initial effect of this support will be that urban dairy enterprises that concentrate on liquid milk production (and pasteurised milk, yoghurt and formula milk) will increase production to approximately two million tonnes in 2005, while output of milk powder and preserved milk is estimated to reach 800,000 tonnes.
- There is still a problem of erratic production in China's milk production industry. During periods of strong retail sales the market is strong and indigenous manufacturers tend to increase production. However, when the market slackens local dairy manufacturers are tending to dump goods on the market at low prices, affecting the overall development of the dairy industry.
- The consequence of this is that the Chinese dairy industry is continuing to move from a position of scarcity of variety slowly, though is lagging behind consumer development as the dairy market in China becomes increasingly diversified.

### 5.2 Outlook: Total Market Size In Value Terms

The total market for dairy products is forecast to grow at a gradually slowing pace over the coming years, as the market becomes more mature. However, growth will remain strong as general demand increases, both in the developed urban areas, and more importantly, as acceptance of dairy products into the daily diet of more rural Chinese increases.

The increased involvement of more foreign and domestic companies will help create the competition that should boost output volume. This will mean that not only will there be more product available, but that production will cover more areas of the country, and competition will help to bring down prices to a level where a greater number of consumers will be inclined to buy dairy products more regularly.

The constant value growth rates for the sector over the 2005-2009 forecast period by sector is as follows:

<i>Sector</i>	<i>% growth 2005-2009</i>
Cheese	35.87
TOTAL DAIRY	34.74

The volume growth rates for the sector over the 2005-2009 forecast period by sector is as follows:

<i>Sector</i>	<i>% growth 2005-2009</i>
Cheese	35.87
TOTAL DAIRY	34.66

**Table 5.1 FORECAST VALUE & VOLUME SALES OF CHEESE IN CHINA, 2005-2009**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>RMB m, constant 2004 prices</i>					
Cheese	371.12	403.54	436.53	470.11	504.25
TOTAL DAIRY	82,730.66	89,729.16	96,851.46	104,097.54	111,467.42
<i>'000 tonnes</i>					
Cheese	1.92	2.09	2.26	2.43	2.61
TOTAL DAIRY	8,489.39	9,205.92	9,935.13	10,677.00	11,431.55

Source: Access Asia

### 5.3 Outlook: Sector Breakdown

Cheese will remain restricted to sales amongst the wealthier sections of the main urban markets. For these products to do substantially better, more Chinese will need to become much more used to eating western-style foods from catering outlets, and become more interested in preparing western-style foods at home. Although there is a trend towards cooking western foods at home amongst wealthy urbanites, there is little demand amongst the rest of the population as yet.

**Table 5.2 FORECAST PERCENTAGE VALUE & VOLUME BREAKDOWN OF CHEESE IN CHINA, 2005-2009**

	2005	2006	2007	2008	2009
<i>% value</i>					
Cheese	0.449	0.450	0.451	0.452	0.452
TOTAL DAIRY	100.000	100.000	100.000	100.000	100.000
<i>% volume</i>					
Cheese	0.023	0.023	0.023	0.023	0.023
TOTAL DAIRY	100.000	100.000	100.000	100.000	100.000

Source: Access Asia



### 5.4 Outlook: Sector Growth

Pricing still needs to come down in order to make cheese products more affordable to reticent rural consumers. This must also be backed up by further campaigns promoting consumption of dairy products, including renewed efforts from the government, as part of its strategy to improve average rural diets. Domestic product and packaging quality also needs to be improved, along with distribution infrastructure to get products in good order to more areas of the country.

**Table 5.3 FORECAST ANNUAL VALUE & VOLUME GROWTH OF CHEESE IN CHINA, 2005-2009**

<i>% value growth</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Cheese	24.94	8.74	8.18	7.69	7.26
TOTAL DAIRY VALUE	23.94	8.46	7.94	7.48	7.08
TOTAL % VOLUME GROWTH	19.23	8.44	7.92	7.47	7.07

Source: Access Asia

## 6 Current Issues

### *6.1 Current Issues: Food Legislation*

Over the course of the past decade, the Chinese government has focused on the need to significantly improve levels of nutrition for infants and small children. In 1988, the State Council of the People's Republic of China (highest governing body of the government) directed the State Planning Council to prepare a strategic plan to address this as a high priority issue.

A new food safety department, which began operations in January 2000, plans to order studies on genetically modified products (GM foods), dioxin contamination and viruses. The Food and Environmental Hygiene Department wants to do more food-related research and bring in pioneering laboratory technology. A food-incidents response team will be set up, with staff on call 24 hours to deal with food crises and large-scale food poisoning.

The Chinese Department of Health recorded 515 food-poisoning cases from January to November, affecting 2,374 people. Extra effort will be put into follow-up action, with more nurses to interview patients and their families. Apart from routine surveillance, the department will do research into the activities of mosquitoes and rats to assess their risk to the public. The department also plans to conduct studies on the possible risk caused by dioxin and the safety of GM foods.

The Department of Health was also active in banning baby-milk formulas and infant food from Belgium, France, Germany and the Netherlands amid fears of contamination by cancer-causing contaminants, dioxin. The safety of GM food was also under the spotlight recently, with green groups and the Consumer Council pressing for mandatory labelling.

### *6.2 Current Issues: Packaging Legislation*

The most recent government legislation of relevance to the dairy products market relates to packaging, hygiene and product labelling. The government introduced new hygiene regulations in 1995, which mean that product lines are now inspected, and those products that have passed the inspection can place a hologram label on their product, to show consumer that their product is hygienically manufactured.

The government has also brought out strict codes on the labelling of product ingredients, and has tightened up laws concerning marketing claims for products, in order to clamp down on companies making false claims about the benefits of their products.

Packaging legislation relates more to hygiene issues, but the government has also been keen to encourage local companies to improve packaging used, and the presentation of products, in order that Chinese products can compete more strongly against foreign ones. Chinese companies have certainly responded well, and there has been a marked improvement in food product packaging over the last few years.

## **6.3 Current Issues: Food Safety**

### **Food Safety Monitoring**

A new food safety department, which began operations in January 2000, has conducted studies on genetically modified products, dioxin contamination and viruses. The Food and Environmental Hygiene Department wants to do more food-related research and bring in pioneering laboratory technology. A food-incidents response team will be set up, with staff on call 24-hours to deal with food crises and large-scale food poisoning.

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The safety of GM food was also under the spotlight recently, with green groups and the Consumer Council pressing for mandatory labelling.

### **Packaging, Hygiene and Product Labelling**

The most recent government legislation of relevance to the alcoholic drinks market relates to packaging, hygiene and product labelling. The government introduced new hygiene regulations in 1995, which mean that product lines are now inspected, and those products that have passed the inspection can place a hologram label on their product, to show consumer that their product is hygienically manufactured.

The government has also brought out strict codes on the labelling of product ingredients, and has tightened up laws concerning marketing claims for products, in order to clamp down on companies making false claims about the benefits of their products.

Packaging legislation relates more to hygiene issues, but the government has also been keen to encourage local companies to improve packaging used, and the presentation of products, in order that Chinese products can compete more strongly against foreign ones. Chinese companies have certainly responded well, and there has been a marked improvement in alcoholic drinks product packaging over the last few years.

## **6.4 Current Issues: Organic Foods**

Currently, China exports around US\$15m worth of organic foods per year, and sells around RMB100m (US\$12.1m) domestically.

China has established 670,000 mu (110,369 acres) of land dedicated to growing organic food since the Organic Food Development Center of the State Administration of Environmental Protection of China was set up in 1994.

This land produces over 100 types of organic food, including grains, vegetables, fruits, livestock and poultry, honey and seafood. Organic soybeans, rice, peanuts, tea, fruit, honey and herbal medicines are already being exported to the European Union.

## **6.5 Current Issues: Health Promotion**

The Chinese dairy products market is receiving support from the government in the form of health campaigns (often similar to those seen in western countries) encouraging dairy consumption as part of a healthy overall diet.

For several years the government has been running a campaign aimed at encouraging school pupils to drink additional milk to improve their health modelled on a similar scheme launched earlier in India. The Milk for Students project is organised by the ministries of agriculture, education and health. Under the scheme, schools sign agreements with dairy producers to ensure a daily supply of dairy products including milk and yoghurt for school tuck shops and canteens.

These agreements allows 200 million Chinese school pupils to buy dairy products at reduced prices. The campaign was a reaction to the fact that a survey in 1997 revealed that only 20% of primary and middle school students in China's urban areas included milk in their daily diet while in rural areas this percentage was just 2%. In rural areas the low intake of dairy has been identified as one of the causes of malnutrition.

The schools project could potentially increase milk consumption considerably. The government has estimated that if every primary and middle school student in China drinks one cup of milk daily then they would consume 14.6 billion tons of milk annually.

The government has also sought to increase dairy consumption in the larger and richer cities of China. In 1999, the Ministry of Agriculture launched milk projects in Beijing, Shanghai, Tianjin, Guangzhou and Shenyang. This campaign combined diet improvement with agricultural restructuring through the encouragement of daily milk deliveries in these cities.

Major programmes have been running in Shanghai and China has announced that it will carry out a school milk programme in 20 provinces, municipalities and autonomous regions in 2003. In 2002 Shanghai hosted the 2<sup>nd</sup> Asia-Pacific School Milk Conference.

## **6.6 Current Issues: Strengthening the Dairy Industry**

The per capita dairy consumption volume has been a main indicator used by World Health Organisation to measure people's living standard in a country. The latest statistics indicate that the dairy consumption volume in mainland China is 6.4 kg per capita, accounting for only 6.4% of the world's average, and ranking at 148. Even compared with the low Asian average, the ratio is 1:6.25.

Why is the dairy industry so weak in the country with the world's largest population? The reason lies in the small scale of dairy enterprises, a low overall development level and an unreasonable product structure. To improve the situation, Chinese Consumer Association advocated the notion of drinking milk for good health in the beginning of the new century and set this year's consumption theme as "green consumption".

Some experts believe, to strengthen China's dairy industry, the old governance system has to be abandoned. Currently in China, the production of crude milk is under supervision of the agricultural authority, the manufacture of dairy products is under supervision of the light industry authority. While the supervision of international circulation falls on

department of foreign trade, the commerce authority is responsible for domestic circulation. This governance model holds true at all administrative levels. This model of governance by different authorities proves to be a block to the development of China's dairy industry.

So, a new approach needs to be taken to enhance the development of a common market. Furthermore, it is believed the dairy industry will have serious problems in adapting to the situation after China's entry into WTO. For big businesses, the entry into WTO means great challenge from outside, but for weak businesses, it is matter of life or death. The dairy enterprises should improve its competitiveness by expansion through reshuffling and merger. Though the keen competition among domestic dairy enterprises helps enhance the quality of products and services, the lack of rules and regulations in competition may put foreign companies into advantage. So a domestic strategic alliance should be formed to cope with international competition.

### ***6.7 Current Issues: China's Dairy Industry Facing the WTO Challenges***

The last 20 years saw China's dairy industry undergoing a rapid development. In 1998, the total output of dairy products in China is 7.7 times that of 1978 with an annual growth rate of 11.6% in 20 years, a speed second only to poultry's 12.6% and higher than meat's 10.5%. Now China has entered the WTO, the Chinese dairy industry is faced with immense opportunities as well as challenges and, hence, how to cope with the new situation becomes a heated topic for China's dairy industry.

#### **The Disadvantages of China's Dairy Industry**

China's cattle breeding industry is synonymous with small business scale and low productivity. The statistics from Chinese Cattle Association show that an average adult cow produces 3,516 kg of milk each year, about two thirds of the world average of 5,500 kg. China's gap with the world dairy leading countries (US 7,412 kg, Denmark 6,471 kg, and Netherlands 6,378 kg) is even larger. As a result, the price of China's dairy products is higher than its actual.

In 1999, the CIF price of whole milk powder was RMB 21,000 per tonne and its actual price was RMB 16,800, excluding duty. There has been a trend of increased dairy imports, and from 1991 to 1995, the annual import volume of imports has been 60,000 tonnes. From January to November, 1999, a total of US\$ 144.2 million was spent on dairy imports, a 91.8% - increase over the same period in 1998.

After China enters WTO, the duty of these products will be greatly reduced (already announced: the duty of cheese has been reduced from 50% to 12%, and the duty of ice cream from 45% to 19% ). Therefore, a subsequent increase in dairy imports will exert more pressure on China's dairy production and cattle breeding industries.

Attracted by China's huge potential market, foreign dairy companies have already moved into China in large numbers in order to set up factories, hoping to cut the cost of production, and to use the cheap labour sources found in China. On top of this, foreign companies have received preferential treatment, such as duty reduction.

Many foreign companies have located their operations in China's coastal regions, an advantageous point to repackage dairy imports and sell-on to inland China. Today 13 of world's top 23 dairy companies have plants

located in China. The Swiss Nestlé Co, Ltd. takes the lead with its 11 plants, and a total investment of CHF 380 million, or RMB 300 billion.

## Competitive Focus After WTO Entry

In recent years, some of China's own dairy enterprises have shown their strength by taking a substantial market share. These enterprises include Sanlu, Guangming Dairy, Yili, Wandashan and Sanyuan. With China's entry into WTO, these companies will have a better opportunity to make use of international resources and explore the international market.

Experts believe that after China's entry into WTO, China's large-and-middle-sized cities and its southeast coastal areas will become the key battleground for leading dairy enterprises. Foreign companies will establish their China bases in those areas and expand into the inland areas step by step.

In terms of product types, the competition will centre on the middle- and high-level products like UHT, disinfected milk, formulated milk powder and ice cream. UHT disinfected milk is widely acclaimed with their long preservation period and convenience to store, carry and drink. In 1998, the daily sales of UHT milk in Shanghai reached 140 tonnes, accounting for one third of the disinfected milk's market.

In Beijing, 3200 tonnes of packaged milk was sold in 1998, 2.9 times as much as that of 1995. Formulated milk powder is also popular in the market. It is estimated that in 1998, the sales of ice cream in Mainland China reached 1 million tonnes. As for other high-class dairy products like cheese, foreign imports remain the premier source for China's market.

**Table 6.1 WTO IMPACT ON CHINA'S DAIRY IMPORT TARIFFS**

%	Before WTO entry	After WTO entry (2002)	2004/2005
Liquid milk	25	19	15
Milk powder	25	13.8	10
Yoghurt	50	26	10
Whey powder	6	6	6
Butter	50	30	10
Cheese	50	27.2	12

Source: Access Asia from WTO & MOFTEC

## Possible Need to Shield China's Dairy Industry

Some experts suggest, after China's entry into WTO, necessary non-duty measures may be used to protect China's own dairy industry. The Chinese found the basis for their market protection from US government's own stipulation that all the liquid dairy supplied to the domestic US market shall use the US-produced crude milk as its raw material.

Experts also suggest no super citizenship shall be granted to foreign companies any more under normal situations. The foreign-owned dairy enterprises located in China's western areas will enjoy the privilege of rendering 15% of its income tax after the due contract period, making it more attractive for such companies to invest in these less-developed regions. Other foreign-owned or JV enterprises will have equal footing with China's own dairy enterprises in this respect.

As China's dairy industry sees the prospect of continuous rapid development, the development of infrastructure and milk source bases, in particular, requires huge investment. In addition to private fund-raising channels, it is also hoped that state banks will give preferential treatment in its policies and loans toward domestic dairy enterprises. It is estimated that within 10 to 20 years, 10 to 20 large domestic dairy enterprises will form alliances or enter into large-scale mergers, thus improving the industry's overall competitiveness.

## 7 Wholesale Distribution

### 7.1 Wholesale Distribution: Dairy Product Import Duty Rates

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. China is committed to establish a “tariff-only” import regime; all WTO-inconsistent non-tariff barriers are being eliminated. Any other measures, such as inspection, testing and domestic taxes must be applied in a manner that is consistent with WTO rules requiring a transparent and non-discriminatory system.

Tariff concessions on key cheese products that China phased in by 2004 include the following:

	<i>Previous Tariff (%)</i>	<i>Tariff in 2004 (%)</i>
Fresh cheese	50	12
Grated/powdered cheese	50	12
Processed cheese	50	12

### 7.2 Wholesale Distribution: Leading Wholesalers

**Table 7.1 LEADING WHOLESALERS OF DAIRY PRODUCTS IN CHINA, 2002**

<b>Company</b>	<b>Location</b>	<b>Telephone</b>	<b>Fax</b>
Beijing Chaoyang Non-staple Foodstuffs General Company	Beijing	010-6501-6285	010-6501-6285
Beijing Sugar, Cigarette & Wine Company	Beijing	010-6721-0304	010-6721-0310
Shanghai Sugar, Cigarette & Wine Group Co., Ltd.	Shanghai	021-6322-4190	021-6322-3169
Jiangsu Sutang Sugar & Wine Co., Ltd.	Nanjing, Jiangsu	025-666-1088	025-666-1088
Fujian Commerce Group Co., Ltd.	Fuzhou, Fujian	0591-784-7148	0591-784-7145
Yantai Changyu Pioneer Winery Co., Ltd.	Yantai, Shandong	0535-660-2730	0535-621-4078
Blue Ribbon Beer Sales Co., Ltd.	Zhaoqing, Guangdong	0758-286-2322	0758-286-2424
Fujian Shenlong Development Co., Ltd.	Fuzhou, Fujian	0591-750-3218	0591-750-3068
Guangdong Sugar, Cigarette & Wine Group Company	Guangzhou, Guangdong	020-8356-6131	020-8356-1421
Shunde Daliang Sugar, Cigarette & Wine Group Co., Ltd.	Shunde, Guangdong	0765-223-1804	0765-222-2300

Source: Access Asia from national statistics



## 8 Retail Distribution

Supermarkets and hypermarkets have become increasingly important for dairy products sales over the past few years, increasing to take 50.10% of the market in 2004, from almost nothing at the start of the 1990s. Small, individually owned stores continue to dominate most of the market, these stores being the largest network of grass roots retailers, with high concentration within urban and rural residential areas.

Convenience stores continue to have a powerful influence on the urban markets, being the leading outlets for introducing new products to the market in China. General grocery, general and other food stores all continue to play a major role in dairy products distribution, but are now declining in their significance, due to increased competition from supermarket and convenience store chains.

A recent survey of Chinese retail outlets has shown that dairy cabinets are to be found in 48% of food shops, versus frozen cabinets, which are in 1% of food stores.

**Table 8.1      % BREAKDOWN OF DAIRY PRODUCTS SALES BY RETAIL OUTLET TYPE IN CHINA, 1998-2004**

<i>% breakdown of sales value</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Supermarkets and hypermarkets	28.8	32.5	36.2	40.0	43.7	47.5	50.1
Independent food & grocery stores	35.5	35.0	34.5	34.0	33.5	33.0	32.5
Convenience stores	13.5	14.0	14.5	15.0	15.5	16.0	16.2
Other	22.2	18.5	14.8	11.0	7.3	3.6	1.2
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Access Asia, NBS, trade sources

## 9 Sources of Supply

### 9.1 Manufacturing

#### ***9.1.1 Manufacturing: Foreign Competitor Considerations***

Entry strategies of foreign firms Entry strategies of foreign firms have for the most part traditionally centred on greenfield sites. There are exceptions such as Danone, which has established greenfield sites for its yoghurt business, but has also invested heavily in domestic food and beverage companies leaving management to the original owner. In the ice cream, long life milk and milk powder sectors, foreign players have developed a national distribution strategy serviced by one or two production sites with support logistics and regional sales offices.

In the yoghurt and fresh milk sector, companies have naturally tended to service surrounding markets and adopted a more regional approach to China. Recent excess capacity however has given way to a common theme of expansion in China through acquisitions.

Wall's purchased Mountain Cream in southern China, Nestlé bought Fuller Foods (ice cream) in Shanghai, while Numico purchased Borden's milk powder plant in Heilongjiang province. Recent expansion through mergers and acquisition (M&A) has arisen through available capacity in the respective sectors, and the need to consolidate a regional presence quickly.

For some firms, the cost of building a new plant and then building distribution from scratch is too costly and time consuming in China's rapidly changing and increasingly competitive market. Companies such as these are now looking more closely at acquiring smaller plants, leasing or subcontracting production as an alternative market entry strategy into other regional markets.

Another recent trend has been a general move toward 100% ownership. Many foreign players are finding the cost of maintaining a local partner is not worth the value they bring to the business. Companies are slowly buying out their partners and increasing their stakes in their respective joint ventures to anywhere from 75-100%. For the first venture in China, the question is whether or not your company can afford sustainable losses over the medium term. If not, than investment in existing operations is the way forward.

#### ***9.1.2 Manufacturing: General Shape of the Industry***

The Chinese dairy industry really took off after Liberation in 1949, and it wasn't until the 1950s that the country began to plan its future development. From 1966 to 1975 production increased with the average rate of 5.6% yearly and, in 1978, it was only 47,000 tonnes, which could not meet the demand from the residents.

After 1978, dairy industry was in the period of high-speed growth. From 1979 to 2000, the total production of fresh milk has increased from 1,301,000 tonnes to 8,795,000 tonnes and dairy products from 54,000 tonnes to 829,000 tonnes. Compared with 1979, they increased by 6.8 times and 15.3 times respectively.

Since the 1990s, industry output has fluctuated to reflect more accurately the requirements of the market, and output dropped by 4.2% in 1996 and 2.8% in 1998 for this reason. At that time, dairy products (mainly milk powder) were pouring into China from abroad, and large amounts of Chinese products were kept too long in stock. Since 1998, the industry has enjoyed an improved situation.

According to statistics provided by the China Association of the Dairy Industry, the country has more than 1,500 milk product enterprises, with an annual output of 8 million tons. However, 90% are small, with a daily output lower than 100 tons.

**Table 9.1 BASIC SITUATION OF DAIRY PROCESSING, 1995-2002**

	1995	1996	1997	1998	1999	2000	2001	2002
Number of dairy enterprises	607	610	573	395	378	377	434	499
Loss-making enterprises (number)	173	182	168	142	94	46	31	16
Loss-making enterprises (%)	28.50	29.84	29.32	35.95	24.87	12.20	7.14	3.21
Total dairy industry staff (10,000)	9.93	8.78	10.18	8.18	8.31	9.92	11.04	12.16
Total industry revenue value (RMB bn)	7.36	8.8	11.65	11.83	14.87	19.35	27.19	34.75
Total industry profit value (RMB bn)	0.05	-0.26	0.21	0.02	0.36	0.84	1.71	2.37
Sales rate (%)	93.82	91.86	94.12	94.44	96.05	96.80	97.76	98.73

Source: Access Asia, EU Commission in China, China Food Industry Yearbook

**Table 9.2 SIZE OF CHINESE DAIRY PROCESSING ENTERPRISES, 1998**

<i>Type of enterprise</i>	<i>Number of enterprises</i>	<i>% of total</i>
Large-sized*	72	9
Medium-sized**	320	40
Small-sized***	408	51
<b>TOTAL</b>	<b>800</b>	<b>100</b>

Source: EU Commission in China, National School Milk Program

Note\*: Large-sized (over 100 tonnes daily)

Note\*\*: Medium-sized (over 50 tonnes daily)

Note\*\*\*: Small-sized (under 50 tonnes daily)

### 9.1.3 Manufacturing: Product Quality

In 2000, some leading enterprises adopted certain measures to improve product quality, in order to improve the market and industry reputation amongst consumers. At the same time, some local governments brought in regulations on quality management to protect the interest of consumers. Therefore, the quality of dairy products has been improved across the whole industry, but it is still to be further developed to bring standards in line with the foreign countries.

Also in 2000, certain provincial departments, in the process of supervising quality of dairy production, conducted sample tests on dairy products being produced in certain provinces. The results of the survey showed that the lowest frequency of products passing quality standards for yoghurt was 56.7% in Shanxi province, while the highest is 88.2% in Chengdu. This indicates the disparity in terms of quality from region to region.

It was found that some enterprises had not organised production in accordance with fixed standards, and that the nutritional content of products was too low. Also, certain products exceeded the fixed hygiene index, while

some product labels were confusing for consumers in regard to product content. Some enterprises also were producing fake products using low-grade ingredients. This shows that some enterprises in China are still going after short-term interest, and that the quality supervision system still needed further improved.

By the end of 2000, State Bureau of Quality and Technological Supervision publicised the result of quality sample tests for the intensified milk powder in the whole country. Among these milk powder producers, 53 of them were found to be unqualified, most of which were located in Inner Mongolia and Heilongjiang, including an enterprise set-up with 100% foreign capital investment. Most of the unqualified products have no additives for nutrition improvement and are low content of vitamins and trace elements. Also, some products were found to have inadequate net content.

**Table 9.3**            **SAMPLE TEST ON DAIRY QUALITY IN PART, 2000**

<i>Location</i>	<i>Product description</i>	<i>Qualifying rate (%)</i>
Shanxi	Yoghurt	56.7
Lanzhou	Milk and yoghurt	72.7
Chengdu	Milk	88.24
Henan	Liquid	68.13

Source: EU Commission in China, the Group on the National Program of School Milk

### **9.1.4 Manufacturing: Raw Milk Quality Problems**

Chinese dairy products have a relatively low level in quality and one of the reasons is the low quality of raw milk. Nearly all processing enterprises complain of problems with raw milk that they receive. However, 80% of milk produced is done so by hand milking. Added to this, most individual dairy farmers pay little heed to the need for disease management of cattle herds, nor to dangers of high concentrations of antibiotics.

The quality of raw milk is therefore hard for processors to monitor, especially with the current shortage of raw materials and lack of testing methods. To avoid problems, many of the leading processing enterprises have begun to manage their own cattle herds, so as to control the quality of raw milk used. Many have also invested in establishing their own milking establishments in order to better manage hygiene.

### **9.1.5 Manufacturing: Mergers and Acquisitions**

In 2000, there were a total of 10 mergers and corporate reorganising within the dairy industry. Beijing Sanyuan purchased Kraft China, and Danone of France became a shareholder of Shanghai Guangming. Many leading domestic enterprises are looking to strengthen themselves through merger or acquisition.

Some enterprises have improved their capabilities following entering into cooperation with larger conglomerates. For instance, dairy groups such as Sanlu, Yili, Guangming and Wandashan have successfully passed the ISO9002 thanks to bringing in foreign expertise. Such mergers and cooperative deals have helped many enterprises out of difficulty. They have also helped to avoid duplication of effort, and helped a number of dairy enterprises to improve quality and increase the size of their production.

Since 1993, the Sanlu Group of Shijiazhuang has reorganised its assets into four enterprises. After the reorganisation, the Group has been able to enlarge its size and increase its economic performance. In 1998, it had sales of RMB 1,196 million and pre-tax profits of RMB 137 million. The Group has since become the largest milk powder producer in China.

### **9.1.6 Manufacturing: Dairy Product Output by City**

Shanghai is the leading regional centre for dairy production in China, producing some 13% of total national dairy products in 2000. Other key centres for production are located in Hohhot, Harbin, Shijiazhuang and Beijing.

Most main dairy producing centres are within high population density regions, where a high percentage of the population is urban. It is such consumer populations in China that have higher levels of per capita consumption of dairy products, compared with lower consumption in less developed, rural regions.

Hohhot, the capital of North China's Inner Mongolia Autonomous Region, is home to two local brands, Meng Niu and Yili. The city dubs itself China's "Milk City." According to the city's development plan, at least 20% of the city's gross industrial output value will be produced by the milk industry by 2005 with some 300,000 head of cows being raised and over 1.3 million tons of fresh milk produced by 2005. The city is aiming to earn RMB12 billion (US\$1.45 billion) from the sales of dairy products by 2005.

Northeast China's Heilongjiang Province, is one of China's leading animal husbandry centers and has seen investment from Nestle, Parmalat, Shanghai Guangming Group and Inner Mongolia's Yili Group in recent years.

**Table 9.4 PRODUCTION DAIRY PRODUCTS BY MAJOR CITY OF PRODUCTION, 2001/2002**

<i>% of total production</i>			
City	Province	2001	2002
Shanghai	Shanghai	12.44	11.40
Hohot	Inner Mongolia	10.55	13.72
Shijiazhuang	Hebei	9.88	10.55
Harbin	Heilongjiang	9.33	10.33
Beijing	Beijing	4.31	4.41
Guangzhou	Guangdong	4.13	3.36
Suzhou	Jiangsu	3.41	2.49
Qiqihar	Heilongjiang	na	2.85
Nanjing	Jiangsu	2.67	na
Qingdao	Shandong	2.47	2.44
Tianjin	Tianjin	2.43	na
Weihai	Shandong	na	1.97
Others		38.38	36.48
TOTAL		100.00	100.00

Source: Access Asia

### 9.1.8 Manufacturing: Output Value

Output values are greater than retail sales value, due to large proportion of output being sold through institutions and hotels, restaurants and catering outlets. The growth in manufacturing output has increased strongly in value terms, up by 372% between 1995 and 2002, thanks to increased demand and the continued inward investment in the market from foreign companies.

Solely foreign-owned and joint dairy enterprises have increased from a few to 42 in recent years concentrated mainly in Beijing, Tianjin, Shanghai, Xi'an, Nanjing, Qingdao and Dalian with milk production largely in two provinces, Guangdong and Heilongjiang. Following intense competition and price wars in Shanghai, the number of ice cream factories in Shanghai has declined from 130 in 1994 to 11 by 2002.

**Table 9.5 CHEESE OUTPUT VALUE BY BROAD SECTOR IN CHINA, 1998-2004**

<i>RMB m, current factory gate prices</i>							
	1998	1999	2000	2001	2002	2003	2004
Cheese	7,411.18	8,454.49	10,052.32	8,318.44	10,868.57	11,532.33	12,303.68
- Whole-milk cow's cheese	95.94	136.44	183.04	149.25	203.06	225.58	238.44
- Skimmed-milk cow's cheese	3,240.79	3,492.77	4,373.33	3,673.79	4,796.09	5,213.48	5,510.69
- Buffalo cheese	426.42	472.98	517.38	410.24	522.16	541.40	572.26
- Sheep's cheese	3,411.36	4,093.09	4,685.71	3,826.86	5,028.16	5,213.48	5,616.67
- Goat's cheese	236.66	259.23	292.86	258.31	319.10	338.38	365.61

Source: Access Asia from trade sources and national statistics

### 9.1.9 Manufacturing: Output Volume

Manufacturing output has also increased in volume terms, up by over 178% since 1998. Most growth has come from the dominant liquid milk sector which grew by 210.44% since 1998, however, other, smaller sectors are growing strongly. A key example of this growth in smaller sectors is seen in the cheese sector, which grew by 33.60% since 1998. China now consumes a total of 232,200 tonnes of cheese each year, 92% of which is now made locally. This represents a per capita consumption level of only about 0.2 KG, compared with 20 KG in France, although in some of the more developed

urban areas, consumption maybe as high as 7 KG per capita. About 46% of domestic consumption is used up by the catering industry, 53% by the food processing industry, and the rest being consumed by foreigners and Chinese.

There are only 5 cheese manufacturing plants in China; 3 in Beijing, 1 in Baotao in Inner Mongolia and one in Anda (Heilongjiang). Only one of these is foreign funded, this being the Kraft Food Co in Beijing, which mainly supplies McDonalds and Pizza Hut chains in China.

**Table 9.6 CHEESE OUTPUT VOLUME BY BROAD SECTOR IN CHINA, 1998-2004**

<i>Tonnes '000</i>	1998	1999	2000	2001	2002	2003	2004
Cheese	173.80	185.90	205.95	217.37	224.80	230.05	232.20
- Whole-milk cow's cheese	2.25	3.00	3.75	3.90	4.20	4.50	4.50
- Skimmed-milk cow's cheese	76.00	76.80	89.60	96.00	99.20	104.00	104.00
- Buffalo cheese	10.00	10.40	10.60	10.72	10.80	10.80	10.80
- Sheep's cheese	80.00	90.00	96.00	100.00	104.00	104.00	106.00
- Goat's cheese	5.55	5.70	6.00	6.75	6.60	6.75	6.90

Source: Access Asia from trade sources and national statistics

### 9.1.11 Manufacturing: Cheese Trade, Production and Apparent Consumption by Segment

**Table 9.10 CHINA CHEESE IMPORTS, EXPORTS, PRODUCTION & APPARENT, INDUSTRIAL, HORECA & RETAIL CONSUMPTION VOLUME & VALUE, 1998-2004**

<i>Tonnes '000s</i>	1998	1999	2000	2001	2002	2003	2004
Imports	8.04	9.15	11.99	11.50	13.64	18.19	20.59
Exports	0.90	0.37	0.41	0.53	0.64	0.55	0.67
Production	173.80	185.90	205.95	217.37	224.80	230.05	232.20
Apparent total consumption	180.94	194.68	217.54	228.34	237.80	247.69	252.13
Industrial consumption	123.87	129.43	140.33	142.79	144.01	145.11	133.71
HoReCa consumption	56.22	64.26	76.07	84.34	92.35	100.99	116.62
Domestic retail consumption	0.85	0.99	1.13	1.21	1.44	1.59	1.79
<i>RMB m, factory gate prices</i>							
Imports	180.37	203.54	238.80	261.29	272.24	363.79	401.56
Exports	17.79	9.80	9.74	11.05	14.12	12.43	14.60
Production	7,411.18	8,454.49	10,052.32	8,318.44	10,868.57	11,532.33	12,303.68
Apparent total consumption	7,573.76	8,648.23	10,281.38	8,568.69	11,126.70	11,883.69	12,690.63
Industrial consumption	5,185.00	5,749.78	6,632.52	5,358.43	6,738.33	6,962.06	6,730.35
HoReCa consumption	2,353.14	2,854.64	3,595.30	3,164.97	4,321.07	4,845.40	5,870.18
Domestic retail consumption	35.63	43.81	53.56	45.29	67.30	76.23	90.10

Source: Access Asia from trade sources and national statistics

## 9.2 Imports

### 9.2.1 Imports: Value

**Table 9.11 CHEESE IMPORT VALUE BY SECTOR, 1998-2004**

<i>US\$ '000, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Cheese & curd	21,784	24,582	28,840	31,519	32,840	43,936	48,515
- Cheese (whole cow's milk)	14,734	15,592	9,922	19,317	21,171	28,641	32,367
- Whey cheese	0	0	8,059	0	0	0	0
- Processed cheese	7,050	8,990	10,859	12,202	11,669	15,295	16,148

Source: Access Asia, FAOSTAT (2004), NBS

### 9.2.2 Imports: Volume

**Table 9.12 CHEESE IMPORT VOLUME BY SECTOR, 1998-2004**

<i>Tonnes</i>	1998	1999	2000	2001	2002	2003	2004
Cheese & curd	8,037	9,149	11,992	11,495	13,641	18,186	20,591
- Cheese (whole cow's milk)	5,499	6,090	4,032	7,321	8,873	12,192	14,333
- Whey cheese	0	0	3,720	0	0	0	0
- Processed cheese	2,538	3,059	4,240	4,174	4,768	5,994	6,258

Source: Access Asia, FAOSTAT (2004), NBS

### 9.2.3 Imports: Significance

Imports remain a small part of the total supply to the local market, due to the short shelf-life of dairy products, and also thanks to increased local production within China. However, imports decreased as a proportion of the total market by 0.58 percentage points between 1998 and 2004. It is expected that continued development of the local industry will see a continued fall in the significance of imports over the coming years.

**Table 9.13 CHEESE IMPORT VOLUME AS A % OF TOTAL DOMESTIC APPARENT CONSUMPTION BY SECTOR, 1998-2004**

<i>% volume</i>	1998	1999	2000	2001	2002	2003	2004
Cheese	4.44	4.70	5.51	5.03	5.74	7.34	8.17

Source: Access Asia, FAOSTAT (2004), NBS



## 9.3 Exports

### 9.3.1 Exports: Value

**Table 9.14 CHEESE EXPORT VALUE BY SECTOR, 1998-2004**

<i>US\$ '000, current prices</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Cheese & curd	2,148	1,184	1,176	1,333	1,703	1,501	1,765
- Cheese (whole cow's milk)	1,773	1,144	1,169	1,313	1,619	1,474	1,699
- Whey cheese	0	0	0	0	0	0	0
- Processed cheese	375	40	7	20	84	27	66

Source: Access Asia, FAOSTAT (2004), NBS

### 9.3.2 Exports: Volume

**Table 9.15 CHEESE EXPORT VOLUME BY SECTOR, 1998-2004**

<i>Tonnes</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Cheese & curd	897	369	407	527	641	548	665
- Cheese (whole cow's milk)	769	356	406	520	610	544	646
- Whey cheese	0	0	0	0	0	0	0
- Processed cheese	128	13	1	7	31	4	19

Source: Access Asia, FAOSTAT (2004), NBS

### 9.3.3 Exports: Significance

**Table 9.16 CHEESE EXPORT VOLUME AS A % OF TOTAL DOMESTIC PRODUCTION BY SECTOR, 1998-2004**

<i>% volume</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Cheese	0.52	0.20	0.20	0.24	0.29	0.24	0.29

Source: Access Asia, FAOSTAT (2004), NBS

# 10 SWOT Analysis

## 10.1 Strengths

- The dairy products market is currently enjoying continued growth in consumer interest thanks to the sustained favourable economic circumstances in China.
- Dairy products are also being promoted by local nutritionists, which is helping to boost the healthy image of dairy products, which is in line with general trends in the Chinese food market for healthier food consumption.
- The gradual overcoming of Chinese consumers' dislike of many dairy products is continuing, the traditional dislike of butter and margarine being gradually eroded by younger generations who have more cosmopolitan tastes.
- The rise in incomes is permitting increased purchasing of dairy products, both everyday purchases of spreads and yoghurts as well as the beginnings of a market for premium ice cream and cheeses.
- The increase in ownership of fridges and freezers in China has also meant that storage and preservation of dairy products has become less of a barrier to sales.
- Increased convenience of buying dairy products has also aided in market development. Consumers cannot only order deliveries to their home for milk and other dairy products, but they can buy such products online and by telephone.
- Likewise, many more convenience stores and supermarkets have appeared in China lately, and most stock dairy products. This has helped increase availability, and has therefore prompted greater consumption.

## 10.2 Weaknesses

- Limited regional markets have limited the expansion of the market, and overcoming distribution difficulties is one of the most problematic areas for the market.
- Continued residual dislike of dairy products among many consumers (especially older generations) is also a limitation to the possible increase in the market, although this situation continues to improve.
- There also remains a lack of a place for dairy products within traditional Chinese cuisine, and although refrigerated storage is more common, it is not yet universal.
- Domestic producers are having problems adapting to the increasing diversity of the Chinese dairy market with new product development occurring slowly.

## 10.3 Opportunities

- Developing new regional markets and new product sectors will continue to be areas of opportunity. The provinces along the Yangzi River valley are now opening up more to investment, and are becoming prime new consumer markets to target.
- Urban consumers are also developing tastes for more “exotic” products, such as more unusual varieties of cheese, and new flavours (especially fruit) of ice cream.
- Ice cream continues to show great opportunities for growth, as has already been seen in Beijing and Shanghai. Other cities throughout the country are now developing nascent markets for premium ice creams.
- Other opportunities also continue to be in promoting dairy products as healthy foods, following the current consumer trend towards eating healthier foods in general.
- Dairy products are now being targeted particularly at young mothers and children, due to the high calcium content of Dairy products. These consumer groups are increasingly important in terms of per capita spending.
- When the WTO’s Treaty on Agriculture comes into effect in 2005, developed countries will cancel their subsidy on milk production and exports meaning that the operational cost of milk firms in developed countries will rise. However, these companies are more advanced than Chinese ones in surviving without subsidies. Still, this may help Chinese milk enterprises attract foreign investment and upgrade their technology, equipment and product quality as well as speeding up the restructuring of the milk industry, fostering larger domestic conglomerates and brands in the sector.

## 10.4 Threats

- The main threat to the dairy products market comes from the soya milk products market, which many of the consumers who dislike dairy products are turning to instead. However, this sector is more limited to the drinks sector, and will have little influence on the ice cream, cheese and yoghurt sectors.
- As yet, China has not been tainted with any food scares such as BSE in the UK or the dioxin scandal in Europe. However, there are issues surrounding genetically modified foods (GM) in China that may lead to greater public caution and also potential problems with exports.

# 11 Company Profiles

## 11.1 Beijing Sanyuan Foods Company Ltd

### 11.1.1 Beijing Sanyuan Foods: Company Details

Beijing Enterprises Holdings Limited: 34th Floor, Shun Tak Centre West Tower, 168-200 Connaught Road, Central, Hong Kong SAR

Tel: +852-2915-2898

Fax: +852-2857-5084

Key personnel: Hu Zhaoguang – chairman, Yi Xiqun - vice chairman, Xiong Daxin - executive vice chairman & president, Bai Jinrong - vice president.

Ticker: Beijing Enterprises Holdings Ltd: HKSE – 0392, Shanghai SE - 600429



### 11.1.2 Beijing Sanyuan Foods: Company Background & China Activities

Beijing Sanyuan is a major Chinese company in the milk production sector, which is a division of the red-chip conglomerate Beijing Enterprises Holdings Ltd.

The Group is currently engaged in four major sectors of business: consumer goods, infrastructure, services and technology. Consumer goods sector includes manufacture, distribution and sale of beer, wine, dairy products and processed meat and seafood products. Infrastructure sector includes management and operation of the Capital Airport Expressway and the operation concession of a water treatment plant. Services sector includes provision of tourism, retail and hotel services. Technology sector is mainly represented by the Group's 40 % interest in BISC, which is a joint venture with Siemens AG producing switching system. The Group has also started several technology-related projects.

Sanyuan controls 90% of Beijing's milk market and owns 50% of Beijing McDonald's, the operator of the McDonald's fast food chain in Beijing. Additionally, Sanyuan is a major supplier of milk to schools in Beijing and provides 200 millilitres of milk per student each day in the capital.

Sanyuan is 72% -owned by Beijing Enterprises, though is preparing split from its parent company in order to list A shares on the Shanghai Stock Exchange.

Beijing Enterprises is engaged in four sectors of business: consumer goods, infrastructure, services and technology. Consumer goods sector includes manufacture, distribution and sale of beer, wine, dairy products and

processed meat and seafood products. Infrastructure sector includes management and operation of the Capital Airport Expressway and the operation concession of a water treatment plant. Services sector includes provision of tourism, retail and hotel services. Technology sector is mainly represented by the Group's 40% interest in BISC, which is a joint venture with Siemens producing switching system. The Group has also started several technology related projects.

The company has recently purchased 85% of the foreign-owned shares in the China operations of Kraft Foods Inc. (a division of Philip Morris). Prior to the acquisition Sanyuan Food owned 15% of the Kraft unit making Sanyuan the sole owner. Sanyuan is now marketing dairy products under the Kraft brand name in Beijing. Kraft is now focusing on soft drinks, confectionery, coffee and biscuit products in China.

The acquisition of a majority stake in Kraft China was made with the aim of expanding Sanyuan's market share in China, and strengthening its competitiveness upon accession to WTO. Sanyuan acquired collectively 85% equity interests of Kraft China in a consideration of approximately US\$ 12.44 million.

According to assets appraisal report issued by Beijing Development Evaluation Company, the adjusted net assets value of Kraft China was RMB 150 million and there is a 20% discount in this acquisition. Sanyuan will also sign Trademark Licence Agreement with Kraft Foods, Inc. relating to the use of Kraft trademark for a period of one year.

Upon completion, Sanyuan became the major shareholder, while Beijing General Corporation of Agriculture Industry and Commerce owns the remaining 15% equity interests in Kraft China. The company anticipates that the acquisition will not only enable Sanyuan to increase its production capacity, as result of fully utilising the production assets of Kraft China, but also enhance Sanyuan's market expansion. This market expansion is to be developed on the back of the fact that Kraft China already has strong market share with a reputable brand name and extensive dairy foods products throughout China.

### 11.1.3 Beijing Sanyuan Foods: Financial Summary

In local currency terms, Beijing Sanyuan Food sales revenue was RMB1,007.08m (US\$121.63m) in 2001, rising to RMB1,307.03m (US\$157.85m) in 2003, a rise of 29.78% between 2001 and 2003. Meanwhile, the company saw its profits rise by 3.21% in 2002, over 2001, but decline by 78.89% in 2003, largely thanks to the effects of SARS, which caused wide consumer concerns about the safety of dairy products, amongst other food products.

**Table 11.1** **BELJING SANYUAN FOODS CO., LTD.:**  
**FINANCIAL RESULTS, 2001-2003\***

<i>RMB mn</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Revenues	1,007.08	1,116.37	1,307.03
Pre-tax profits	58.83	60.71	12.82
Revenue growth (%)	-	10.85	17.08
Profit growth (%)	-	3.21	-78.89
Profit as % of revenues	5.84	5.44	0.98
Total assets	1,211.32	1,486.72	1,578.44

Source: Access Asia from company information

Note\*: Financial year ends March 31<sup>st</sup>

## 11.2 Bravo! Foods International (formerly China Premium Food Corporation)

### 11.2.1 Bravo! Foods International: Company Details

HQ address: 11300 US Highway #1, Suite #202, North Palm Beach, Florida 33408, USA

Tel: +1-561-366 0070

Fax: +1-561 625 1413

URL: [www.chinaperegrine.com/www.chinapremiumfood.com](http://www.chinaperegrine.com/www.chinapremiumfood.com)

Established: 1996 (restructured to China Premium Food Corporation in 2000)

Employees: 420

Key personnel: Roy Warren – CEO, John McCormack – president, Steve Langley – COO.

Ticker: CHPF.OB

### 11.2.2 Bravo! Foods International: China Operations

China Premium Food Corporation (CPFC) was formerly known as the China Peregrine Food Corporation. It was originally one of the first companies in the dairy industry in China to sign up to a membership agreement with Quality Cheked Dairies for use of the Quality Cheked programme in China. This membership marks Quality Cheked's first link to China and has benefited China Premium in establishing its recognised dairy brand.

China Peregrine established a joint venture with the Chinese Ministry of Agriculture (MoA), after CPFC and the MoA signed a letter of intent in 1992. In April 1993, the JV contract was signed in Beijing amidst considerable publicity (being broadcast on national television) because of the importance the government had placed on the development of the China's dairy market, as part of its ongoing policy of improving child nutrition. The joint venture company is known as the Green Food Peregrine Children's Food Company (GFP).

The high level status of this joint venture meant that the company had strong relationships with senior officials in the MoA - as well as other ministries, agencies, and even banking. These relationships facilitated the development of GFP, and the company received the approval of the Ministry of Foreign Technical and Economic Co-operation (MOFTEC) for the transfer to CPF of a 70% equity interest in its joint venture. This gave the company the right to build 16 dairy and other food processing plants in major Chinese cities.

By July 1994, GFP's initial factory was under construction in Shanghai, and by March 1995, the company's products were in the stores. The company found that consumer response to its products was good, finding strong

consumer acceptance of the company's smaller sized packs, and rapid subsequent sales increases for its larger pack sizes.

The company's products, packaging, brand name and logos were all developed following a programme of consumer market research in Shanghai. GFP's market research, in-market experience and other empirical data showed that Chinese consumers are willing to pay a premium for quality and value - and that they have the financial capability to afford its products. GFP products therefore tended to be priced towards the premium end of the market, and were priced higher than most of its competitor's products.

However, the market potential was overstated, and things began to decline quite rapidly for the company. The company changed its name, in 1996, to Bravo! Foods International Corp., registered in Delaware. The company formerly owned the majority interest in two Sino-US joint ventures, known as Green Food Peregrine Children's Food Co., Ltd. and Hangzhou Meilijian Dairy Products Co., Ltd. These two joint ventures processed milk products for local consumption in the areas of Shanghai and Hangzhou. The company closed Green Food Peregrine in December 1999, and sold its interest in Hangzhou Meilijian Dairy in December 2000.

In December 1999, the company obtained Chinese government approval for the registration of a new wholly owned subsidiary in the Waigaoqiao Free Trade Zone in Shanghai, where the company formed an import-export company to import, export and distribute food products on a wholesale level in China. China Premium (Shanghai) became the company's only legal presence in China with respect to contractual arrangements for the development, marketing and distribution of branded food products.

From September 2000, the company began distributing "Looney Tunes" branded snack crackers into Shanghai supermarkets. The products were manufactured by US-based Lance Inc. (NASDAQ – LNCE) and were being produced as private-labels under the "Looney Tunes" brand and characters under China Premium's master license with Warner Bros. for China.

The company's baked goods products are distributed through its division in Shanghai's Waigaoqiao Free Trade Zone. Additionally, the company had an exclusive supply contract with Lance for the export of crackers and baked snack foods to China. The company was actively marketing the "Looney Tunes" baked goods snacks through TV and print advertising, as well as in-store promotions in French-based supermarket operator Carrefour's Shanghai stores.

However, the company ceased all activities of this Chinese subsidiary in April 2004, owing to low sales volume and insufficient financial or logistic resources to market its products profitably in Mainland China.

## 11.3 Danisco (China) Co., Ltd.

### ***11.3.1 Danisco (China): Company Details***

Danisco (China) Co., Ltd.: 168 Nanbang Lu, Kunshan Economic & Technical Development Zone, Kunshan, Jiangsu 215300, PR China

Tel: +86-512-5770-3888

Fax: +86-512-5770-7000

Main products: Food additives and powdered milk.

Year established: 1998.

Ownership type: Foreign-funded.

Key personnel: Dr. Yongjing Li – general manager.

### ***11.3.2 Danisco (China): Company Background***

Danisco (China) Co., Ltd. was established on 22 December 1995, and inaugurated on 28 May 1999, by Danisco A/S for the purpose of producing food ingredients, including emulsifiers and functional systems, and to sell most of Danisco's ingredients to the food industry in China as well as abroad.

On 19 July 2002, Danisco Ingredients (Shanghai) Co., Ltd. was established as a trading company in Shanghai Waigaoqiao Free Trade Zone. In October 2002, its flavour plant in Kunshan was inaugurated. A Danish-Chinese joint venture, Danisco Tianguan, was set up on 2 April 2004, in the centre of Henan for the production of Xanthan gum. In November 2004, Danisco A/S signed a joint venture agreement with Chinese company Henan Tangyin Yuxin Co., Ltd. in Henan Province. The joint venture, in which Danisco holds a majority, manufactures Xylitol and Xylose.



## 11.4 Groupe Danone

### 11.4.1 Groupe Danone: Company Details

HQ Address: 17, Boulevard Haussmann, 75009 Paris, France

Tel: +33-1 44 35 20 20

Fax: +33-1 42 25 67 16

Guangzhou Danone Yoghurt Co. Ltd.: Shatai gonglu, Meihuayuan, Panlonggeng, Guangdong Province 510510, PR China

Tel: +86-20-8770-6365

Fax: +86-20-8770-6391

Hangzhou Wahaha Group Corporation: 128-1, Qiutao Beilu, Hangzhou, Zhejiang 310009, PR China

Tel: +86-571-695-2046

Fax: +86-571-695-0150

Danone Consulting Company Ltd: 19th Floor, Kerry Center, 1515 Nanjing West Road, Shanghai 200040, PR China

Tel: +86-21-6289-3377

Fax: +86-21-5298-6800

Shanghai Danone Biscuits Foods Company Ltd: 440 Cao Bao Road, Shanghai 200233, PR China

Tel: +86-21-6482-3280

Fax: +86-21-6475-2874

Shanghai Danone Yoghurt Co. Ltd.: 3100, Changzhong Lu, Shanghai 200435, PR China

Tel: +86-21-5691-3600

Fax: +86-21-5688-1855

Shenzhen Danone Health Drinks Co. Ltd.: Shizi Shan, Shangwu Cun, Bao'an Qu - Shiyan Zhen, Shenzhen, Guangdong, PR China

Tel: +86-755-760-8698

Fax: +86-755-760-8092

Tangshan Universal Haomen Brewery Co., Ltd.: Haomen Road, Yutian County, Tangshan City, Hebei 064100, PR China

Tel: +86-315-611-2273

Fax: +86-315 611-0893

Wuhan Dongxihu Brewery: Dongxihu, Yanjiadu, Wuhan, Hubei 430047, PR China

Tel: +86-278-389-1851

Fax: +86-278-389-2932

URL: [www.danone.com](http://www.danone.com)

Employees: 75,965 (worldwide)

Established: 1966

Key personnel: Franck Riboud – CEO, Qin Pen - president of China operations.

### 11.4.2 Groupe Danone: Company Background

Groupe Danone is a large and diversified multinational food corporation based in France and operating in 120 countries worldwide. The company is the leading global brand in the fresh dairy foods sector and in cookies as well as being the second largest bottled water company through the Evian and Volvic brands.

The company controls three of the world's leading food and drink brands in Danone, LU and Evian though also has strong dairy brands including Dannon, Galbani and La Serenisima as well as several strong water brands in Evian, Volvic, Ferrarelle, Aqua, Villa del Sur. In the biscuits sector the company controls a number of leading brands including Heudebert, Opavia, Bagley, Britannia. The company also controls the Amoy brand of Hong Kong Chinese sauces and mixes which it acquired in 1991. The company also has brands in various other food sectors including pasta, condiments and sauces.

Danone is also a major packaging manufacturer through a partnership with Gerresheimer, a leading German glassmaker.

Since 1993 Danone has been concentrating on international expansion and building up a portfolio of global brands. Since May 1997 this strategy has been further refined to focus on three main market sectors: dairy products, biscuits and beverages. These activities now represent approximately 85% of total group sales.

### 11.4.3 Groupe Danone: China Operations

Groupe Danone has several joint ventures in China, covering biscuits, beer and dairy products manufacture. The company claims to be the leading competitor in the small, but growing dairy beverages sector, with its drinking yoghurt products. The Group has three dairy products manufacturing joint ventures, one each in Guangzhou, Shanghai and Hangzhou, the latter being with the Hangzhou Wahaha Group.

Danone's dairy product operations in Shanghai and Guangzhou are expanding steadily, backed by successful new-product launches. The company is also promoting its sauces and heat-and-serve specialities under the Amoy brand.

In November 2000, Danone formed an alliance with Shanghai Guangming (Bright) Dairy & Food Company Ltd (*see separate profile below*), one of China's largest dairy producers, by taking a minority 5% stake in the company. At the same time two other local companies also purchased minority stakes in Shanghai Bright. This dairy venture will support Danone's major dairy operation in China, Shanghai Danone Yogurt Company, established in 1994.

In December 2000, Danone acquired a 50% stake in Shanghai Aquarius Drinking Water Co. and a 10% interest in Aquarius Shopping Net, an e-commerce Web site operated by Shanghai Aquarius. The transaction, valued at RMB180mn (US\$21.7mn), follows Danone's acquisition of controlling interest in Robust Corp. and a minority stake in Shanghai Guangming (Bright) Dairy and Food Co.

The acquisition brings the number of domestic companies in which the Danone Group has substantial investments to 10.

### **11.4.4 Groupe Danone: Financial Summary**

The Danone Group recorded a further significant decline in the rate of growth, with the drop in sales running from –6.32% in 2002 to –3.13% in 2003. Net income rose 871.97% to €1,283m in 2002, but fell again to €839m in 2003. Operating margin showed a significant improvement, rising from 11.12% in 2001 to 12.22% in 2003. China represented 57% of Asia regional sales.

## 12 Contacts

### 12.1 Trade Organisations

#### **12.1.1 China Dairy Federation**

Key personnel: Wang Huaibao – president.

#### **12.1.2 China National Cereals, Oils & Foodstuffs Import & Export Corporation**

Address: 7-13<sup>th</sup> floor, Tower A, COFCO Plaza, 8 Jianguomen Wai Dajie, Beijing 100005, PR China

Tel: +86-10-6526-8888

Fax: +86-10-6527-8612

Activities: Overseas import and export of dairy products.

#### **12.1.3 All-China Federation of Industry & Commerce**

Address: 93 Beiheyuan Dajie, Beijing 100006, PR China

Tel: +86-10-6513-6677

Fax: +86-10-6512-2631

Activities: Promotes overseas trade relations.

#### **12.1.4 China Dairy Industry Association**

Address: 22B Fuwai Street, Beijing 100833, PR China

Tel: +86-10-6428-1006/60277

Fax: +86-10-6428-9004

E-mail: [cdia2@clii.com.cn](mailto:cdia2@clii.com.cn)

Editorial department: 337 Xuefu Road, Harbin City, Heilongjiang Province 150086, PR China

Key personnel: Mou Jingkun - secretary-general.

The China Dairy Industry Association is a nationwide organisation, professionally guided by the China National Council of Light Industry. Membership includes enterprises and institutions engaged in milk and dairy products production, and sector-related scientific research, teaching and equipment manufacture. The Association now has over 260 members, covering all medium- and large-size dairy product manufacturers in China.

The periodicals edited and published by the Association include the bimonthly *China Dairy Industry* magazine, which is distributed publicly, both at home and abroad.

A second magazine, *China Dairy Industry Newsletter* is restricted in its circulation to within the Association, and is compiled by the Association secretariat.

The Association carries out international co-operation, and is a full member of the International Dairy Federation (IDF), having joined the IDF in 1995. The Association maintains relations with various organisations, concerned with the dairy market, in many countries throughout the world.

### ***12.1.5 National Dairy Industry Information Center***

Address: 337 Xue Fu Rd., Harbin Heilongjiang 150086, PR China

Tel : +86-451-666-2740

Fax : +86-451-666-4742

Contact person: Liu Peng.

E-mail: rp@ems.hlstc.edu.cn

The NDIIC (National Dairy Industry Information Center) was created under the China Light Industry Department, and the Heilongjiang Dairy Industry General Corporation Group has undertaken administration of the Center. Established as a comprehensive information centre, its function includes implementing the management of dairy industry trade, publishing periodicals, exchanging information and conducting marketing and advertising for the industry.

The NDIIC is comprised of the China Dairy Industry Centre, the Dairy Science & Information Centre editorial department, the Dairy Industry Trade Management Division, an advertising division, a news and public relations division, a publishing division and a library. It provides various services including information on the Chinese dairy industry within China, for both domestic and overseas contacts, credit investigation and feasibility studies for the purpose of foreign direct investment into the Chinese dairy industry, technical consultation, commodity trading and technician training.

The NDIIC's aim is "linking up distribution channels, accelerating circulation of money, improving management, promoting exchange and dissemination of information and assisting policy decisions regarding the dairy industry in China".

## 12.2 Government Departments

### ***12.2.1 State Economic and Trade Commission – State Light Industry Bureau***

Address: 22B Fuwai Street , Beijing 100833, PR China

Tel: +86-10-6839-6609/6113

Fax: +86-10-6839-6264

E-mail: webmaster@clii.com.cn

### ***12.2.2 Ministry of Agriculture***

Address: 11 Nongzhanguan Nanli, Beijing 100026, PR China

Tel: +86-10-6419-3366

### ***12.2.3 Milk Quality Supervision Centre with the Ministry of Agriculture***

Key personnel: Qiu Yuanheng - chief engineer.

## **13 Relevant Exhibitions & Trade Fairs**

### **13.1 International Packing, Printing, Food Processing & Packaging & Plastic Machinery Fair (Hangzhou)**

Venue: Zhejiang Exhibition Hall, Hangzhou, Zhejiang

Date: March

Organiser: New Century Exhibition Company (+86-571-537-0970)

### **13.2 Tianjin Exhibition on Food Machinery & Packing**

Venue: Tianjin International Exhibition Centre, Tianjin

Date: March

Organiser: Tianjin International Exhibition Centre (+86-22-2835-7466)

### **13.3 Trade Show of Machinery for Print, Packaging, Plastic Products & Food**

Venue: China Commodity City Exhibition Hall, Yiwu, Zhejiang

Date: March

### **13.4 Food Ingredients & Food Ingredients Asia**

Venue: Shanghai Everbright Convention & Exhibition Centre, Shanghai

Date: April

Organiser: CCPIT Sub-council of Light Industry, CFAA, Miller Freeman (+86-10-6839-6330)

### **13.5 Agro-Foodtech**

Venue: National Agricultural Exhibition Hall, Beijing

Date: April

Organiser: EXPOSIUM (+86-10-6587-2510)

### **13.6 SIAL China**

Venue: China International Exhibition Centre, Beijing

Date: April

Organiser: EXPOSIUM (+86-10-6587-2510)

## **13.7 International Fast Food Products Exhibition**

Venue: National Agricultural Exhibition Hall, Beijing

Date: May

Organiser: National Agricultural Exhibition Hall Beijing Consulting (+86-10-6501-8877)

## **13.8 Guangzhou Exhibition on Machinery for Food, Packaging, Printing & Plastics**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: May

Organiser: Guangdong Food & Machinery Packaging Association (+86-20-8338-7713)

## **13.9 China Northeast International Exhibition on Food, Subsidiary Material, Processing Technology & Equipment**

Venue: Liaoning Century Exhibition Centre, Shenyang

Date: May

Organiser: Shenyang Municipal Government, Liaoning Provincial Economic and Trade Commission, Liaoning Provincial Food Industry Association, Shenyang Sub-council CCPIT, Shenyang International Exhibition Corporation (+86-24-2252-7940)

## **13.10 International Exhibition For Hotel & Bakery South China**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: May

Organiser: Creation Exhibition Company Ltd (+86-20-8761-7370)

## **13.11 Beijing National Food & Food Processing Machine & Packaging Machinery Show**

Venue: Beijing International Convention Centre, Beijing

Date: May

Organiser: Beijing Guohua Qingzhan Company (+86-10-6407-1519)



## **13.12 Food China**

Venue: China International Exhibition Centre, Beijing

Date: June

Organiser: China International Exhibition Centre Consulting (+86-10-8460-1800)

## **13.13 International Food, Packaging, Print, Plastic Products Exhibition**

Venue: Wenzhou Packaging Trade & Exhibition Centre, Wenzhou, Zhejiang

Organiser: Sino-USA Joint Venture Wenzhou Huazhan Industrial & Commercial Company (+86-577-834-6543)

## **13.14 Zhejiang Food & Drink Summer Sales Show**

Venue: China Commodity City Exhibition Hall, Yiwu, Zhejiang

Date: June

Organiser: China Commodity City Exhibition Hall Company (+86-579-554-7240)

## **13.15 Dalian International Food Manufacturing & Packaging Machine Exhibition/Dalian International Food, Raw Materials & Food Additives Show**

Venue: Dalian Xinghai Convention & Exhibition Centre, Dalian, Liaoning

Date: August

Organiser: Dalian Pacific Ocean Exhibition Planning Company Ltd, CCPIT Dalian sub-council (+86-411-2808-8702)

## **13.16 Shanghai International Food Machine & Package Machine Expo**

Venue: Shanghai Exhibition Centre, Shanghai

Date: September

Organiser: Shanghai Modern International Exhibition Company (+86-21-6321-7522)

## **13.17 China International Fair For Food, Food Processing & Packaging**

Venue: China International Exhibition Centre, Beijing

Date: September

Organiser: China International Exhibition Centre Consulting (+86-10-8460-1800)

## **13.18 Shanghai International Supermarket Expo**

Venue: Shanghai International Exhibition Centre, Shanghai

Date: September

Organiser: Shanghai Modern International Exhibition Company (+86-21-6321-7522)

## **13.19 Shanghai International Food Expo**

Venue: Shanghai Exhibition Centre, Shanghai

Date: September

Organiser: Shanghai Modern International Exhibition Company (+86-21-6321-7522)

## **13.20 Packtech & Foodtech**

Venue: Shanghai International Exhibition Centre, Shanghai

Date: September

Organiser: EXPOSIUM (+86-10-6587-2510)

## **13.21 Liaoning Food Show**

Venue: Liaoning Industrial Exhibition Hall, Shenyang

Date: September

Organiser: Liaoning Industrial Exhibition Hall Consulting (+86-24-2389-2990)

## **13.22 Food & Hotel South China**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: September

Organiser: Hong Kong Exhibition Services Company Ltd (+852-2804-1500)

## **13.23 Chengdu International Food, Food Processing & Packaging Show**

Venue: Sichuan International Exhibition Centre, Chengdu

Date: October

Venue: Sichuan International Exhibition Centre (+86-28-225-0290)

## **13.24 International Food Show**

Venue: National Agricultural Convention Centre, Beijing

Date: October

Organiser: National Agricultural Convention Centre Consulting (+86-10-6501-8877)

## **13.25 Interfood Shanghai**

Venue: Shanghai Everbright Convention & Exhibition Centre, Shanghai

Date: October

Organiser: China National Food Industry Association, Shanghai  
International Exhibition Corporation (+86-21-6387-2828)

## **13.26 International Food Processing & Packaging Machinery Exhibition**

Venue: China International Exhibition Centre, Beijing

Date: October

Organiser: China National Packaging & Food Machinery Corporation,  
China Food & Packaging Machinery Industry Association (+86-10-6859-6025)

## **13.27 China Food Industry Exhibition**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: December

Organiser: Shikong Exhibition & Trade Centre (+86-20-3868-0086)

## **13.28 China International Dairy Product & Technology Exhibition**

Venue: China International Exhibition Centre, Beijing

Date: November

Organisers: China National Light Industry Machinery Corporation, China Dairy Industry Association and Messe Duessldorf China Ltd

# Appendix: Exchange Rates

## A.1.1 Exchange Rates: China

The Renminbi (RMB) remains a “soft” currency, fixed in value under China’s still centrally planned economy. The People’s Bank of China (PBOC), the country’s central state bank, postponed initial plans to convert the RMB into a fully convertible hard currency by late 1996 for fear of potentially destabilising fluctuations on the global money markets.

This cautiousness was borne out when the RMB was largely protected from the effects of the regional economic crisis that struck Asia in 1997-98 – though the loss of export revenues from overseas trade to neighbouring markets did weaken the RMB exchange rate slightly.

China’s long-awaited accession to the World Trade Organisation (WTO) in December 2001 has reignited international speculation over the prospects of RMB convertibility – sparking rumours which sweep the markets on a regular basis. For the time being, however, the Chinese government continues to deny that full convertibility is under consideration.

**Table A.1 AVERAGE ANNUAL EXCHANGE RATES, 1997–2004**

<i>RMB</i>	1997	1998	1999	2000	2001	2002	2003	2004
US\$=RMB	8.29	8.28	8.28	8.28	8.29	8.29	8.28	8.28
Euro=RMB	9.22	9.30	8.89	7.72	7.32	8.85	10.23	11.06
UK£ =RMB	13.77	13.72	13.45	12.66	11.83	13.35	15.35	15.65
Japanese Yen=RMB	0.06	0.06	0.07	0.08	0.08	0.05	0.08	0.08
Canadian \$=RMB	5.8	5.59	5.55	5.61	5.22	5.41	6.17	6.80
Swiss Franc=RMB	5.8	5.72	5.6	4.93	4.96	6.06	6.46	7.14
Singapore \$=RMB	5.03	4.96	4.89	4.81	4.54	4.78	4.85	5.03
Australian \$=RMB	5.49	5.21	5.34	4.89	4.29	4.86	6.37	6.40
Hong Kong \$=RMB	1.07	1.03	1.03	1.02	1.06	1.06	1.06	1.06

Source: People’s Bank of China, NBS, international statistics

## A.1.2 Exchange Rates: Hong Kong

**Table A.2 AVERAGE ANNUAL EXCHANGE RATES, 1997–2004**

<i>HK\$</i>	1997	1998	1999	2000	2001	2002	2003	2004
US\$ =	7.74	7.77	7.77	7.79	7.80	7.80	7.79	7.80
RMB =	0.93	0.97	0.97	0.98	0.94	0.94	0.94	0.94

Source: NBS, international statistics