

# Research Report On Entry Into China's Dairy Market

<https://marketpublishers.com/r/RED0C2851D4EN.html>

Date: July 2008

Pages: 127

Price: US\$ 550.00 (Single User License)

ID: RED0C2851D4EN

## Abstracts

China has begun its Open Policy in the 1980's, the milk industry has tremendous opportunities for the import of dairy products since then. The domestic and foreign milk companies in succession occupied the China's dairy product market. This has lead to increasing competition in the supply and distribution of milk products.

Based on competition in recent years, companies such as Mengniu, Yili, Sanlu, and Brightdairy, have taken the lead in this industry and dominated most of the domestic market. According to the National Statistic Bureau, the total sales of the large scaled manufacture of liquid milk and dairy products from January 2007 to November 2007 was about 118.871 billion RMB. This number has increased by 24.55% compared to last year's figure. The total value of the industry reached 121.144 billion RMB, which is 23.3% more than last year. The total profit was 6.438 billion RMB, which was about 24.37% higher. There were around 728 large scale companies and the number of employees numbered 207,000. About 174 business enterprises lost money, to the tune of 492 million RMB, which is 4.47% more or so.

The National Statistical Bureau figures suggest that urban and rural consumption has gone up slowly. In 2007 consumption was around 18.03 million tons, which is 21.18% more than the previous year. In 2006, the urban resident's average per capita expenditure on milk and dairy products was 150.23 RMB. This number climbed up by 8.38% from 2002 to 2006, and the composite growth increased by 9.57%. The rural resident's average per capita expenditure of milk and dairy products amounted to 3.15 kgs with an increase of 10.14%. The annual composite growth was about 28.52%, according to China's Dairy Industry Association. It is predicted that in the future, the consumption growth would continue to go up at the rate of 20%.

The import and export volume of China's dairy products has shown a marked increase in recent years. In 2007, the export figure was around 134.6 thousand tons, with an

increase of 79.66% to US 242 million dollars. And the import figure was 298.7 thousand tons with a decrease of 14.12%, and the import amount increased by 33.47% to US 745 million dollars.

New Zealand, America, France and Australia are the main sources of China's dairy products imports. From the aspect of the quantity of imports, China imported the largest number of dairy products in 2007 from New Zealand, America, France and Australia, with total amount of 229 thousand tons. This was about 76.69% of the total amount of China's import dairy products. The number of dairy products imported from New Zealand was 94.9 thousand tons, accounting for 31.78% of China's imports. The amount of dairy products imported from USA was 57.5 thousand tons, occupying 19.25 % of China's imports. The amount of dairy products imported from France and Australia were estimated at 50.8 thousand tons and 25.8 thousand tons respectively. France had 17.01%, and Australia had 8.65% of the total import of China.

The main types of imported dairy products are whey products and milk powder. These items accounted for 88.99% of the total imported dairy products. Other dairy products (such as butter, cheese, and condensed milk) took up a small proportion of 11.01% in the total imported amount. As for the import of dairy, other products have expanded in recent years from 5.33% in 2003 to 11.01%. In addition, with the rise in the income level of the consumers, the demand of such products will be further expanded and the profit margin will be much higher.

The dairy consumption market consists of a huge urban market and a burgeoning rural market. The market is becoming more sophisticated and is displaying the growing stage of maturity. As for the urban consumers, dairy products along with grain, meat, and seafood have become the basic staple diet. With the increase of consumption level, the future consumption of dairy products will reach a situation in which the number of consumers will increase. The average per capita level will improve every year, and the consumption demand will be diversified. This provides a flexible market and a great opportunity for the entry of imports. And, it will largely depend on product development, management of the brand, and the distribution channel. It is estimated that by the year 2010, the total consumption pattern of the urban inhabitants will increase to more than 21.5 million tons. And, the capacity of the domestic market would surpass 22.7 million tons.

## Contents

### **CHAPTER 1 PRODUCT DEFINITION**

- 1.1 Product definition
- 1.2 Product categories

### **CHAPTER 2 OVERVIEW OF CHINA DAIRY MARKET**

- 2.1 China's economy: basic facts
- 2.2 Introduction to the current domestic macroeconomic environment
- 2.3 Development profile in domestic dairy manufacturing industry
- 2.4 Forecast for the potential of China dairy market in the future
- 2.5 Skim milk

### **CHAPTER 3 INTRODUCTION TO THE DOMESTIC INDUSTRIAL ENVIRONMENT**

- 3.1 Policies of dairy manufacturing industry
  - 3.1.1 "2006-2010 Development Program Of National Dairy Industry And 2020 Future Plan"
  - 3.1.2 Dairy products processing industry entry conditions
- 3.2 Related laws and rules
- 3.3 Foreign cooperation
  - 3.3.1 The cooperation between China and New Zealand
  - 3.3.2 Sino-American cooperation
- 3.4 Forecast on policy trend

### **CHAPTER 4 OVERVIEW ON THE IMPORT OF DAIRY PRODUCTS**

- 4.1 Changes of amount and growth rate of China imported dairy products in recent five years
- 4.2 Main origin analysis
- 4.3 Main domestic flow direction analysis

### **CHAPTER 5 ANALYSIS ON CHANGES OF DAIRY SUBDIVIDED PRODUCTS IN IMPORT**

- 5.1 Liquid milk and cream
  - 5.1.1 Changes of gross important growth rate of liquid milk and cream of China in

recent years

5.1.2 Main original places of China imported liquid milk and cream

5.1.3 Main domestic flow directions of China imported liquid milk and cream

5.2 Condensed milk and cream

5.2.1 Change of gross import and growth rate of condensed milk and cream of China in recent years

5.2.2 Main original places of China imported condensed milk and cream

5.2.3 Main domestic flow directions of China imported condensed milk and cream

5.3 Other dairy products

5.3.1 Changes of gross import and growth rate of other dairy products of China in recent years

5.3.2 Main original places of China imported other dairy products

5.3.3 Main domestic flow directions of China imported other dairy products

## **CHAPTER 6 ANALYSIS ON THE EXPORT OF CHINA DAIRY PRODUCTS IN RECENT YEARS**

6.1 Changes in the export of China dairy products and reasons

6.2 Main destinations of China exported dairy products

6.3 Main origins of China exported dairy products

## **CHAPTER 7 TAXATION**

7.1 Import tariff

7.2 Value-added tax

7.3 Consumption tax

## **CHAPTER 8 INSPECTION & QUARANTINE PROCEDURE OF IMPORTED DAIRY PRODUCTS**

8.1 Inspection & quarantine procedure of imported dairy products

8.2 Main inspection basis and indexes

8.3 Related standard for dairy products

8.4 Main monitoring and managing institutions

## **CHAPTER 9 IMPORTING FLOW OF DAIRY PRODUCTS**

9.1 Importing flow chart of dairy products

9.2 Instruction to the flow of importing dairy products into China

## **CHAPTER 10 COMPETITIVE STATUS OF CHINA DAIRY MARKET**

- 10.1 Analysis on the centralization of sale income of corporations
- 10.2 Comparison on the centralization of the sale income of regions
- 10.3 Position of imported dairy products in China market
- 10.4 Introductions to the top 10 corporation with the most sale in China dairy manufacturing industry
  - 10.4.1 Inner Mongolia Mengniu Dairy Industry (Group) CO., Ltd.
  - 10.4.2 The Inner Mongolia Yili Industrial Group Co., Ltd.
  - 10.4.3 Shijiangzhuang Sanlu Group CO., LTD.
  - 10.4.4 Bright Dairy And Food CO., LTD.
  - 10.4.5 Dumex Nutrition Dairy CO., LTD.
  - 10.4.6 Shuangcheng Nestle CO., LTD.
  - 10.4.7 Mead Johnson (Guangzhou) CO., LTD.
  - 10.4.8 Heilongjiang Wondersun Dairy CO., LTD.
  - 10.4.9 New Hope Dairy Holding CO., LTD.
  - 10.4.10 Beijing Sanyuan Food CO., LTD.
- 10.5 Distribution of large-scaled corporations in China

## **CHAPTER 11 ANALYSIS ON PRODUCT SALE CHANNEL**

- 11.1 Overview on the main channels of China dairy products sale
- 11.2 Chart of domestic dairy products sale channels
- 11.3 Analysis on the domestic dairy products sale channels

## **CHAPTER 12 ANALYSIS ON ENTRY INTO CHINA MARKET**

- 12.1 Analysis on the consumption feature of domestic dairy products
- 12.2 Analysis on market entry opportunities
- 12.3 Analysis on market entry barriers
- 12.4 Conclusions and suggestions

## **CHAPTER 13 RELATED ASSOCIATIONS**

- 13.1 China Dairy Industry Association
- 13.2 Dairy Association Of China

## **CHAPTER 14 MAIN EXHIBITIONS**

- 14.1 The Second China (Inner Mongolia) International Dairy Industry Exhibition
- 14.2 The Fourth China (Shijiazhuang) Animal Husbandry And Feed Industry Exhibition
- 14.3 The Fifth China Western International Dairy Industry Exhibition
- 14.4 6th China International Dairy Industry Exhibition And High Level Forum
  - I. a list of major dairy importers in China
  - II. a list of major dairy exporters in China
  - III. a list of major dairy retailers in China

## TABLE CONTENTS

**Table 1** Category Of Dairy Products

**Table 2** Major Economic Indicators In Year 2007

**Table 3** 2001 -2007 The Per Capita Income In China (Unit:Yuan)

**Table 4** Consumption Of 2002-2007 Rural-Urban Milk And Dairy Products In China (Unit: Yuan, Kilogram, Estimated Data In 2007)

**Table 5** 2003-2007 China's Import Amount And Growth Rate Of Dairy Products (Unit: Kg)

**Table 6** 2003-2007 Import Value And Growth Rate Of China's Dairy Products (Unit: Dollar)

**Table 7** Changes Of 2003-2007 Import Dairy Amount Of The Top Ten Resources (Unit: Kg)

**Table 8** 2003-2007 The Top Ten Resources And Growth Rate Of China's Dairy Products (Unit: Dollar)

**Table 9** The Top Ten Areas Of Domestic Imported Dairy Products And Import Amount And Growth Rate (Unit: Kg)

**Table 10** 2003-2007 The Top Ten Regions Of Domestic Imported Dairy Products And Import Value And Growth Rate (Unit: Dollar)

**Table 11** 2003 -2007 Import Quantity And Growth Rate Of Liquid Milk And Cream In China (Unit: Kg)

**Table 12** 2003 -2007 Import Value And Growth Rate Of Liquid Milk And Cream In China (Unit: Dollar)

**Table 13** 2003-2007 Import Quantity And Growth Rate Of Liquid Milk And Cream (Unit: Kg)

**Table 14** 2003-2007 Import Value And Growth Rate Of Liquid Milk And Cream (Unit: Dollar)

**Table 15** The Quantity And Growth Rate Of The Top Ten Regions In Liquid Milk And Cream In China (Unit: Kg)

**Table 16** Amount And Growth Rate Of The Top Ten Regions In The Import Amount Of Liquid Milk And Cream (Unit: Dollar)

**Table 17** 2003-2007 Import Quantity And Growth Rate Of Condensed Milk And Cream In China (Unit: Kg)

**Table 18** The Import Value And Growth Rate Of Condensed Milk And Cream In China In 2003-2007 (Unit: Dollar)

**Table 19** 2003-2007 The Import Quantity And Growth Rate Of Condensed Milk And Cream Of China (Unit: Kg)

**Table 20** 2003-2007 The Import Amount And Growth Rate Of China's Condensed Milk And Cream (Unit: Dollar)

**Table 21** Quantity And Growth Rate Of Top Ten Areas Of Condensed Milk And Cream Import Quantity In China (Unit: Kg)

**Table 22** Value And Growth Rate Of Top Ten Areas Of Condensed Milk And Cream Import Value In China (Unit: Dollar)

**Table 23** Import Quantity And Growth Rate Of Other Dairy Products In China In 2003-2007 (Unit: Kg)

**Table 24** Import Value And Growth Rate Of Other Dairy Products In China In 2003-2007 (Unit: Dollar)

**Table 25** Import Quantity And Growth Rate Of Other Dairy Products Of China In 2003-2007 (Unit: Kg)

**Table 26** Import Value And Growth Rate Of Other Dairy Products Of China In 2003-2007 (Unit: Dollar)

**Table 27** Quantity And Growth Rate Of Top Ten Areas Of Import Quantity Of Other Dairy Products In China (Unit: Kg)

**Table 28** Value And Growth Rate Of Top Ten Areas Of Import Quantity Of Other Dairy Products In China (Unit: Dollar)

**Table 29** Export Quantity And Growth Rate Of Dairy Products Of China In 2003-2007 (Unit: Kg)

**Table 30** Export Value And Growth Rate Of Dairy Products Of China In 2003-2007 (Unit: Dollar)

**Table 31** List, Export Quantity And Export Value Of Main Export Targets Of China's Dairy Products (Unit: Kg, Dollar)

**Table 32** Tariff On Dairy Products

**Table 33** The Relevant Sanitary Indexes Of Fresh Milk

**Table 34** Micro-Organism Indexes Of The Sanitary Standards Of Fresh Milk

**Table 35** National Compulsory Standards Of Dairy Industry

**Table 36** National Recommended Standards Of Dairy Industry

**Table 37** Main Monitoring And Managing Institutions

**Table 38**



Distribution, Sale Income, Profit And Proportion Of Main Dairy Enterprises In China In 2007 (Unit: Thousand Yuan)

**Table 39** Distribution Map Of The Quantity Of Domestic Large-Scaled Corporations In 2007 (Unit: Number)

## **Figure CONTENTS**

**Figure 1** 2001-2007 Change Trends Of China's Average Per Capita Incomes (Unit: Yuan)

**Figure 2** 2002 -2007 Rural-Urban Consumption Of Milk And Dairy Products (Unit: Yuan, Kg, 2007 Is Valuation)

**Figure 3** 2007 The Proportion Of The Import And Export Amount In The Total Amount Of Skim Milk

**Figure 4** The Annual Change Of Imported Quantity And Growth Rate Of China's Dairy Products (Unit: Kg)

**Figure 5** Annual Changes Of Import Value And Growth Rate Of China's Dairy Products (Unit: Dollar)

**Figure 6** 2007 Import Situation Of Subdivision Dairy Products (Division By Import Value, Unit: Dollars)

**Figure 7** 2007 The Top Ten Countries Of China's Import Dairy Products (Divided By Import Quantity)

**Figure 8** Changes Of 2003-2007 The Main Resource Of China's Dairy Products (Unit: Kg)

**Figure 9** Top Ten Source Areas Of China's Dairy Products Import In 2007 (Divided By Import Value)

**Figure 10** Import Value Change Trend Of Main Source Areas Of China's Dairy Products Import In 2003-2007 (Unit: Dollar)

**Figure 11** 2007 The Top Ten Areas Of The Domestic Dairy Products Imported (Division By Imported Quantity)

**Figure 12** Changes Of 2003 -2007 The Imported Amount Of Domestic Dairy Products (Unit: Kg)

**Figure 13** Top Ten Areas Of Dairy Products Import In China In 2007 (Divided By Import Value)

**Figure 14** Changes Of Import Amount Of Domestic Dairy Products 2003-2007 In The Main Flow Areas (Unit: Dollar)

**Figure 15** Annual Changes Of The Import Quantity Growth Rate Of Liquid Milk And Cream (Unit: Kg)

**Figure 16** Annual Import Value And Growth Rate Of China's Liquid Milk And Cream (Unit: Dollar)



**Figure 17** 2007 The Top Ten Origin Countries Of Import Liquid Milk And Cream  
(Division By Import Quantity)

**Figure 18** Annual Changes Of The Import Quantity Of Liquid Milk And Cream In China  
(Unit: Kg)

**Figure 19** 2007 The Top Ten Origin Countries Of Liquid Milk And Cream (Division By  
Import Value)

**Figure 20** 2003 To 2007 Annual Changes Of The Imported Liquid Milk And Cream  
(Unit: Dollar)

**Figure 21** 2007 The Top Ten Regions Of Imported Liquid Milk And Cream In China  
(Divided By Import Quantity)

**Figure 22** Change Trends Of The Main Imported Areas Of Liquid Milk And Cream (Unit:  
Kg)

**Figure 23** 2007 The Top Ten Regions Of Liquid Milk And Cream In China (Division By  
Import Value)

**Figure 24** Change Trends Of The Imported Regions Of Liquid Milk And Cream In China  
(Unit: Dollar)

**Figure 25** Change Trend Of The Import Quantity And Growth Rate Of Condensed Milk  
And Cream (Unit: Kg)

**Figure 26** Change Trend Of The Import Value And Growth Rate Of Condensed Milk  
And Cream In China (Unit: Dollar)

**Figure 27** 2007 The Top Ten Origin Countries Of Condensed Milk And Cream In China  
(Division By Import Quantity)

**Figure 28** Annual Change Trends Of The Import Quantity Of Condensed Milk And  
Cream In China (Unit: Kg)

**Figure 29** 2007 The Top Ten Origin Countries Of Imported Condensed Milk And Cream  
In China (Divided By Import Value)

**Figure 30** The Annual Change Trends Of Import Value Of Condensed Milk And Cream  
In China (Unit: Dollar)

**Figure 31** 2007 The Top Ten Regions Of Domestic Imported Condensed Milk And  
Cream (Division By Import Quantity)

**Figure 32** Change Trends Of Domestic Main Importers Of Condensed Milk And Cream  
(Unit: Kg)

**Figure 33** Top Ten Areas In China Of Import Condensed Milk And Cream (Divided By  
Import Value)

**Figure 34** Change Trend In Main Domestic Areas Of Condensed Milk And Cream

**Figure 35** Change Trend Of Import Quantity And Growth Rate Of Other Dairy Products  
In China (Unit: Kg)

**Figure 36** Change Trend Of Import Value And Growth Rate Of Other Dairy Products In  
China (Unit: Dollar)

**Figure 37** Top Ten Source Countries Of Other Dairy Products Of China In 2007  
(Divided By Import Quantity)

**Figure 38** Change Trends Of Other Dairy Products Import Quantity Of China In The Recent Years (Unit: Kg)

**Figure 39** Top Ten Source Countries Of Other Dairy Products Import Into China In 2007  
(Divided By Import Value)

**Figure 40** Change Trends Of Import Value Of Other Dairy Products Import Into China  
(Unit: Dollar)

**Figure 41** Top Ten Areas Of Domestic Import Other Dairy Products In 2007 (Divided By Import Quantity)

**Figure 42** Import Areas And Change Trends Of Other Dairy Products In China (Unit: Kg)

**Figure 43** Top Ten Areas Of Other Dairy Products Imported Into China In 2007 (Divided By Import Value)

**Figure 44** Change Trends Of Import Areas Of Other Dairy Products Of China (Unit: Dollar)

**Figure 45** Export Quantity And Growth Rate Change Trends Of Dairy Products Of China In Recent Years (Unit: Kg)

**Figure 46** Export Value And Growth Rate Change Trends Of Dairy Products Of China In Recent Years (Unit: Dollar)

**Figure 47** Export Conditions Of China's Subdivision Dairy Products (Divided By Export Value)

**Figure 48** Main Target Markets Of Dairy Products Export Of China In 2007 (Divided By Export Quantity)

**Figure 49** Main Target Markets Of Dairy Products Export Of China In 2007 (Divided By Export Value)

**Figure 50** Main Domestic Source Areas Of China's Dairy Products Export In 2007  
(Divided By Export Quantity)

**Figure 51** Main Domestic Source Areas Of China's Dairy Products Export In 2007  
(Divided By Export Value)

**Figure 52** List, Export Quantity And Export Value Of Main Domestic Source Areas Of Dairy Products Export (Unit: Kg, Dollar)

**Figure 53** CIQ MARK

**Figure 54** The Proportion Of The Sale Amount Of The Ten Main Enterprises In The Large-Scaled Enterprise Of The Entire Industry

**Figure 55** Proportion Of Top Ten Areas Of Sale Income In Dairy Enterprises In The Total Sale Amount Of The Whole Country (Unit: Thousand Yuan)

**Figure 56** Distribution Map Of The Quantity Of Domestic Large-Scaled Corporations In 2007 (Unit: Number)

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