

# THE AUSTRALIAN

Business

## No room for complacency as Chinese regain faith in local dairies

SUE NEALES, AGRIBUSINESS

642 words

13 April 2018

The Australian

AUSTLN

Australian

21

English

© 2018 News Limited. All rights reserved.

Australian dairy companies should not assume that Chinese consumers will always show a preference for imported Australian and New Zealand milk, according to Credit Suisse's Chinese consumer research chief Charlie Chen.

Mr Chen said Chinese consumers had recovered from their aversion to locally produced milk following the 2008 melamine contamination scandal, and now regarded most local dairy products as safe.

He said there had been a consolidation of the dairy industry, with the number of small dairy farms with herds of fewer than 100 cows shrinking from 2.7 million 10 years ago to just 1.7 million in 2014.

In stark contrast, there are now more than 1500 large-scale farms with 1000-plus cows across China. Many have more than 20,000 cows.

Half the national dairy herd of 7.5 million milking cows are now housed and milked in large corporate farms run by dominant companies such as Mengniu's China Modern Dairy and AustAsia Dairies, owned by Indonesia's Japfa.

Mr Chen said there were now different levels of trust in play in the minds of Chinese consumers when considering where to buy and source their fresh milk, UHT dairy products, yoghurts and powdered infant formula tins — a combined national consumer market for dairy products valued last year at 377 billion yuan (\$77bn).

"Is the product safe (to eat or drink) was always the first question, but now that difference between imports and local dairy products has disappeared; Chinese consumers now believe the standards are so much better that local (dairy) products are safe," Mr Chen said.

"But the second level of trust is about quality, and there is no doubt that dairy products produced outside China, or inside China under the supervision of a foreign company, are still considered much better quality and are able to attract a premium price." Mr Chen said a classic example of demand based on quality was the race to secure trusted infant formula brands from Australia such as A2 Milk's Platinum infant formula or Blackmores.

Similarly, foreign companies such as Japfa or Fonterra, with their own modern enclosed dairies within China, are commanding prices for fresh milk sold into major markets such as Shanghai and Beijing double or triple the price of local fresh milk from smaller Chinese companies.

With levels of dairy consumption per capita in east China still low compared to other Asian nations and tastes changing thanks to affluence and westernisation, Mr Chen predicted opportunities would remain strong for Australian dairy processing companies looking to expand their footholds in China.

Every Chinese person consumes just 11 litres of fresh and liquid milk a year and 21 litres of "dry" milk in other dairy products such as milk powder, cheese, butter and dairy ingredients, compared with Japan where 31 litres of milk is drunk per capita, or South Korea where 45 litres of dry milk ingredients are consumed annually per capita.

Australia and New Zealand remain the largest sources of imported dairy products into China, in a market that is growing at a rapid 10 per cent a year and even faster in the largest first and second-tier cities.

But Mr Chen said that a lack of infrastructure made it difficult to guarantee a smooth logistical chain for refrigerated dairy products across China, so UHT or "room temperature" dairy products offered the best growth for Australian exporters.

"But what Australian dairy companies need to do more is differentiate themselves more from products imported from Europe and America, and offer something different or additional," Mr Chen said, recommending a focus on milk with Omega 3 or for the lactose intolerant. "I don't think you promote enough that your cows are outside in a green meadow and eating natural grass," he said.

Document AUSTLN0020180412ee4d0001k