



Rijksdienst voor Ondernemend  
Nederland

*Opportunity Report  
-Dairy Industry in Shandong Province*

*NBSO Jinan*

*>> Duurzaam, Agrarisch, Innovatief  
en Internationaal ondernemen*



## Colofon

Dit is een publicatie van:
Rijksdienst voor Ondernemend Nederland
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Datum:
1 maart 2016

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## China Dairy Industry

As a result of increased disposable incomes and increased levels of health consciousness, China's dairy industry has been growing tremendously in the past decades. More people in China now consume dairy products, a trend which is especially strong in urban areas. After the severe melamine scandal in 2008 (causing weaker domestic demand), the dairy-related regulations and enforcement have been upgraded and the industry was substantially restructured and developed. This scandal also led to an increase in imports (currently over 10% of domestic demand) from New Zealand, the United States and Europe.

More large-scale milk production companies have appeared in this industry as small- and medium-sized enterprises have been subject to mergers and acquisitions. Many large-scale milk production companies have set up the so-called "enterprise plus farmers" business model to secure milk supply and ensure the quality of raw milk. Also many foreign milk production companies have set up production facilities in China due to the growing domestic market potential.

In 2014, there are a total of 14.6 million heads of dairy cows in China, and the annual production of raw milk totaled 37.25 million tons, representing the third largest milk producer in the world after the U.S. and India. However, with over 1.3 billion inhabitants, the dairy consumption per capita is still at a very low level, less than one-quarter of the world's average. In this sense, China has great potential to catch up with the world average and the market for dairy products would be promising in the future.

### Statistics about China Dairy 2014

<b>Heads of dairy cows</b>	14.6 million; y-o-y 1.3%
<b>Milk output</b>	37.25 million tons; y-o-y 5.5%
<b>Milk consumption per capita per year</b>	27.3kg; y-o-y 4.6%
<b>Percentage of cows with yield over 6 tons</b>	Over 80%
<b>Percentage of cows with yield over 9 tons</b>	8.9%
<b>Percentage of cows in 100+ heads farms</b>	45%
<b>Heads imported in 2014</b>	195,000
<b>Main dairy cow exporters to China</b>	Australia, New Zealand, Uruguay

## Shandong Province

Shandong Province (hereinafter Shandong) lies on the east coast of China; it covers a land area of 157,000 km<sup>2</sup> and has a coastline of 3,000 km, 1/6 of China's total. Shandong is the second most populous province in China with a total population of 97 million (2014).



From a business perspective, Shandong has been the third economic power in China in terms of GDP, after Guangdong and Jiangsu. Shandong is one of the leading agricultural provinces in China, especially in the production and foreign trade of vegetables, fruit, grain, aquatic products and meat.

### **Facts of Shandong Province**

<b>Location</b>	on the east coast of China, facing the Korean Peninsula and the Japanese archipelago across the sea	
<b>Geography</b>	Surface area 157,126 km <sup>2</sup> (420km from north to south, 700km from east to west)	
<b>Coast line</b>	3,345 km, 1/6 of nation's total	
<b>Population</b>	97million (2014)	
<b>Climate</b>	Average temperature 11-14°C Average precipitation 600-700mm	
<b>GDP 2014</b>	5.94 trillion RMB (3 <sup>rd</sup> nationwide after Guangdong and Jiangsu)	
<b>Main cities</b>	<ul style="list-style-type: none"> <li>- Jinan (capital)</li> <li>- Qingdao (coastal city and financial center)</li> <li>- Yantai, Weifang, Zibo, Linyi, Dongying</li> </ul>	
<b>Per capita GDP 2014</b>	60,879 RMB	
<b>Trade with NL 2014</b>	Export to NL	3.97 billion USD
	Import from NL	68 million USD
<b>Main trade partners</b>	Japan, Korea, EU, U.S., ASEAN, Russia, Brazil	

## Shandong Dairy Industry

Shandong possesses several factors which make it a suitable place for dairy farming. Shandong is located in North China which is regarded as a geographically preferable location for dairy business. Furthermore, Shandong has a strong capacity in agricultural production, some of which can be used in the dairy chain, for example dairy cow feed ingredients. Thirdly, Shandong itself represents a huge consumer market for dairy products for the nearly 100 million inhabitants. Due to these reasons, the Shandong dairy industry has witnessed tremendous growth in the past years. A number of modern dairy farms and milk production companies have invested in Shandong, including international and famous Chinese dairy brands, e.g. Yili Dairy, Mengniu Dairy, Bright Dairy and Modern Farming.

At present, the Shandong dairy industry has been comparatively well established and it's among the top five provinces in terms of the number of dairy cows and total milk output. By 2014, the number of dairy cows in Shandong was 1.4 million, ranking 5<sup>th</sup> among all provinces; and the total milk output was about 2.8 million tons, ranking 4<sup>th</sup> nationwide.

### **Facts of Shandong Dairy 2014**

<b>Number of dairy cows</b>	1.4 million	Y-O-Y 7.6%
<b>Milk output</b>	2.8 million tons	Y-O-Y 3%
<b>Milk consumption per capita per year</b>	28.6kg	Y-O-Y 2.1%

## Trends and opportunities

The Shandong dairy industry has been developing very fast in the past decades. However, the competition in the China/Shandong market has become fiercer. One of the reasons is the huge investments in 2012-2013 into the dairy sector; a number of modern dairy farms with over 10,000 dairy cows were built in North China. This led to overproduction of raw milk in 2014, and this situation still remains. Moreover, trade barriers for the import of dairy products have decreased, or even been removed (e.g. free trade agreement with Australia). This allows

traders and dairy companies to buy foreign dairy products (milk and powder) at lower prices; these brands are also more reliable. Due to this situation, local dairy farms and dairy companies are very keen to use foreign expertise to strengthen their own competitiveness, for example to improve the yield of dairy cows, disease control, quality and safety control, management of dairy farms, as well as research and development of new products.

The dairy industry chain covers a lot of elements which all can contribute to the improvement of the performance of dairy farms or dairy companies. NBSO Jinan sees the following opportunities:

**1. ensure quality and safety**

Since the melamine scandal in 2008, Chinese authorities have paid great attention to improve relevant standards and regulations to ensure the quality and safety of dairy products in the market. This has also become the top priority for dairy farmers and milk production companies.

(Opportunities: knowledge and products about dairy cow health/comfort, feeds, milking equipment, production equipment, etc.)

**2. improve yield**

From a national statistic, the yield of over 80% dairy cows in China is over 6 tons per year. But the percentage falls tremendously to 8.9% for those with a yield over 9 tons. This explains the real situation that most dairy farms are operating in a rather low and cost-ineffective way, which leads to higher prices of raw milk compared to other countries.

(Opportunities: dairy cow species, knowledge and products about dairy cow health/comfort, feeds, etc.)

**3. develop new products**

Due to the overproduction of raw milk and lower prices since the 2<sup>nd</sup> half of 2014, more and more dairy companies began to invest to develop higher level dairy products targeting the medium to high end consumer market, for example high-end pasteurized fresh milk, yogurt and cheese, which allow more profit margin. R&D capability is the key factor for new product development.

(Opportunities: dairy-related knowledge centers, R&D centers)

**4. upgrade to more medium-high scale dairy farms**

At the moment, the raw milk price in China/Shandong is at a low level compared to before. It can be expected that more and more small dairy farms are going to be out of business in the short term. In the future, dairy farms in China/Shandong tend to be operated on a medium to large scale, from 100 cows to over 10,000 cows. Therefore, demand for mechanization would provide opportunities to suppliers of dairy equipment which can be used to improve the performance and efficiency of dairy farms.

(Opportunities: dairy machinery, managerial know-how on large scale dairy farms)

## Main Dairy Companies in Shandong

There are dozens of dairy companies in Shandong, despite of production subsidiaries of national/international brands which have expanded throughout China. Several main local dairy companies are listed as below.

**1. Shandong Deyi Dairy Co., Ltd.**

Deyi Dairy is located in Zibo city, central Shandong. It is one of the biggest dairy companies in Shandong. The main products of Deyi are pasteurized fresh milk

and yogurt. Deyi has its own cold chain logistics to distribute fresh milk within Shandong and neighboring provinces. Their market share in Shandong is nearly 40%, ranking first in the province. Deyi Dairy has its own operated dairy farms and also cooperates with farmers in neighboring areas.

Website: [www.deyi.com.cn](http://www.deyi.com.cn)

**2. Qingdao New Hope Qinpai Dairy Co., Ltd.**

Qinpai Dairy originates from Qingdao 60 years ago. Qinpai Dairy set up a JV with New Hope Group from Sichuan in 2002, a well-known company specialized in agro-business. The annual output of dairy products is about 19,000 tons, of which 90% is pasteurized fresh milk.

Website: [www.qinpaimilk.com](http://www.qinpaimilk.com)

**3. Jinan Jiabao Dairy**

Jiabao Dairy is located in Jinan, the capital city of Shandong. It has a history of over 80 year. Jiabao is one of the biggest dairy companies in Shandong. Main products of Jiabao are pasteurized milk and yogurt. Its yogurt production capacity reaches 600 tons per day.

Website: [www.jiabaoruye.com.cn](http://www.jiabaoruye.com.cn)

Some of national/international dairy brands which have invested in Shandong:

**1. National brands**

- Yili Dairy – [www.yili.com](http://www.yili.com)
- Mengniu Dairy – [www.mengniu.com.cn](http://www.mengniu.com.cn)
- Bright Dairy – [www.brightdairy.com](http://www.brightdairy.com)
- Sanyuan Dairy – [www.sanyuan.com.cn](http://www.sanyuan.com.cn)
- Modern Farming – [www.xiandaimuye.com](http://www.xiandaimuye.com)
- Weiwei Group – [www.vvgroup.com](http://www.vvgroup.com)

**2. International brands**

- Nestle in Qingdao  
[www.nestle.com.cn](http://www.nestle.com.cn)
- Murray Goulburn Dairy (Qingdao) – milk powder  
[www.mgdairy.com](http://www.mgdairy.com)
- Qingdao Synutra – milk powder  
[www.shengyuan.com](http://www.shengyuan.com)
- Shandong Asahi-Luyuan Dairy  
[www.asahibeer.com.cn](http://www.asahibeer.com.cn)

## Government Support

The Shandong government is very supportive of the dairy industry. In early 2016, the Shandong People's Government published the 'Action Plan for the Transformation and Upgrade of Shandong Dairy Industry'. The plan mentioned that by 2020, the total number of dairy cows in Shandong would reach 1.45 million, with a total output of milk of 3.5 million tons. The development of the dairy industry should be remarkably improved by then. In order to achieve this, the government will set supportive policies and subsidies to stimulate the industry. For example, in 2015, the Shandong government set up a special fund of 20 million RMB to subsidize dairy farms with a head number of over 200. The purpose of this fund is to encourage farmers to transform and upgrade their operations, expand their business scale, and also lower the influence of unstable feed prices.

## Relevant authorities (national/provincial)

Below Chinese authorities are related to the dairy sector at national and provincial level. The websites are only in Chinese.

- 1. Ministry of Agriculture**  
Website: [www.moa.gov.cn](http://www.moa.gov.cn)  
Supervision on agriculture.
- 2. General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)**  
Website: [www.aqsig.gov.cn](http://www.aqsig.gov.cn)  
Supervision on the quality of all commodities in the Chinese market, both locally made and imported from foreign countries.
- 3. Dairy Association of China**  
Website: [www.dac.com.cn](http://www.dac.com.cn)  
Non-profit organization. Members of DAC come from the dairy cow breeding farms, dairy farms, dairy companies, and parties and individuals who are involved in the dairy sector.
- 4. Shandong Animal Husbandry and Veterinary Bureau**  
[www.sdxm.gov.cn](http://www.sdxm.gov.cn)  
Supervision on animal husbandry, including dairy business.
- 5. Shandong Dairy Association**  
*Non-profit organization supervised by Shandong Animal Husbandry and Veterinary Bureau.*  
[www.sdnaie.com](http://www.sdnaie.com)

## Trade Fairs

### China Dairy Exhibition

Website: <http://www.dairyshow.cn/>

## Local contact

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IBISWorld Industry Report – Sheep and Cattle Farming in China – Dec 2015

EUSME Centre – Importing Dairy Products into China – July 2014

China Statistic Yearbook 2015

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Dit is een publicatie van:

Rijksdienst voor Ondernemend Nederland  
Postbus 93144 2509 AC Den Haag  
[www.rvo.nl](http://www.rvo.nl)