

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the February issue of Dairy Products China News.

This month's issue highlights some significant imports into China of dairy cattle, with two businesses bringing in close to 20,000 head one of the shipments with a record number for the country. The demand is evident and will test New Zealand's resolve in sticking to its planned cessation of livestock exports by sea from April 2023 due to concerns about damage to the country's reputation for animal welfare. As is often the case, the proposed cut-off date has led to the trade growing in the interim. In New Zealand there has been heavy lobbying for a reversal of this decision – led by Chinese industry interests such as China Animal Husbandry Group and Junlebao, and countered by opponents such as New Zealand's independent National Animal Welfare Advisory Committee. As noted by the executive director of the Asia New Zealand Foundation when looking at the wider geopolitical context, such issues are not binary: "I expect this China conversation is going to get more difficult for New Zealand". One of the latest consignments was from Chile and all that can safely be said is that if New Zealand sticks to its position, this will open doors for other exporters for sure.

Of course, it is to be expected that China's growing demand will continue to far outweigh the growing local milk supply being achieved, despite record cattle shipments. But the trends are interesting at a time when key exporters' supply is contracting: milk production was -6% in New Zealand in January. Meanwhile in Europe, in most key exporting countries outside Ireland similar pressures have been very evident...FrieslandCampina saw farmers depart last year equating to some 270 million kilos of milk.

The January import data will not be released until March, but we know that from January 1 most New Zealand dairy products going to China have enjoyed duty-free access and this will apply to milk powders also by the start of January 2024. Away from the headline WMP volumes, New Zealand's exports of SMP to China have grown only slowly over recent years. With its quality repositioned over recent years in industry marketing, and active marketing becoming easier again, the impact the US is able to make in this category will be a notable indicator to track: China represented 3.1% of US SMP/NFDM exports in 2016, but this trade virtually doubled in 2021 alone, and China made up 6% of its exports of this product last year. Plenty to watch as ever...

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Headlines

- ▶ In 2021, China's top 10 milk producers' output of 8.52 million tonnes was up by 18% and equated to almost 1/3 of national commercial milk production; they owned 1.615 million dairy cows, up 26% YoY and accounting for 27% of China's Holsteins.
- ▶ In Jan. details of Qingshuihe Youran's planned dairy goat farm project were published; following this, in Feb., Yunxin Industry announced the completion of part of its new farm's 1st phase of construction.
- ▶ In Jan., Beijing Longmu imported 4,000 cattle through, whilst Fuzhou Port Halo Farming imported a record consignment of 15,438 cattle through Tianjin Port.
- ▶ A recent survey shows the importance of cross-border products in the goat milk IMF category, identifying 24 separate products as of 14 Feb.
- ▶ On 26 Jan., China issued the Monitoring Programme on Veterinary Drug Residues in Animals and Animal Derived Products for 2022.
- ▶ On 20 Jan., 2022, Dr. Cheese Anhui was granted clearance for its 37,400 t/a cheese and cream plant project.
- ▶ Details of Yuanxinyuan Pasture's dairy farm construction project were published on 24 Jan.
- ▶ On 24 Jan., Junlebao acquired 20% stakes in 2 of Royal Group's subsidiaries for a total investment of USD31.5 million (RMB200 million).
- ▶ In Jan., Mengniu Dairy (Jiaozuo)'s recent manufacturing investments were approved for start-up, and details of Mengniu Dairy (Shangzhi)'s upgrade and expansion project were published.
- ▶ February's milk price remained stable even whilst feed prices increased, putting great pressure on dairy farmers.

Major Companies and Sites Mentioned in This Issue



Market Dynamics

China's Top 10 Milk Producers in 2021

Summary: In 2021, China's top 10 milk producers' output of 8.52 million tonnes was up by 18% and equated to almost 1/3 of national commercial milk production; they owned 1.615 million dairy cows, up 26% YoY and accounting for 27% of China's Holsteins.

Over the past year, the development of China's dairying sector has been significant, both in terms of farm construction and major M&As or takeovers between the main players. The country's focus on food security has been enhanced during the pandemic when importing raw materials has been viewed as carrying safety risks, so increasing domestic milk supply has been ever more prioritised.

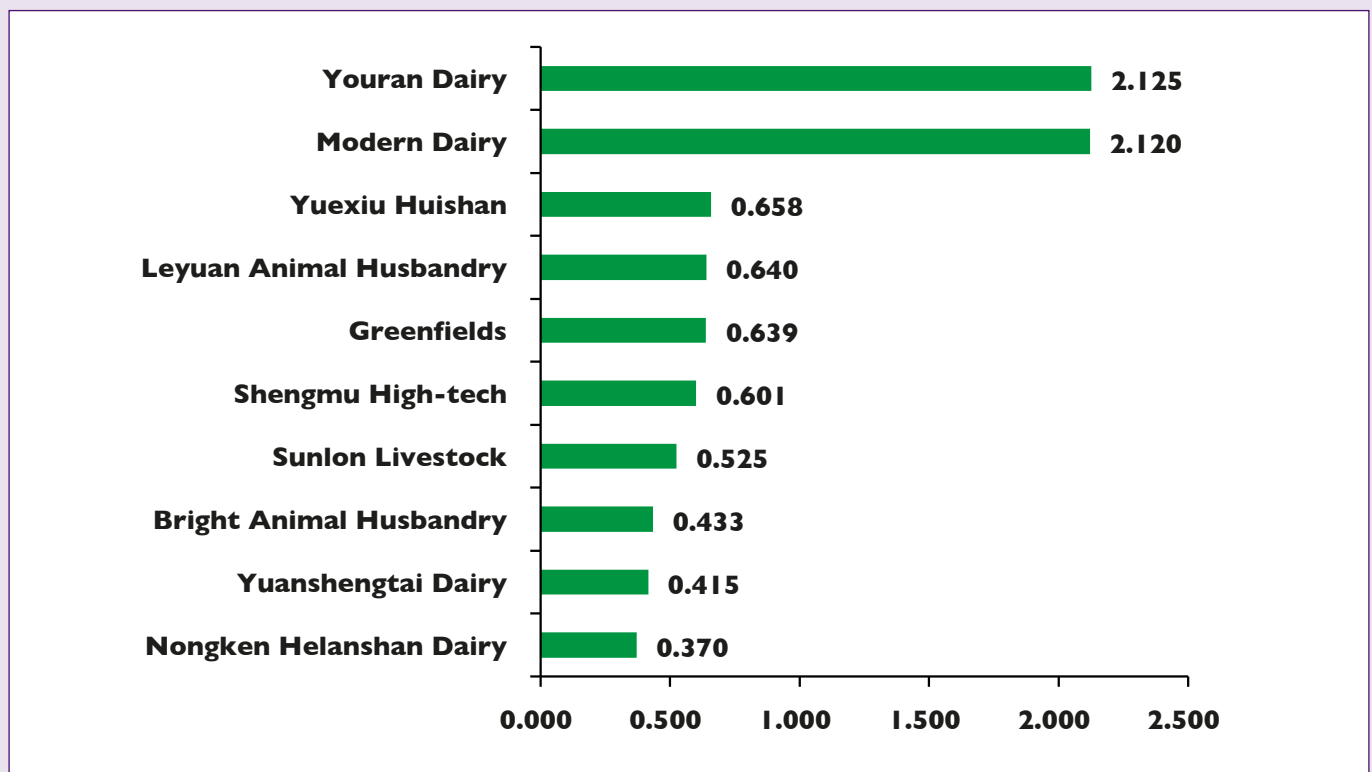
Most of the new construction projects for dairy farms initiated last year have entered their final stages, and some have already been put into operation. This should allow Chinese dairy processors closer control of their milk supply in the coming years, as suggested by cooperation arrangements now in place – for instance, between Yili and Asia Dairy Fab. Ltd. (25,000 Dairy Cows Demonstration Farm Project signed in May 2020), Bright Dairy and local

government of Ningxia Hui Autonomous Region (10,000+ Dairy Cows Demonstration Farm Project signed in June 2020), Junlebao and 5 counties of Baoding City, Hebei Province (23,000 Dairy Cows Family Farm Project signed in Jan. 2022), etc.

China's top 10 dairying businesses (ranked by production of cow milk) accounted for 8.52 million tonnes of milk production collectively in 2021, up by 18% YoY and making up approaching 1/3 of the national total. Overall, there are 2 milk producers which stand out – China Youran Dairy Group Limited (Youran Dairy, Stock Code: HK.09858) and China Modern Dairy Holdings Ltd. (Modern Dairy, Stock Code: HK.01117):

- Youran Dairy with milk production of 2,125 million tonnes, up 34.9%
- Modern Dairy with milk production of 2.12 million tonnes, up 42.7%
- Their collective production of 4,245 million tonnes accounted for 50% of the top 10 producers' combined output.

FIGURE I: China's Top 10 Milk Producers in 2021, million tonnes



Source: Holsteins (Chinese trade journal)

The top 10 producers ranked by dairy herd size recorded accounted for a total of 1.615 million cattle, up 26%. Youran Dairy (492,000 head) and Modern Dairy (368,000 head) managed a combined 860,000 head – 53% of the total across the top 10.

- Youran Dairy has scaled up its operation notably through acquisitions of farms from Fonterra (cattle stock:

52,000) and Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (cattle stock: 71,000)

- Modern Dairy has expanded through the acquisitions of Inner Mongolia Fuyuan Farming Co., Ltd. (cattle stock: 70,000) and Zhongyuan Animal Husbandry Co., Ltd. (cattle stock: 18,000)

TABLE 1: China's Top 10 Animal Husbandry Groups by Cattle Stock Number in 2021

Rank	Company	Cattle at new farms built in 2021	Total cattle
1	Youran Dairy	116,000	492,000
2	Modern Dairy	28,000	368,000
3	Liaoning Yuexiu Huishan Holding Co., Ltd (Yuexiu Huishan)	–	137,000
4	Inner Mongolia Shengmu High-tech Husbandry Co., Ltd. (Shengmu High-tech)	–	110,000
5	Greenfields	–	100,000
6	Hebei Leyuan Animal Husbandry Co., Ltd. (Leyuan Animal Husbandry)	10,000	110,000
7	Beijing Sunlon Livestock Development Co., Ltd. (Sunlon Livestock)	–	84,000
8	Bright Animal Husbandry Co., Ltd. (Bright Animal Husbandry)	29,000	75,000
9	Yuanshengtai Dairy Farm Limited (Yuanshengtai Dairy, Stock Code: 01431)	–	69,000
10	Ningxia Nongken Helanshan Dairy Co., Ltd. (Nongken Helanshan Dairy)	–	70,000

Source: Holsteins (Chinese trade journal)

Progress of New Dairy Farms of Qingshuihe Youran and Yunxin Industry

Summary: In Jan. details of Qingshuihe Youran's planned dairy goat farm project were published; following this, in Feb., Yunxin Industry announced the completion of part of its new farm's 1st phase of construction.

Qingshuihe Youran Dairy Co., Ltd. (Qingshuihe Youran)

On 20 Jan., the dairy goat farm project of Qingshuihe Youran passed its environmental impact assessment (EIA), as published on the website of the Ecology and Environment Bureau of Hohhot City, Inner Mongolia Autonomous Region.

Project plans:

- Total investment: USD91.2 million (RMB580 million)
- Area: approx. 526 ha, including 28.7 ha of buildings
- Location: Qingshuihe County, Hohhot City, Inner Mongolia Autonomous Region
- Scale: 50,000 dairy goats
- Construction content: dairy goat farming demonstration park, production area, feed warehouse, office area

The business was set up in 31 Dec., 2021 with a registered capital of USD18.9 million (RMB120 million) – it is a wholly-owned subsidiary of Youran Dairy.

Gansu Yunxin Industry Co., Ltd. (Yunxin Industry)

On 11 Feb., Yunxin Industry announced the completion of the cattle shed construction in the 1st phase of its new farm project, which has 1,800 head of Jerseys in place at present.

Project Overview:

- Total investment: USD157.3 million (RMB1 billion)
- Location: Ganzhou District, Zhangye City, Gansu Province
- Target farm capacity: 10,000+ Jerseys plus 5,000 beef cattle
- Construction schedule:
 - Phase I: complete and commission farm construction for 4,000 Jerseys by May 2022; to include TMR (total mixed rations) centre, forage storage facilities, manure treatment, etc.
 - Phase II: complete facilities for a further 6,000 Jerseys and a silage silo in Oct. 2022

- Phase III: complete the 5,000 beef cattle farm in May 2023
- Scheduled stocking of Jerseys:
 - 4,000 by the end of May 2022
 - 6,500 by the end of 2022
 - 10,000 by the end of May 2023
 - 15,000 by the end of 2023
- Production estimate: 35,000 t/a of raw milk and 5,000 beef cattle for slaughtering; the project is also expected to stimulate fodder growing on around 12,141.2 ha of lands nearby
- Expected financials:
 - Sales revenue: USD47.2 million (RMB300 million)
 - Profit: USD9.4 million (RMB60 million)

Yunxin Industry states that all these dairy cows originate from New Zealand, producing quality milk with milk fat and protein levels above 3.7%. It expects to build the biggest Jerseys farm in China.

Yunxin Industry was incorporated in April with a registered capital of USD 15.7 million (RMB100 million). It principally focuses on livestock breeding/farming and sale.

Mass Dairy Cattle Imports of Halo Farming and Beijing Longmu Arrive

Summary: In Jan., Beijing Longmu imported 4,000 cattle through, whilst Fuzhou Port Halo Farming imported a record consignment of 15,438 cattle through Tianjin Port.

Beijing Longmu Holding Group Co., Ltd. (Beijing Longmu)

On 22 Jan., Beijing Longmu imported 4,000 cattle (Holsteins, Angus, Herefords, and Montbeliard) from Chile via the exporter, Asia Pacific. This batch is now undergoing a 45-day quarantine and isolation period before transfers to farms in Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Hebei and Jilin provinces.

The company has in the past supplied cattle from Australia, New Zealand, Chile and Uruguay. This consignment is its first for 2022 and its 8th into China, making 50,000 head imported to date.

China imported 360,000 cattle in 2021, a record high and up 35.7% vs. 2020. Imports from Chile accounted for 10.8% of the total, 87% imported by Beijing Longmu. It pointed out that the quality of these breeds is highly recognised by Chinese producers according to its monitoring data, and indicates that it plans 2 more shipments from Chile to China in H1 2022, bringing its total for the period up to 15,000 in all.

Asia Pacific, one of the overseas cattle suppliers to Beijing Longmu, has export isolation sites in major supplying countries/regions with a collective holding capacity of up to 50,000+ head. It targets dairy deficit markets worldwide, including China, Mexico, Vietnam, Thailand, the Philippines, Turkey, Russia, Egypt and Qatar. and has shipped 50,000+ heifers to China so far.

Halo Farming (Tianjin) Co., Ltd. (Halo Farming)

Halo Farming (Tianjin) Co., Ltd. (Halo Farming) imported 15,438 Holsteins, Jerseys, Herefords, Angus and Simmental through Tianjin Port on 20 Jan., the the largest single livestock consignment brought into China to date. These cattle are now undergoing a 45-day quarantine and isolation period before transfers to farms in Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, and Gansu, Qinghai, Hebei and Yunnan provinces.

Halo Farming, established in May 2019 with a registered capital of USD1.57 million (RMB10 million), mainly engages in selling feed raw materials, livestock and grains, as well as forage and grain farming. Its quarantine and isolation site near Tianjin is the biggest of its kind in China, equipped with modern equipment and capable of holding of 20,000 head of cattle. Since its establishment, Halo Farming has become a livestock supplier to leading dairy businesses such as Yili, Mengniu, Bright Dairy, New Hope Dairy and Junlebao, as well as other dairy and animal husbandry enterprises.

24 Cross-border Goat Milk IMF On Sale in China

Summary: A recent survey shows the importance of cross-border products in the goat milk IMF category, identifying 24 separate products as of 14 Feb.

In overall terms, there are currently 95 products registered in China's goat milk IMF market – domestic and imported as well as those sold cross-border.

The latter route to market also provides an option for unregistered brands to

gain quick market access when formula registration has become so demanding, allowing suppliers to be more flexible in promoting specialised positions e.g. organic and HMO formulae. As a result it remains one of the main distribution channels in the market.

Recently on 14 Feb., FrieslandCampina Trading (Shanghai) Co., Ltd. announced the launch of Friso Goat IMF in stages 1, 2 and 3. Other brands selling through

this channel include Nestlé's Wyeth (un-registered), Danone and others such as Bellamy's, Goalmax (New Image Group), Kabrita (Ausnutria), Blue River, Karihome (Dairy Goat Cooperative) and Biostime Kebeisi, etc. – though not yet Mead Johnson or Abbott.

Most of the cross-border versions sell at USD55 (RMB350)–USD78.6 (RMB500) per can, slightly below the average price of domestic brands.

TABLE 2: 24 Cross-border Goat Milk IMF in China

Enterprise	Product
Ausnutria	Kabrita Goat Milk Powder (Netherlands version)
Blue River	Blue River Goat Milk Powder (New Zealand version)
H&H	Biotime Golden Goal Milk Powder
	Biotime Goal Milk Powder (Australia version)
Mengniu Yashili	Doraler Goat Milk Powder (cross-border version)
Goldmax	Goldmax Goat Milk Powder
Wyeth	Illuma Goat Milk Formula
Danone	Karicare Sheep Milk
FrieslandCampina	Friso Goat Milk Formula
Aotearoa Nutrients	Bluebell Goat Milk Formula
NannyCare	NannyCare
Bubs Australian	Bubs Australian Goats Milk Baby Formula (A2 goat protein formulation)
Nuchev	Olió Dairy Goat Infant Formula
	Olió Dairy Goat Infant Formula (HMO formulation)
Bellamy's	Mim's Gentle Milk Co Organic Goat Infant Milk Formula
Dairy Goat Co-operative (DGC)	Karihome (Hong Kong version)
Holle	Holle Organic Goat Infant Milk Formula

Enterprise	Product
Babybio	Babybio Organic Goat Infant Milk Formula
Pure Goat Company	Pure Goat Company Organic Goat Infant Milk Formula
Namyang Dairy (South Korea)	Namyang Dairy Organic Goat Infant Milk Formula
Maeil	Maeil Goat Infant Milk Formula
New Image Group	Bioshine (New Zealand version)
New Zealand Pure Dairy Products Ltd.	Fernbaby Goat Infant Milk Formula
Jatenergy Limited	Neurio Goat Milk Formula

Source: CCM based on China Baby and Child Network (cnkids.com.cn), a leading industry information platform

Governmental Direction

Monitoring Programme on Veterinary Drug Residues Confirmed

Summary: On 26 Jan., China issued the *Monitoring Programme on Veterinary Drug Residues in Animals and Animal Derived Products for 2022*.

On 26 Jan., the Ministry of Agriculture and Rural Affairs (MARA) issued the *Monitoring Programme on Veterinary Drug Residues in Animals and Animal Derived Products for 2022*, in line with its increased focuses on developing the animal husbandry industry and addressing food safety issues in dairy products in particular.

The programme comprises 3 parts:

Principles of sampling

- Animal product: sampled from animals on farms and sent for slaughter
- Raw milk: sampled from household producers and milk collection stations; samples from the former should not exceed 1/3 of the total sample number, and each sample should come from different producers
- National sampling target for 2022: 3,900 samples sourced from 31 provinces

General Requirements for Sampling and Testing

Nationwide sampling and testing are subject to MARA's *Official Sampling Procedures and Key Sampling and Testing Technical Practices*, and written records are required confirming adherence to these regulations.

- Collection of samples will be conducted quarterly
- Testing items, measures and residue limits are to be in accordance with MARA's rules or with reference to International standards, and no testing institutes can change these limits without the authority's approval. If any adjustments need to be made, applications need to be submitted to China Institute of Veterinary Drug Control and approved before commencement of any tests

- Positive samples (i.e. products with excess drug residues) identified from initial tests need to go through confirmatory tests which are considered to provide the final test results
- Testing institutes are obliged to report any positive results within 5 days of discovery to the sampling units and the local animal husbandry and veterinary departments which will then do the follow-up monitoring in such cases (positive product: 2 additional samplings, 5 samples each time)

Response to Infringements Identified

- In such cases, the animal husbandry and veterinary departments will verify the household producers' usage of veterinary drugs (reviewing veterinary prescriptions, medication administration records, inventory of veterinary drug products)
- Corrective actions are demanded, if there are found to be issues, for example improper use of drugs, or failure in setting withdrawal periods
- Drugs or the compounds identified as counterfeit/substandard/illegal, and animals that have been give these, must be disposed of
- Heavy penalties will be given to the implicated veterinary drug businesses or manufacturers under the terms of MARA's *Notice No.97 (2018)*
- Local departments will report and penalties / disposals to the provincial-level departments. Records of any such investigations and outcomes are to be kept for at least 2 years.

TABLE 3: Testing Measures and Maximum Residual Limits on Veterinary Drug Residues

Compound	Animal / organ	Testing measure	Limit of detection (or limit of quantification), µg/kg or µg/L	Maximum residue limit, µg/kg or µg/L
Abamectins	Cow/milk	National Food Safety Standard – Determination of Residual Abamectins in Milk (GB 29696–2013)	Cefquinome 1.0	20
			Cephalexin 1.0	100
			Abamectin 1.0	10*
			Doramectin 1.0	15
			Ivermectin 1.0	10
Quinolones	Cow/milk	Analysis of Fourteen Quinolones in Food of Animal Origin (GB/T21312–2007) Determination of Quinolones Residues in Milk (GB 29692–2013)	Enrofloxacin 0.5-25	100
			Ciprofloxacin 1.2-25	
			Danofloxacin 1.0-7.5	30
			Flumequine 0.5-12.5	50
			Lomefloxacin 0.5-25	10
			Ofloxacin 0.5-25	
			Norfloxacin 1.0-25	
		Pefloxacin 1.0		
Sulfonamides	Cow/milk	Determination Of Sulfonamides in Milk (Notice No.781 (2006) of MARA)	Sulfamethazine 0.2	25
			Sulfadiazine 2.0	100
			Sulfapyridine 2.0	
			Sulfamerazine 2.0	
			Sulfisomidine 1.0	
			Sulfamethoxydiazine 3.0	
			Sulfamethoxazole 4.0	
			Sulfisoxazole 5.0	
			Sulfadimethoxine 2.0	
Tetracyclines	Cow/milk	Determination of Tetracyclines in Milk – Ultra Performance Liquid Chromatography-Tandem Mass Spectrometry (recommended method)	Tetracycline 5.0	100
β-lactams	Cow/milk	Determination of β-lactams in Milk – Ultra Performance Liquid Chromatography-Tandem Mass Spectrometry (recommended method)	Penicillin 1.0	4
			Amoxicillin 1.0	4
			Ampicillin 1.0	4
			Oxacillin 1.0	30
			Cloxacillin	30

Source: Monitoring Programme on Veterinary Drug Residues in Animals and Animal Derived Products for 2022

Company Development

Dr. Cheese Cleared for Cheese and Cream Project

Summary: On 20 Jan., 2022, Dr. Cheese Anhui was granted clearance for its 37,400 t/a cheese and cream plant project.

Dr. Cheese (Anhui) Food Technology Co., Ltd. (Dr. Cheese Anhui) was recently authorised by the Chuzhou Municipal Ecology and Environment Bureau of Anhui Province to proceed in building a new 37,400 t/a cheese and cream plant.

This company is wholly-owned by Dr. Cheese (Shanghai) Food Technology Co., Ltd. (Dr. Cheese Shanghai),

which sees the project as a way of diversifying its cheese range as the category grows.

Project Overview:

- Location: Langya District, Chuzhou City, Anhui Province
- Construction unit: Dr. Cheese Anhui
- Total investment: around USD64.49 million (RMB410 million)
- Construction content: 30 production lines for cheese, yoghurt, supplementary foods for infants, snacks and other dairy products

- Area: 26.3 ha in total, including 1.6 ha for the cheese plant and 2.35 ha for other buildings

- Production capacity: 37,400 t/a of cheese products and 4,600 t/a cream

Founded in Aug. 2021 with a registered capital of USD7.86 million (RMB50 million), Dr. Cheese Anhui currently produces only cheese products for children, but its registered business scope covers dairy products and infant formulae.

TABLE 4: Production Plan for Dr. Cheese (Anhui) Plant

No.	Type	Annual production, t/a	Pack specification	No. of production lines
1	Natural Cheese Cubes & Shreds	1,200	75g*24 bag/case	1
2	Natural Cheese Cup	5,300	125g*24 cup/case	1
3	Processed Cheese Stick	23,000	100g*32 bag/case	23
4	Sliced Processed Cheese	1,800	250g*24 bag/case	1
5	Sweetened Round Processed Cheese	1,200	75g*24 bag/case	1
6	Processed Cheese (Doypack)	3,300	100g*32 bag/case	1
7	Processed Cheese Dip	1,800	451g*24 bottle/case	1
8	Spray Cream	4,600	250g*24 bottle/case	1

Source: Dr. Cheese Anhui

Dr. Cheese Shanghai, set up in May 2019, is dedicated to R&D of cheese products for babies from birth to 6 months, and also produces natural cheese snacks and cakes for kids.

At present it outsources some products like "Dr. Cheese A2 Platina Protein Cheese", which is produced under contract by Shandong Junjun Cheese Co., Ltd. This new project is intended to bring some such activities in-house to make it more a competitive producer and to ensure food safety.

TABLE 5: Forecast Demand for Raw Materials by the Dr. Cheese (Anhui) Plant

Material	Estimated consumption, t/a
Raw milk	30,000
Cheese (unspecified)	16,500
SMP	360
Casein	270
Cream	4,140
Cheddar	600
Mozzarella	600
Milk protein concentrate (MPC)	72

Source: Dr. Cheese Anhui

Yuanxinyuan Pasture to Build New Dairy Farm in Inner Mongolia

Summary: Details of Yuanxinyuan Pasture's dairy farm construction project were published on 24 Jan.

On 24 Jan., the Chifeng Municipal Bureau of Ecology and Environment of Inner Mongolia Autonomous Region published details of the Wuduntaohai Town Dairy Farm Construction Project managed by the Ongniud Banner Yuanxinyuan Pasture Co., Ltd. (Yuanxinyuan Pasture).

Project Overview

- Construction type: New construction
- Location: Wuduntaohai Town, Ongniud Banner, Chifeng City, Inner Mongolia Autonomous Region
- Total investment: USD19.8 million (RMB125.6 million), 11.36% of which (=USD2.23 million / RMB14.2 million) is for environmental protection
- Area: 344 ha
- Construction content: Finished cattle shed (2.18 ha), brood cow shed (3.92 ha), milling station (0.28 ha), TMR (total mixed rations) processing room (0.17 ha), forage barn (0.64 ha), silage silo (1.42 ha) and office area (0.18 ha)
- Cattle stock: 7,400 head – 3,000 of finished cattle for slaughter annually
- Milk production: 12,000 t/a
- Construction period: May 2022–May 2024

TABLE 6: Farming Schedule of the Wuduntaohai Town Dairy Farm Construction Project

No.	Item	Stock number	Slaughter number	Note
1	Brood cows	4,000	–	Annual replacement rate: 10%
	Milking cows	1,920	–	Mature/brood cows ratio: 60%
				Conception rate of mature cow: 80%
				Milking cows totalling 1,920 herd and dry cows at 480
				–
	Dry cows	480	–	–
	Replacement heifer	1,200	–	Aged 7-24 months
Heifer calves	400	–	Self-raised, aged 0-6 months	
2	Finished cattle	3,400	3,000	–
	Calves	1,520	1,130	Self-raised, slaughter rate: 74.34%
	Eliminating dairy cows	400	398	Survival rate: 99.5%
	Feeder cattle	1,480	1,472	Out-sourced, survival rate of finished cattle: 99.5%

Source: Yuanxinyuan Pasture

TABLE 7: Feed Requirement of the Wuduntaohai Town Dairy Farm Construction Project

No.	Item	Amount, t/a	Note
1	Silage	44,000	Purchase from local farmers
2	Alfalfa	4,000	Purchase from local farmers
3	Forage for goats	9,000	Purchase from local farmers
4	Wafered corn concentrates	16,000	Purchase from local farmers
5	Milk for calves	72	–

Source: Yuanxinyuan Pasture

Established in Oct. 2021 with registered capital of USD 0.79 million (RMB5 million), Yuanxinyuan Pasture focuses on livestock breeding/farming and the production and sale of grains and forage. The company expects the

project to increase the integration level and profitability of its dairy farming activities – the project is certainly a significant step in developing the commercial scale of the region's animal husbandry sector.

Junlebao Buys Stakes in Royal Group Subsidiaries

Summary: On 24 Jan., Junlebao acquired 20% stakes in 2 of Royal Group's subsidiaries for a total investment of USD31.5 million (RMB200 million).

On 24 Jan., Shijiazhuang Junlebao Dairy Co., Ltd. (Junlebao) signed a deal with Royal Group Co., Ltd. (Royal Group, Stock Code: 002329) to acquire stakes in Yunnan Royal Lesson Dairy Co., Ltd. (Lesson Dairy) and Yunnan Royal Lesson Intelligent Dairy Co., Ltd. (Lesson Intelligent). This deal signifies the formal cooperation between these major players, Junlebao focused on the liquid dairy market in North China and Royal Group which operates in dairy processing and dairying in southwestern region.

Key elements of the Agreement:

- Junlebao invested a total of USD31.5 million (RMB200 million) in acquiring 20% of Lesson Dairy (=USD28.1 million (RMB178.6 million)) and 20% of Lesson Intelligent (=USD3.4 million (RMB21.4 million))
- This reduced Royal Group's stakes in these businesses to the following levels: 32% of Lesson Dairy (vs. the original 52%) and 32% of Lesson Intelligent (vs. the original 52%).

Founded in 2001 with a registered capital of USD8.5 million (RMB53.8 million), Lesson Dairy's business spans R&D / processing / sale of dairy products and protein drinks, growing forage and feeds, and breeding/farming goats and dairy cattle. Currently, it markets 80+ products across 6 categories – yoghurt, pasteurised milk, UHT milk, milk

beverages, cheese and plant-based protein drinks. In addition, it's Royal Lesson Cloud Meadow dairy farm is the largest in southwest China, and also the first to reach a herd size of 10,000+. This farm's construction was completed in 2020: it started operating in 2021 and now has 3,000+ dairy cows producing 50+ tonnes of milk per day.

Lesson Intelligent was founded in 2018 with a registered capital of USD8.5 million (RMB53.8 million). In Sept. that year it started building a 200,000 t/a Plateau Characteristic (local-style) Dairy Products Smart Plant based on an investment of USD157.3 million (RMB1 billion). This plant is being constructed over 2 stages on a 18.6 ha site – the 1st phase is expected to process up to 750 t/d (a trial run was started at the end of last year).

TABLE 8: Key Financial Data of Lesson Dairy and Lesson Intelligent, USD million

Company	Total asset, Jan.-Oct. 2021	Operating revenue, Jan.-Sept. 2021	Net profit, Jan.-Sept. 2021
Lesson Dairy	75.8	105.9	8.3
Lesson Intelligent	77.9	0.6	0.7

Source: Equity Transfer Agreement between Junlebao and Royal Group

Junlebao's objectives in this deal are to:

- Develop a business which is more truly national in scope so as to compete more effectively with Yili and Mengniu, whose overwhelming success has limited the development of regional dairy businesses
- Support its 5 year plan target of becoming China's No.1 chilled yoghurt brand. Lesson Dairy has self-developed local-style strains of bacteria as starters for its yoghurt products such as its brands such as "Mini Yoghurt" (multiflavoured), "Plain Yoghurt (No Additives)" and "Mofei Buffalo", etc. This can only benefit Junlebao in terms of product innovation, whilst offering other synergies in areas like dairying and dairy processing
- Open up a buffalo milk range with support of Royal Group's farming business in the southwest region, which will also boost its position in the yoghurt sector.

As one of the major dairy firms in South China, Royal Group markets mainly in Guangxi Zhuang Autonomous Region, Yunnan, Hunan and Guizhou provinces, operating with 4 dairy brands—Royal Dairy, Lesson, Ushi and Zunyi. It was founded in 2001 and is the leading processor of buffalo milk with an integrated business which also includes feed growing and farming Holsteins, although buffalo milk remains core to its business development plan.

Mengniu Progresses in Expanding Liquid Dairy Capacity

Summary: In Jan., Mengniu Dairy (Jiaozuo)'s recent manufacturing investments were approved for start-up, and details of Mengniu Dairy (Shangzhi)'s upgrade and expansion project were published.

On 5 Jan., Mengniu Dairy Product (Jiaozuo) Co., Ltd. (Mengniu Dairy (Jiaozuo)) received confirmation from the Jiaozuo Municipal Ecology and Environment Bureau of Henan Province that its recent investments in 2 projects are acceptable in environmental terms and ready for operation.

15,000 t/a Yoghurt Production Line Upgrade / Expansion Project:

- Actual investment: USD3.1 million (RMB20 million)
- Area: approx. 22.4 ha
- Location: Jiaozuo City
- Production capacity: 15,000 t/a of yoghurt products – 8,400 t/a in Ecolean packs and 6,600 t/a in cups
- Raw milk usage: 12,400 t/a
- Production process: filtration, separation, 1st pasteurization, mixing, ultra-pasteurization, fermentation, 2nd pasteurization, filling

3 New High-speed Tetra Pak Pillow UHT Lines:

- Investment: USD8.2 million (RMB51.9 million)
- Area: approx. 0.2 ha
- Location: Jiaozuo City
- New lines: 3 high-speed pure milk Tetra Pak pillow pack lines

Prior to these 3 new lines, the plant comprised 22 liquid milk production lines plus 2 "Miaomiao Children Milk Beverage (180ml)" filling lines, 1 school milk filling line and 4 "Just Yoghurt" filling lines.

The new investments are expected to increase raw material usage as follows:

- Cow milk: 41,300 t/a vs. 30,960t/a formerly

- AMF: 11.88 t/a vs. 9.03 t/a formerly

Total production capacity of products in Tetra Pak pillow packs ("Mengniu UHT Pure Milk" and "Mengniu UHT Milk (malty/walnut flavours)") and the "Zhenxiang UHT Milk" (new production in the plant) is expected to reach 60,000 t/a (vs. current 45,000 t/a).

Mengniu Dairy (Jiaozuo) was founded in 2003 with a registered capital of USD39.3 million (RMB250 million) and is wholly-owned by China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319). It mainly produces liquid milk (modified milk, UHT milk, fermented milk), frozen products (ice cream, ice milk, ice frost, ice lolly), chocolate / chocolate products and protein drinks.

Subsequently, on 28 Jan., the Ecology and Environment Bureau of Shangzhi (county-level) City, Harbin City, Heilongjiang Province, approved a completed upgrade and expansion project by Mengniu Dairy (Shangzhi) Co., Ltd. (Mengniu Dairy (Shangzhi)):

- Investment: USD39.3 million (RMB250 million), 3.4 % of which (=USD1.3 million/RMB8.5 million) is for environmental protection
- Location: the Economic Development Zone of Shangzhi City, Heilongjiang Province
- Total area of production plant: 22.4 ha
- Construction time: Started in Dec. 2021, commissioned on 4 Jan., 2022
- Changes made: removing 11 low-speed pillow pack production lines and adding 4 high-speed lines and 3 "Deluxe Milk" (UHT milk) lines – this will add approx. 301 tonnes to the plant's production of 1,013 t/d
- Production capacity: The current 247,700 t/a of liquid milk will increase to 359,500 t/a on commissioning, representing 20+ t/d raw milk and filling of 0.2+ t/h.

Mengniu Dairy (Shangzhi) was founded in 2005 with a registered capital of USD12.6 million (RMB80 million) and is 100% owned by Mengniu. Its operations run from dairying through to dairy processing.

Raw Milk Supply

February Milk Price Flatlines

Summary: February's milk price remained stable even whilst feed prices increased, putting great pressure on dairy farmers.

As of 9 Feb., China's raw milk price averaged USD672/t (RMB4,270/t), the same as the price seen in the 2nd-4th weeks last month and down slightly from the highs last year.

The price has slipped back since Q4 2021 and is projected to stay flat or see a small decline in the short term following the Chinese Spring Festival in late-Feb., a weak season for retail dairy sales. However, the consistent growth of feed prices has continued, creating concern amongst dairy farmers about rising costs and potential losses.

Feed costs surged by around 30% generally in 2021, and the year saw inadequate domestic feed production because of the rainy weather in Shandong and Jiangsu provinces in July and Aug. 2021, affecting harvesting and output – this looks sets to impact the feed prices this year to some extent.

- Soybean meal: USD645/t (RMB4,100/t) in mid-Feb. vs. USD550/t (RMB3,500/t) in late-Jan. an increase of 17%
- Protein feeds: up by between USD31/t (RMB200/t) –USD94/t (RMB600/t) in Feb.
- Silage and alfalfa: rises in domestic prices and import volumes are expected this year
 - Heavy rainfall in North China last year reduced purchases and storage of silage, stimulating demand for imports

- The third 6-month tariff waiver for US alfalfa will end in April 2022, further pushing up Chinese imports
- Shanghai and its neighbouring regions have faced the highest costs of purchasing and storage in the first half of Q1 this year, with corn silage at above USD118/t or RMB750/t; these costs have also been especially high in Ningxia Hui Autonomous Region, Henan and Inner Mongolia Autonomous Region.

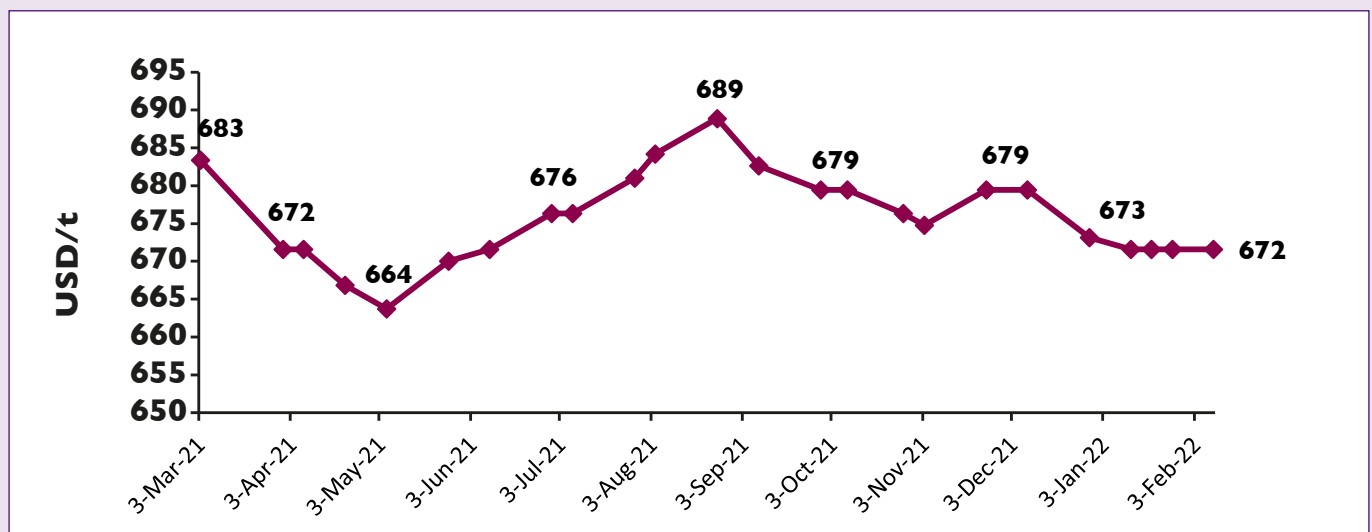
Dairy farmers lack options to cut costs at the moment, other than greater productivity or higher prices.

The Department of Animal Husbandry proposes 4 ways to boost the dairy sector this year:

- Increase milk self-sufficiency by building new dairy farms
- Create a milk price negotiation mechanism joining the interests of both producers and processors
- Strengthen testing capacity to better ensure the quality of raw milk
- Encourage dairy consumption by cooperating with dairy businesses on public welfare projects (for instance, where manufacturers donate dairy products to students in remote areas), developing agricultural tourism, etc.

Lower production and price rises in major milk producer countries/regions will have an impact here. Fonterra once again raised its milk price in its financial report Q1 2021/2022, with milk solids set at USD528/t (RMB3,360/t) –USD566/t (RMB 3,600/t), up 11%-19% from last quarter. Considering the international context, China's raw milk price is likely to rise accordingly after the recent flatlining, it would seem.

FIGURE 2: Trends in China's Raw Milk Price, March 2021 -Feb. 2022



Source: Ministry of Agriculture and Rural Affairs of the People's Republic of China (MARA)

News in Brief

Russian Alfalfa Approved for China

On 4 Feb., China and Russia signed the *Protocol of Inspection and Quarantine Requirements for the Export of Alfalfa Hay from Russia to China* – the first ever authorisation of Russian alfalfa for import into China.

Following the China's import/export regulations, the Russian businesses involved are subject to registration with and approval by the local entry-exit inspection and quarantine bureaux. The authorised exporters will carry out inspection and quarantine measures agreed with the bureaux before trading.

China's expanding livestock sector has become a major consumer of alfalfa and Russian market access will be significant. The country imported 1.78 million tonnes of alfalfa hay in 2021, an increase of 31.0% vs. 2020; this volume was valued at USD680 million, up by 38.4%, and was imported at an average of USD381.95/t CIF price, up by 5.7% YoY.

The 2 main suppliers of alfalfa to China last year were:

US:

- Import volume: 1.3 million tonnes, up 20.7% and accounting for 81.1% of China's total imports
- Import value: USD510 million, up 27.5%
- Average CIF price: USD390.2/t, up 5.6%

Spain:

- Import volume: 0.19 million tonnes, up 103.3% and accounting for 12.4% of China's total imports
- Import value: USD60.9 million, up 110.6%
- Average CIF price: USD307.73/t, up 3.6%

State Farms Xijiang's Yoghurts Fail Protein Checks

On 24 Jan., Guangxi Nongken Xijiang Dairy Co., Ltd. (Nongken Xijiang) received notice that spot checks on its yoghurts by the Administration for Market Regulation of Guangxi Zhuang Autonomous Region indicated that the products' protein content failed to meet the standard.

Main content of the notice:

- Retail unit: Guangxi Guigang Hualong Supermarket Co., Ltd. (Hehua Store)
- Product info:
- Production date: 21 July, 2021
- Specification: 160ml/bottle (natural flavour)
- Test result: protein content: 0.87g/100g vs. the standard of $\geq 1.0\text{g}/100\text{g}$
- Total penalty: USD8,053 (RMB51,200)

The authority stated that the problem may reflect insufficient inspection during procurement of raw materials, as well as loose monitoring and control of materials' composition during production.

State Farms Xijiang was incorporated in 2006 and its business covers dairying alongside the production and sale of liquid milk (pasteurised milk, modified milk and fermented milk), protein drinks, etc.

Multiple Non-entry Dairy Products in Dec.

At the end of Jan., the General Administration of Customs (GACC) released the list of food and cosmetics product which had been stopped from entering the country in December 2021. These products – identified to be non-conformant with national food and safety standards and related regulations – have been destroyed or returned to the exporting country.

TABLE 9: China's Barred Dairy Products in Dec. 2021

Food item	Place of origin	Manufacturer	Weight, kg	Reason of disqualification
Skimmed milk yogurt powder	Germany	Dr. Otto Suwelack Nachf. GmbH & Co. KG	25	Defective packing
Skimmed milk powder	Russia	Agricultural JSC "Belorechenskoye", Milk Factory No.2, Branch "Usolskoye"	6	Defective packing
Whey powder	Poland	LACTEX SP. Z O.O.	220,000	No inspection and quarantine access
Myprotein Impact Whey Isolate (blueberry flavour)	UK	The Hut.com Ltd.	208	No proper certificates or required documents
Myprotein Impact Whey Protein (blueberry flavour)	UK	The Hut.com Ltd.	840	No proper certificates or required documents
Myprotein Impact Whey Protein (blueberry flavour)	UK	The Hut.com Ltd.	490	No proper certificates or required documents

Source: General Administration of Customs (GACC)

Qianyang County Initiates Goat Dairy Whole Industrial Chain Project for 2022

On 11 Feb., Shengyuan Nutritions (Hong Kong) Co., Ltd. and the local government of Qianyang County, Baoji City, Shaanxi Province, signed a contract for the establishment of a major integrated goat milk operation:

- Total investment: USD314.6 million (RMB2 billion)
- Area: around 80.9 ha²
- Construction content: 8 production lines of liquid goat milk, goat FSMP for infants, goat whey powder, goat IMF, plus 8 "scale" dairy goat farms (a term meaning that a farm is up to national standards), as well as a digital marketing centre and other supporting facilities
- Production capacity: totalling 285,000 t/a of dairy products
- Estimated annual sales: USD526.9 million (RMB3.35 billion)

Additionally, Thailand's Charoen Pokphand Group Co., Ltd. (CP Group) kicked off construction work of its dairy goat farming site in the same county on 12 Jan. It is reported that USD15.7 million (RMB100 million) will be invested in building 5 farms in the park (each 1,000 dairy goats / 8.09 ha).

Xiyuchun Dairy Completes New Production Lines

On 27 Jan., the Ecology and Environment Bureau of Hotan Town, Xinjiang Uygur Autonomous Region, announced the completion of new dairy production lines at Hotan Xiyuchun Dairy Co., Ltd. (Xiyuchun Dairy).

Project overview:

- Total investment: around USD31.5 million (RMB200 million), 0.4% (=USD12.6 million/RMB80 million) of which is for environmental protection
- Location: North Area of the Beijing Industrial Park, Luopu County, Hotan Town, Xinjiang Uygur Autonomous Region
- Capacity: 100 t/d of fresh milk and yoghurt
- Construction content: plant including 7 fresh milk lines and 3 yoghurt lines, plus supporting facilities and infrastructure e.g. warehouse
- Raw milk usage: 25,000 t/a

Founded in Dec. 2017 with a registered capital of USD7.9 million (RMB50 million), Xiyuchun Dairy has businesses in various areas: WMP, liquid milk (UHT/fresh milk, modified milk, fermented milk), milk tablets, protein drinks, raw milk purchasing, forage growing and livestock breeding/farming, and sale of raw milk from donkeys, camels, mares and goats.

Yeeper Sheep Dairy's Laixi Dairy Plant Certified for IMF Production

Yeeper (Qingdao) Sheep Dairy Co., Ltd. (Yeeper Sheep Dairy) has received a food production licence valid for 5 years until 20 Jan., 2027, qualifying its plant in Laixi City for the production of dairy products (IMF included) and nutritional products.

Key points:

- Construction progress: broke ground in Dec. 2020 and entered production in Dec. 2021
- Total investment: USD157.3 million (RMB1 billion)
- Location: Laixi City, Qingdao City, Shandong Province
- Area: 11.8 ha
- Designed capacity: 50,000 t/a of goat milk IMF based on processing of 500 t/d
- Farming scale: 200 standard dairy goat farms, 2 million head in all

Yeeper Sheep Dairy, incorporated in Sept. 2020 with a registered capital of USD39.3 million (RMB250 million), is wholly-owned by Yeeper Dairy Group Co., Ltd., an established goat milk dairy business in China.

Jiayuan Biomedicine's Lactobacillin Project

On 23 Jan. the Datong Municipal Ecology and Environment Bureau of Shanxi Province published details of the Lactobacillin Project of Shanxi Jiayuan Biological Medicine Co., Ltd. (Jiayuan Biomedicine).

Project Overview:

- Construction type: Technological Upgrade and Transformation
- Location: Economic and Technological Development Zone of Datong City, Shanxi Province
- Area: 0.51 ha
- Investment: USD10.2 million (RMB65 million), 2% (=USD0.2 million / RMB1.3 million) of which is for environment protection
- Construction content: Introducing 51 sets of new production equipment and constructing an API (active pharmaceutical ingredient) production line for lactobacillin in its existing workshops
- Production capacity: 1,500 t/a of Lactobacillin (a product of pure lactobacillus, applicable to dairy products with therapeutic properties)
- Usage of raw material: 19,500 t/a of raw milk

This project aims to promote the local dairy farming sector. Jiayuan Biomedicine was established in June 2020 with a registered capital of USD11.01 million (RMB70 million) and mainly engages in the production and sale of APIs.

Ausnutria Acquires FSMP Production Licence from Hunan Province

On 28 Jan., Ausnutria Dairy Corp Ltd. (Ausnutria, Stock Code: HK.01717) was granted an FSMP production licence for its Lactose-free Infant Formula by the Administration for Market Regulation of Hunan Province the first FSMP approval in the province.

The stage 1 formula involved was registered with State Administration for Market Regulation (SAMR) in April 2021, and is scheduled to launch in April this year.

At present, Ausnutria has 3 registered FSMP products (this one included), 2 whole-nutrition formulae for adults going through registration procedures and another 6 FSMP products in trial commercial production. This approval supports the company's reputation in terms of R&D, production and self-inspection and testing of FSMPs, positioning it well to expand in this segment.

Abbott Voluntarily Recalls US-made IMF

On 18 Feb., Abbott Nutrition announced a voluntary recall of Similac, Alimentum and EleCare infant formulae produced in Sturgis, Michigan after receiving 4 reports of infant illness related to their containing *Salmonella Newport* or *Cronobacter*. The recalled batches all expire by 1 April 2022 or later.

The announcement does not include liquid formula products, nutrition formulae for metabolic deficiency, or nutritional powders produced at its other facilities.

The company stated it had conducted tests on the Sturgis facility and detected the presence of *Cronobacter* but no *Salmonella Newport*, with no pathogens found in any end-products, although more detailed investigations and tests were to follow. It also mentioned that products made at Sturgis sell across the US and internationally. Subsequently Abbott China clarified that "*Similac HMFortifi*" (nutritional supplements for infants) and all its other nutritional products on sale in China are unaffected by this issue.

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