



Rijksdienst voor Ondernemend
Nederland

*A brief introduction to the Dairy Industry in Heilongjiang
NBSO Dalian*

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



Colofon

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1. Introduction

The China Dairy industry has been growing rapidly in recent years. With an average growth of 12.6% over the last five years, China is currently the third-largest dairy producer in the world, after India and the United States. However, the per capita consumption of dairy products in China is still less than one-quarter of the global average. Popularity of dairy products is growing in China, especially in the urban areas. With rising household incomes, but also because of the people's growing appetite for dairy products, consumers are expected to spend more and more on milk, cheese and yoghurt the coming years. According to Euromonitor, China will overtake the United States to become the world's largest dairy market by 2017.

Heilongjiang Province, which has always been a dairy province, is the second-largest cultivation centre of milk cows after Inner Mongolia. The province is situated in the so-called "golden-belt" of sweet corn and cow and has an excellent environment for the dairy industry. With the active support of the provincial and state government, there are plenty of opportunities for both local and international players in the dairy industry. This report, written by the Netherlands Business Support Office in Dalian, gives a brief introduction of the dairy industry in Heilongjiang and its opportunities. The NBSO Dalian supports Dutch SME's to do business in China's Northeastern region.



Province of Heilongjiang

2. Introduction to Heilongjiang Province

Heilongjiang Province is located at the farthest Northeast limit of Chinese territory, bordering Russia to its east and north across the Heilongjiang River and Wusuli River. The province is China's largest grain producer, and China's gateway to Russia. Heilongjiang shares a borderline of 2981 kilometres with Russia and over ¼ of China's trade with Russia is conducted through the province. As China's sixth largest province and with the largest land effectively utilized, Heilongjiang covers 473,000 square kilometres, accounting for about 4.7 per cent of the nation's total. The capital of Heilongjiang is Harbin with a population of nearly 10 million people.



Facts Heilongjiang	
Province name	Heilongjiang
Capital	Harbin
Other major cities	Daqing, Heihe, Jiamusi, Mudanjiang, Qiqihar, Suifenhe
Population	38.3 million
International airport	Harbin Taiping Airport (Japan, S-Korea, Russia)
Province GDP 2014	1503 billion RMB
Capital GDP 2014	533 billion RMB
Main industries	Petrochemicals, equipment manufacturing, agriculture, forestry, minerals
Main trading partners	Russia, South Korea, Japan and USA

2.1 Commercial opportunities

The province's development targets are focused on hi-tech industrial development zones and continued development of the dairy industry. Agricultural modernization and mechanization is also a major provincial focus. A recent provincial initiative of increasing subsidies for agricultural machinery and offering economic incentives for foreign and domestic agricultural machinery companies moving to Heilongjiang is intended to develop the local agricultural machinery industry. Many opportunities exist for companies wishing to tap into the agricultural machinery market and related sectors. Heilongjiang province has identified heavy industry (specifically, machinery and transportation equipment), high technology products, organic food processing, and pharmaceuticals as priority industries in the "Revitalize the Northeast" plan.

3. Heilongjiang dairy industry

As mentioned before, Heilongjiang is the second-largest dairy province in China after Inner Mongolia. The province holds rich grassland resources and has a relatively suitable climate for dairy farming. Heilongjiang is home to several counties and cities holding more than 100,000 cows like Shuangcheng, Anda, Dumeng, Zhaodong, Fuyu, Lindian, Qiqihar and Gannan. In the first three counties 50 – 70 % of the revenue comes from the dairy industry. According to the Heilongjiang Government the province holds 62 large scale dairy enterprises while the total number in China is 658. The annual processing capacity of fresh milk is over 10 million tons. 7 enterprises of the national Top 10 Dairy Enterprises have established factories in Heilongjiang. According to a report by the Heilongjiang Investment Service Center, in 2012 Heilongjiang's amount of dairy cows reached 2.69 million accounting for 18.1% of the country's total. The number of high quality

Holstein herds, big scale dairy farms and milk cow output ranked first in China. It is said that one out of six cups of milk in China comes from Heilongjiang.

2013 general situation survey of dairy industry in Heilongjiang Province and China

	China	Heilongjiang	Percentage/ %
Number of enterprises	658.0	62.0	9.42
Dairy production (10 thousand tons)	2698.0	213.7	7.92
Liquid dairy production (10 thousand tons)	2335.97	150.3	6.42
Solid dairy production (10 thousand tons)	362.06	63.4	17.51
Milk powder production (10 thousand tons)	159.21	60.5	38
Infant formula milk powder (10 thousand tons)	70	28	40

Source: World Dairy Expo & Summit China

Currently, a 100.000-cow dairy farm is being constructed in Mudanjiang City, Heilongjiang Province. It will be the world's largest dairy farm with Russia as its main market and will be funded with 1 billion RMB from Russian and Chinese investors

3.1 From grass to glass approach

After the melamine scandal in China in 2008, the national government has tightened the rules and supervision on dairy enterprises. To minimize the risk of a scandal happen again, China supports big scale organizations and wants to decrease the number of middleman in the production chain. They support enterprises that can cover the entire production chain from grass to glass. Between 2010 and 2015 the industry has shown rising productivity because of higher automation and improving production processes. The competitive landscape is quite intense and many small-scale operators have been forced to exit the industry or were acquired by their competitors. This trend is also seen in Heilongjiang and is expected to continue, as government regulations and food safety standards are getting more strict.

3.2 Heilongjiangs main dairy players

The province is home to several provincial dairy brands such as Wondersun, Feihe, LongDan, Inbos Happy Prince and Huawei. Besides provincial brands, several big national and international players have also set up their factories in Heilongjiang. Among them are for example Nestle, Erie, Bright, Mengniu and Beingmate. In total around 40 well-known brands of dairy products have their business in Heilongjiang. Herewith a short introduction of the main players in the area.

Wondersun Dairy Industry Co., Ltd

Wondersun is part of Heilongjiang's biggest Agricultural State Owned Enterprise called Beidahuang Group. The company is ranked as fifth among China's dairy enterprises and holds 7 subsidiary companies and 41 factories. Wondersun's liquid milk ranks among the top ten in the country and was assessed as one of China's most valuable brands in 2003. The company has formed a strong sales network that covers the whole country.

Website: <http://www.wondersun.com.cn/>
http://www.chinabdh.com/english/index_8.htm

Heilongjiang Feihe Dairy Co., Ltd

Founded in 1962 in Heilongjiang's Qiqihar, Feihe Dairy has established a sales network in 32 provinces and regions including 1000 first class dealers and 95.000 terminal stores. In 2013 the company's revenue reached 813 million USD. The company joined the American Dairy Incorporation (ADI) in 2002, which makes it

China's first sole proprietorship. Currently the company has six processing enterprises and four core infant milk powder processing factories. In 2004 the headquarter was relocated to Beijing.

Website: <http://www.feihe.com/> <http://en.ytcchina.com/>

Nestle Co., Ltd

Switzerland Nestle Co., Ltd established a partnership with Shuangcheng Dairy & Food Industry Co., Ltd to set up a new joint venture, Shuangcheng Nestle which was established with an investment of USD98.5 million. The factory has produced a wide range of milk powder and infant food products from 1990. At present, the factory has a daily capacity for fresh milk processing of 1500 tons. This makes it the major dairy product production base of Nestle in China, but also the largest milk powder processing factory in China.

Website: <http://www.nestle.com.cn/>

Heilongjiang Dairy Group Co., Ltd

Heilongjiang Dairy Group was established in 2004, and the companies registered capital is 213 million RMB. It is one of the key national enterprises in the agricultural industry in China. The main shareholder is the Haerbin HIT group with 10 other small shareholders. The company has four brands, and the brand Longdan and Jinxing have a high reputation in the entire country.

Website: <http://www.hljdairy.com/>

4. Trends and opportunities

Upscaling of farms, need for high technology

The overall technology level at dairy farms is still low, as many players are small companies that still use relatively simple equipment. In recent years, the larger dairy enterprises have invested in more advanced technology to raise product quality and lower production costs. With increasing labour costs and intensifying competition, the need for further upgrading is expected to increase.

Growing demand per capita

China wants to be self-sufficient, but the production can not keep track with the fast growing domestic demand for dairy products. Consumers become wealthier and are able to afford more high quality products, such as Western dairy products. In 2012 the average annual dairy consumption per person in China was 32.4 kg, which is less than a third of the world's average. For reference, in most Western countries the annual consumption of dairy products is over 200 kg. According to the National Bureau of Statistics and AC Nielsen Research Company, by 2020, China's infant formula market demand will be about 800.000 tons, middle-aged and old people formula milk powder 200.000 tons and high-end liquid milk 5 million tons. By then, there will be a lack of 400.000 tons of infant milk powder and 120.000 tons of middle-aged and old people milk formula powder, and the gap is even larger in the high-end liquid milk market.

Increase milk yield per cow

Compared to the Netherlands, the average milk yield per cow is still very low in China. Also, the average degree of farmers and integration of the industry is relatively low. China recognizes the Netherlands as a country with a very good reputation and lots of experience in the dairy industry. With Dutch knowledge, training and technology there is still a lot of improvement to realize in increasing the milk yield per cow.

Food safety

Although the customers trust in the domestic dairy market has been showing signs of improvement, there is still a long way to go. China is spending a lot of effort on food safety and this topic is number one on the agenda. Therefore, there are plenty of opportunities for companies who can help to increase the food safety and ensure a safe supply chain.

Government support

The Heilongjiang Provincial Government pays great attention to the Dairy Industry. They encourage the growth of this industry and support local companies with subsidies.

There are many opportunities for Dutch companies from the dairy industry in Heilongjiang and the long term prospects for the industry are bright. Hopefully with this report, NBSO Dalian has been able to give you a brief introduction to the market.

5. Relevant authorities and branch organizations

Main associations within the sector are listed below. There are many other dairy associations from provincial level to municipal level but websites are either not available or only in Chinese.

Ministry of Agriculture

Website: www.moa.gov.cn

Supervision on general agricultural production

Administration for Industry and Commerce (AIC)

Website: www.saic.gov.cn

Supervision on the market

General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)

Website: www.aqsic.gov.cn

Supervision on quality and safety of agro-products

Dairy Association of China

Website: <http://www.dac.com.cn/>

Non-Profit organization, with memberships from enterprises, agencies, organizations or institutions involved in dairy cattle breeding, dairy processing industry and relevant fields.

China Customs

Website: www.customs.gov.cn, <http://english.customs.gov.cn/>

General administration of customs People's Republic of China

6. Relevant trade fairs:

China Inner Mongolia Dairy Expo

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

International Dairy Expo and Summit China

Website: <http://en.dairyexpo.com/>

7. Contact information

Many Dutch companies do business across the Dutch borders. The Dutch Ministry of Foreign Affairs therefore actively supports the interests and puts efforts together for Dutch companies abroad. Through embassies, consulates and Netherlands Business Support Offices (NBSO).

In Northeast China the Netherlands is represented by the NBSO Dalian. NBSO Dalian covers the provinces of Liaoning, Jilin and Heilongjiang. Services provided by the NBSO include providing tailor-made market information and connect you to the right local partners, for example by executing a Business Partner Scan. If you would like to know more about the opportunities that the Heilongjiang Dairy sector has to offer to your company, NBSO Dalian is happy to offer support.

NBSO Dalian

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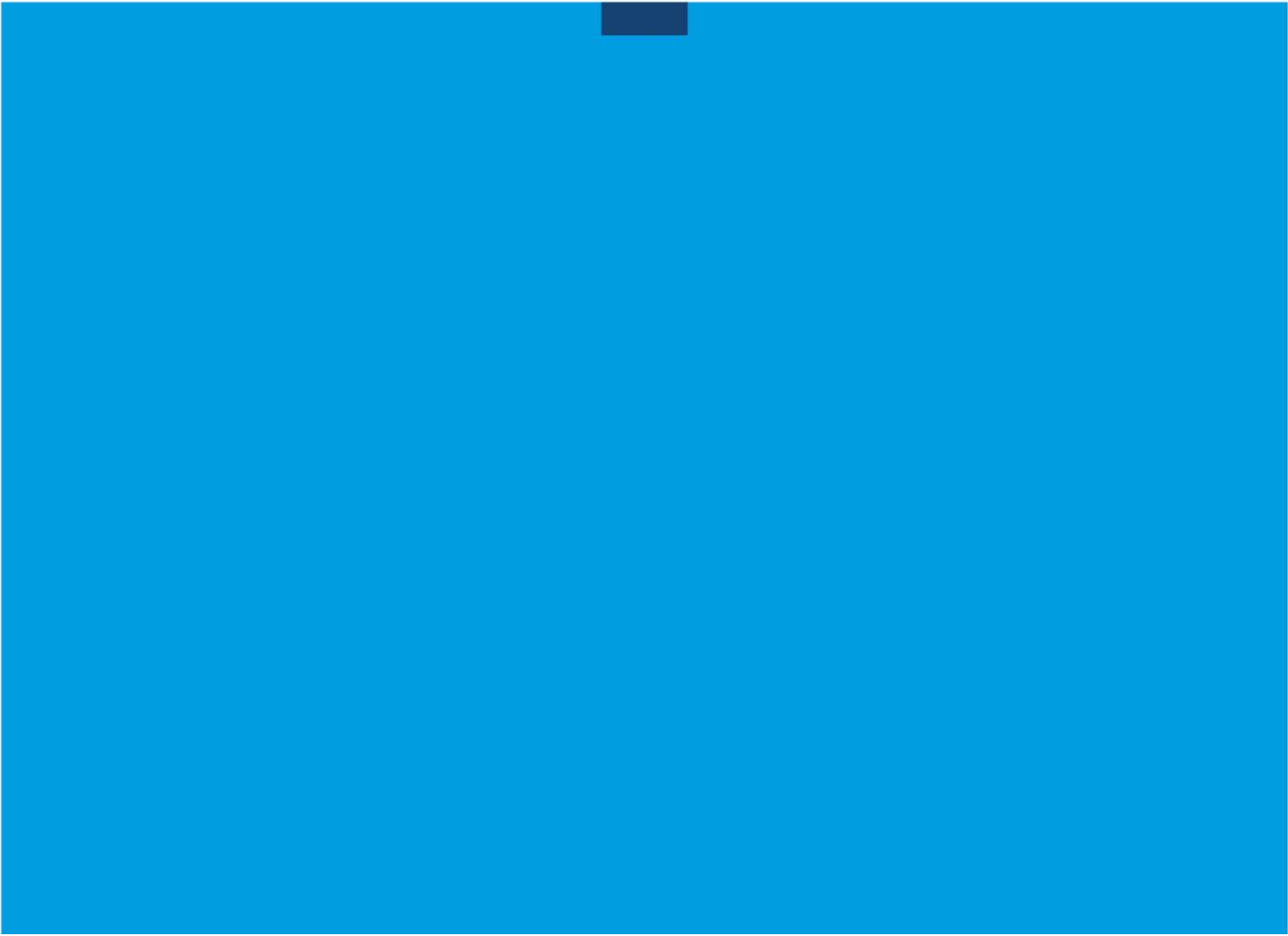
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