

China struggles to meet surging demand for dairy

January 16 2012, by Sebastien Blanc

Despite a major safety scandal in 2008, China's demand for milk is surging as people grow wealthier, but the country's poorly kept and often undernourished dairy herds are struggling to keep pace.

Mass [milk consumption](#) has grown rapidly in China over the past three decades and today yoghurts and dairy smoothies -- particularly with an Asian twist, such as [green tea](#) or peanut flavours -- are hugely popular.

More than three years after the melamine scandal dealt a major blow to confidence in the dairy industry, the country's appetite for [milk](#) continues to grow.

Milk has not traditionally formed part of most Chinese people's diets. But rapid rises in income, greater exposure to Western products and improvements in storage and distribution capacity have driven a rapid growth in demand.

One study showed urban Chinese consumers' spending on dairy products as a proportion of their budget had jumped by 40 percent since 2006, while industry analysts Euromonitor predict the dairy market will nearly double between 2010 and 2016.

As a result, the country's annual production of around 35 million tonnes of milk per year -- much of it UHT, or longlife milk, which is easier to store and transport -- is failing to meet demand.

China imported a record 406,000 tonnes of [powdered milk](#) in 2010, a figure that is expected to rise to 550,000 tonnes -- equivalent to a year's production from 900,000 cows -- when 2011 figures are compiled.

Experts say the low quality of China's dairy herds and poor standards of care means that milk yields are often much lower than in the West, although the growing industrialisation of [dairy farms](#) is bringing improvements.

The average cow in China produces just 4,000 to 4,600 kilogrammes of milk per year, one third of the standard yields in the West, according to Ezra Shoshani, an Israeli specialist who advises Chinese producers.

Karen McBride, head of sales and marketing at Wondermilk, a large American-owned dairy farm near Beijing with 7,000 cows, said the industry had suffered from inbreeding and over-use of antibiotics.

"There are no minimum standards for anything, or when there are, the government will move them around to suit the circumstances," said McBride, whose Wondermilk product is marketed on its antibiotic- and hormone-free credentials.

Around 30 percent of cows in China suffer from mastitis, an infectious udder inflammation, which McBride said was typically treated with antibiotics.

"A lot of that probably just goes into the milk," she said. "The idea of a foreign investment or foreign ownership provides to everybody a degree of safety and security and trust."

Many Chinese people remain suspicious of domestically produced milk after the 2008 melamine scandal in which six children died and 300,000 others fell ill.

The industrial chemical was found to have been illegally added to dairy products to give the appearance of higher protein content.

There have also been accusations the government, keen to ensure China's growing demand for milk is catered to, is giving in to an increasingly powerful dairy industry, dominated by dairy giants Mengniu and Yili.

Critics say the hygiene standards China's dairy farms must adhere to are among the world's lowest, with the levels of bacteria permissible in milk four times as high as in most Western countries.

In December, the health ministry was forced to deny that it had been taken hostage by the [dairy industry](#), as a series of fresh scandals emerged, including the discovery of potentially cancer-causing toxins in Mengniu milk products.

Nonetheless Alastair Pearson, who managed the first of China's new wave of large-scale dairy farms, says there has been substantial progress as the industry moves from small family-run operations to industrial-scale farming.

In 2004, 90 percent of cows in China were in herds of less than ten. Today this has fallen to 40 percent, and already eight percent of cows are in herds of more than 1,000.

"In the last four or five years things have come on quite a bit in terms of quality," he said.

"There's been a quantum leap in progress as the industry has gone from the small homes where animals were not well looked-after to these new farms where animal welfare is light years ahead of what it was."

Underscoring the recent progress, US food giant General Mills will soon

launch a locally produced version of its Haagen-Dazs ice cream, using Chinese milk.

And Swiss food giant Nestle announced last week it would invest 2.5 billion yuan (around \$400 million) in a new dairy institute in Shuangcheng in northeast China's Heilongjiang province that will offer professional training to the farmers that supply it with milk.

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