



Perspective: **Export Expertise**

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A safer Chinese food industry benefits all

China is in the midst of an extensive food regulatory overhaul prompted by its 2008 melamine scandal. The sweeping government program enhances supervision, toughens safety standards, creates a product recall system, cracks down on food additives, severely punishes offenders and establishes China's first national food safety commission.

With its emergence as the world's largest importer of dairy ingredients, China has an enormous influence on global market conditions.

The nation was responsible for 55 percent of the increase in world dairy exports through the first seven months of 2009, according to an Informa Economics report titled "Chinese Impact on World Dairy Demand." China single-handedly absorbed thousands of tons of New Zealand milk powder that would have swelled world stockpiles to excess and depressed prices to even lower levels than they actually fell.

World commodity prices over the final six months of last year nearly doubled in large part as a result of Chinese demand.

As China proceeds along the development track and consumers continue to expand their collective dairy appetite, the nation will require significant import volumes of milk powder, whey proteins, cheese, lactose and other products.

China's regulatory changes therefore are crucial for two reasons:

- 1) They could directly impact U.S. access to a fast-growing customer (U.S. annual export value to China more than tripled to \$168 million from 2004-2008);
- 2) They will help determine Chinese consumers' trust in dairy and either propel demand growth (spurring the need for U.S. products) or perpetuate doubts and inhibit consumption.

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On the first count, the United States is already seeing a negative impact in the whey protein sector. Chinese authorities, overly cautious in the wake of 2008's melamine incident and unfamiliar with U.S. whey suppliers' use of benzoyl peroxide (BP) as a whitener, banned products containing BP or benzoic acid last summer. Chinese customs officials rejected nearly 3,300 metric tons of U.S. whey through the first 11 months of 2009 due to the presence of BP, and the threat of rejection likely deterred additional sales.

To help assuage concerns about BP use, USDEC developed and presented to China's

Ministry of Health a monograph containing assessment materials for permitting the use of BP as a whey processing aid. Similar efforts by USDEC were successful when Japan considered banning BP about 10 years ago. The Chinese government is evaluating its policy and has not made a final BP decision, but USDEC continues to work with officials to demonstrate its safety.

And safety is the main goal here. Although much ambiguity surrounds China's new food laws, the nation's efforts do appear to be legitimately aimed at creating a workable regulatory structure to safeguard its food supply—a difficult task given the country's

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size, rapid growth and fragmented food industry. (The matter grew more complicated last month when melamine-tainted products from 2008 resurfaced.)

No evidence currently exists to suggest the effort is a veiled attempt at protectionism. The country even extended a comment period deadline on 75 new dairy product standards last year to gather input from WTO nations.

China is reaching out to learn how established dairy manufacturing nations maintain food safety. To that end, USDEC has worked closely with Chinese authorities going back to 2005, holding a series of large and small information exchanges on U.S. quality control and food safety systems. The latest took place in December 2009 at a special conference in Chengdu organized by the U.S. Food and Agriculture Export Alliance, where USDEC staff explained U.S. dairy oversight to an audience of 200 Chinese quarantine and

inspection officials, including key policymakers.

The meeting provided further opportunity to highlight stringent U.S. oversight, reinforce the message that U.S. dairy products are the safest in the world, and build relationships with key Chinese regulators. It is particularly critical for U.S. dairy suppliers to make such contact because the dairy sectors from Europe and Oceania are simultaneously portraying their systems as the gold standard. Without the United States taking the initiative to underscore U.S. safety and quality, U.S. suppliers could be put at a market access disadvantage as China continues to develop its regulations.

China's food regulatory regime remains a work in progress. But it is in the United States' best interests for China to restore consumer faith in domestic dairy products with a quality regime based on sound science and drive broad category growth. While the path to establish that system might be onerous, in the end, it will provide greater opportunities for U.S. suppliers.

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