

12.05.2012 18:57



## Mega-Dairies Riding a Herd Instinct Industry

*Investors and dairy companies with huge herds are expanding milk production in a business rush some call unreasonable*

By staff reporters Qu Yunxu, Wang Shanshan and Jin Qing



A supply chain stretching from California to Australia to central China, inexpensive farmland in rural provinces and plenty of cash are some of the high-octane fuels powering a rapidly expanding dairy farm sector in China.

Mega-dairies each with at least 10,000 head of cattle have been popping up across the country. Construction is under way or has been completed at more than 40 sprawling operations that often combine pastures, feedlots, milking barns and shipping facilities.

A huge farm in Anhui Province run by Modern Farming Group Co. Ltd. was designed for about 20,000 cows. According to the company's executive director, in the future three farms in Anhui will accommodate as many as 70,000 head. In June, the company said it was milking about 159,000 cows at 20 farms nationwide.

Heavyweight investors such as the U.S. private equity firm Kohlberg Kravis Roberts Co. LP (KKR) and China's Citic Industrial Capital helped lay a financial foundation for the agribusiness boom. Government subsidies and retail investor enthusiasm for Chinese dairy company shares on exchanges at home and abroad also helped prime the sector's pumps. And overseas suppliers from forage growers in California to cattle breeders in South Africa have been happy to accommodate China's new dairies.

China's dairy farm industry has hit a few bumps on the road to success, for example in the area of environmental protection. Some experts have warned about the potential for cattle disease spreading from vast, crowded milking parlors. And for some companies, financial support is cooling.

Goldstone Investment, an affiliate of Citic Securities, last year decided not to participate in a follow-up fund-raiser after pouring 50 million yuan into a dairy company called Zhongdi Zhongxu in 2010. Goldstone officials said they feared a slow payback pace.

Goldstone officials also cited the environmental hazards associated with big dairy farms as a

SHARE:

### RELATED POSTS

- Investing Pays Off on the Modern Dairy Farm
- International Dairy Companies Face Obstacles to Entering China
- China's Food Fright
- Nordic Dairy Giant Arla Buys Stake in Mengniu
- Yili Recalls Mercury-Tainted Baby Formula

**Straight to your Inbox.**  
**THE DAILY FEED**  
CAIXIN NEWSLETTER  
**FREE SUBSCRIPTION**

### LATEST STORIES

- ▶ Closer Look: Who Rules the Virtual World? WeChat Does
- ▶ Locke Leaving Beijing
- ▶ Anger and Angst in Hospitals Where Doctors Die
- ▶ How China Can Raise Its Economic Game
- ▶ To Curb Graft, Party to Consider Changes to Official Housing System
- ▶ Marriage Bonus
- ▶ In Tuesday's Papers: Ex-China Mobile Executive Jailed for Life, Xiamen Prepares for Free Trade Zone
- ▶ Drawing a Red Line on Protecting the Environment
- ▶ Providing 'Equality of Opportunity'
- ▶ No Sugarcoating It: A Hard Landing Is Likely

FULL LIST +

Sign up to receive our free daily newsletter  
EMAIL

### LATEST VIDEOS



- The Challenge for China's Organic Farms**  
07.12.2013
- Graduate School Blues**  
06.21.2013
- U.S. Tech Startup on Breaking into China Market**  
06.05.2013

MORE VIDEOS +

### POPULAR STORIES

- ▶ **Han Zheng: How Shanghai's Free Trade Zone Works**
- ▶ **Third Plenum Decision Eyes Further Economic Reforms**
- ▶ **What Do Investigative Reporters Do?**
- ▶ **No Sugarcoating It: A Hard Landing Is Likely**
- ▶ **Party to Change One-Child Policy after Plenum, Source Says**
- ▶ **Plenum Insight: Conclave 'Didn't Change Status of SOEs'**

reason for backing off.

Retail investors have been wary as well. Modern Farming's Hong Kong-listed affiliate, China Modern Dairy Holdings Ltd., has yet to recover from a mid-2011 sell-off. The stock was selling for less than HK\$ 2 in early December.

According to many industry experts Caixin interviewed, mega-dairies lack adequate waste treatment facilities for the mountains of manure generated by dairy herds. Problems with dung-contaminated water, insects and the stench rising from thousands of cows will soon lead to conflicts between dairy companies and farmers who live nearby.

"Two risks are hanging over the Chinese dairy industry's head: Environmental pollution, and disease," said Su Hao, CEO of East Rock Ltd. a Beijing-based company specialized in building dairy farms.

The "peak economy of scale" for a dairy farm is around 5,000 cows, said Su. A larger operation carries waste processing costs and disease risks that can be too high to justify a project.

## Bigger Business

The mega-dairy industry in China started to gel in 2004 with a business proposal floated by Niu Gensheng, chairman of one of China's largest dairies, Inner Mongolia-based Mengniu Dairy Corp. Ltd.

Mengniu and a livestock breeding specialist based in Australia called AustAsia Co. collaborated to build the country's first, model dairy farm in Inner Mongolia. The 200 million yuan facility was designed for more than 10,000 cows, but never added more than 3,000 head, largely due to a lack of forage and higher-than-expected operational costs.

Moreover, AustAsia officials were frustrated by Mengniu's refusal to give them a say in the farm's operation. So they sold their stake to the Chinese partner in 2005.

"We consider dairy farm a long-term investment," said Edgar Collins, CEO of AustAsia. "But Mengniu wanted a quick return."

Meanwhile Niu's founding partner at Mengniu, Deng Jiuqiang, started pursuing a big-farm dream of his own. He started a dairy called Lingxian Farming in 2005, and in 2005 changed its name to Modern Farming in 2008.

The following year, Deng's company started building a dairy operation near the city of Ma'anshan, Anhui Province. He found support from local government officials who decided in 2007 to offer financial support and encourage dairy farming.

The province said it would give 1,000 yuan per Chinese-bred cow to any dairy farm with more than 30 head of cattle, and 1,500 yuan for each cow imported from overseas. In addition, the government said it would help dairy farms cover loan interest payments.

Following the Ma'anshan government's lead, officials in the Anhui communities of Feidong and Bengbu started helping dairy farms get started by selling city-owned land at discount prices and by facilitating bank loans. Soon, a 2.4 billion yuan farm is under construction in Bengbu for up to 40,000 cows.

"Big farms can be seen as major achievements for local officials," which makes them more willing to provide land for barns, pasture and waste processing, said an industry insider.

1 2 3 Next page ▶

Trending: Food Security

SHARE:     



### RELATED POSTS

- Investing Pays Off on the Modern Dairy Farm
- International Dairy Companies Face Obstacles to Entering China
- China's Food Fright
- Nordic Dairy Giant Arla Buys Stake in Mengniu

▶ Party Vows to Get SOEs to Turn over More Profits, Ease One-Child Policy

▶ On 'Double 11' Day, Alibaba and Others See Exponential Growth in E-Sales

▶ A Peek inside Alibaba's Nerve Center

▶ Hong Kong Sees a Second Wave of Emigration

### Latest Issue

#### On the Cover: Sip of Death

Polluted rivers in three provinces have been linked to high death

Issue 71  
November, 2013



Subscribe | Newsletter | FAQ

COMMENTS ( 0 ) Sign In | Register

Hide comments +

POPULAR GALLERIES



One Child Family



Typhoon Yolanda



Countryside Daycare



Runway Rendezvous

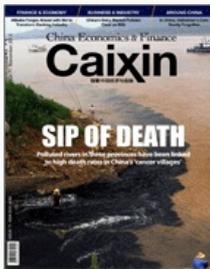


Hanzhong Party World



Kim Lookalike

SUBSCRIPTIONS



Caixin-China Economics & Finance

Latest Issue:  
**Sip of Death**  
Polluted rivers in three provinces have been linked to high death rates in China's 'cancer villages'

Issue 71  
11.01.2013

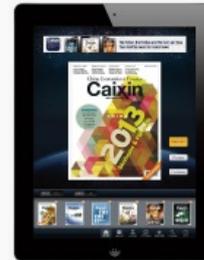
Subscribe | Newsletter | FAQ

**THE DAILY FEED**  
CAIXIN'S DAILY NEWSLETTER

Sign up to receive our free daily newsletter

EMAIL

Caixin On-The-Go



Available for:  
**iPad**  
**Kindle**



Finance & Economics  
Business & Industry  
Politics & Law  
Environment & Science  
Culture  
Opinion

Video  
Gallery  
Focus  
Interactive  
Glossary  
Spanish

Subscribe  
FAQ & Help  
Newsletter  
Magazine  
Digital & Mobile  
RSS

About Caixin  
Work at Caixin  
Contact us  
Conferences

All copyrights for material posted and published on Caixin.com are the property of Caixin Media Company Ltd. or its licensors. Copying, reproducing, republishing, or any other use of Caixin.com content without Caixin's permission is prohibited.

Partner Center:  
EastMoney  
Global Times