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Shanghai Pengxin outlines its next plans following govt approval to buy the Crafar Farms; Fonterra might stay involved

Posted in [News](#) April 20, 2012 - 04:31pm, [Alex Tarrant](#)   [Tweet](#)

By **Alex Tarrant**

Chinese conglomerate Shanghai Pengxin says it will now calmly proceed with taking ownership of the 16 central North Island Crafar Farms after receiving its second approval from the government to buy the properties.

Next up, Pengxin will invest NZ\$16 million in the farms to get them up to scratch, and increase milk production which is still going to Fonterra. It says it will get a 50/50 venture with SOE Landcorp, which will manage the farms, up and running, improve protections for environmental and historic sites, and start up an on-farm training facility.

Cedric Allan, Shanghai Pengxin's New Zealand PR man, told interest.co.nz the company hoped it would just be able to get on with what it wanted to do, which was processing high-value dairy products like baby formula, cheese and ice-cream in New Zealand, and then selling that product in Chinese markets.

With the sale finally going through, Pengxin and its subsidiary Milk New Zealand Holdings would become a Fonterra shareholder, "and we'll be supplying milk to Fonterra in the foreseeable future," Allan said.

That would continue until Milk New Zealand had its own processing options in place.

"And we'll be talking to Fonterra about that too. We've had discussions already with them on the possibility of them doing some processing for us short-term or long-term," Allan said.

"We're also talking to other processors. But we're getting a bit tired of talking. We've had a year of that. We're now actually going to take possession of the farms, get the joint venture with Landcorp cracking, and get the farm production up," he said.

"We're going to invest a million dollars in each farm over the next three years. And we want to come to an arrangement with a processor, be it Fonterra or be it another New Zealand processor, and start getting product over to China and

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into the supermarkets.”

Pengxin’s plans to produce all its products in New Zealand before selling them overseas were still going ahead. Products could start rolling off the production line “very quickly” if a deal was reached with an existing processor.

Pengxin might invest in a processing plant itself. If it were to take this route, it could only own up to 50% in a venture, with conditions of the Crafar Farms sale being the other 50% would have to be held by New Zealand interests.

“That could be a purchase of an existing operation and subsequent expansion of it, or it could be starting from a greenfields situation and building it from the ground up. Obviously those options could take longer,” Allan said.

“But there’s no reason why it has to take years before we’ve got branded product to Chinese supermarkets.”

'Nonsense claims about us'

Meanwhile, **an anonymous claim that Shanghai Pengxin chairman Jiang Zhaobai was connected to the Chinese underworld** was just one of many made to try and undermine Pengxin’s bid.

“We announced that we had bought these properties, conditional on government approval, in December 2010. There has never been a land transaction in this country subjected to this degree of scrutiny. That includes the scrutiny of the people making the bid,” Allan said.

“We have been scrutinised by the OIO, we’ve been scrutinised by the Michael Fay group. No one has come up with one shred of evidence to say that Shanghai Pengxin should be of any concern whatsoever to New Zealand,” he said.

“In fact, quite the reverse. This is a company that has an unblemished record, that does what it says it does, which produces cash when it’s needed. If there’s anything wrong with this company people with a vested interest would have found out by now. The claims with links to the underworld, goodness me.

“We’ve heard those claims; we’ve heard claims we’ve got no farming experience, which is ridiculous. We don’t have dairy farming experience, which is why we’ve done the deal with Landcorp. But we’ve been successfully farming since 2005 in Bolivia on a much bigger chunk of land than all the Crafar farms put together.

“We’ll have three million sheep in China in the next few years on our own farms. We’re now being told that we’ve got no business expertise. It just goes on and on. I hope that nonsense just comes to an end now and we can get cracking with actually doing things,” Allan said.

'There isn't an army of Chinese investors coming'

In terms of other investments Pengxin’s chairman currently had an application in front of the OIO with several other parties to buy half of the Gulf Harbour development north of Auckland.

Pengxin itself was also very open to other investment opportunities in New Zealand, Allan said.

“I would say this: There’s not an army of Chinese investors out there trying to buy every dairy farm in New Zealand. There are hundreds of dairy farms for sale in New Zealand, **including the Carter Holt farms** which have been on the market for more than a year,” Allan said.

“This belief that China is about to take over New Zealand’s dairy industry is just founded on nothing more than fear mongering really. There are ten thousand dairy farms in New Zealand, we’ve just bought 16 of them. It’s not the end of the world.”

Fay group looking whether to appeal

Meanwhile, the New Zealand consortium led by controversial merchant banker Michael Fay, which was opposed to Pengxin buying the farms, says it is still too early to say if it will appeal the latest OIO and Ministerial ruling. The group had itself offered NZ\$171.5 million for the farms, which was well below Pengxin’s rumoured bid of around NZ\$210 million.

A PR for the Crafar Farms Independent Purchaser Group, Alan McDonald, told interest.co.nz that the consortium’s legal team would trawl through the documents related to the decision.

“But it’s fair to say at first blush we’re not seeing anything new in the economic case to compare to the one that’s already been rejected by Justice Miller.”

While the OIO had increased the amount Pengxin needed to invest in the farms from NZ\$14 million to NZ\$16 million, **CFIPG had indicated it would invest NZ\$18 million**, McDonald said.

However, **in a submission to the OIO**, Pengxin had said it believed it would invest NZ\$18.7 million in the farms over three years.

Search terms: [Chinese investment](#) [Crafar Farms](#) [Foreign investment](#)



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Choices

- Dairy prices
- The exchange rate
- Construction activity in Auckland and Christchurch
- Immigration
- How well the NZ teams do in the cricket and rugby world cups

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CFIPG had not heard back from the OIO on the submission it sent outlining what economic benefits would stem from the farms being in its ownership, McDonald said.

"I think that's probably a bit of a sore point to be honest. Clearly the negotiation with Shanghai Pengxin's been carrying on, and we haven't had a chance to be consulted, or been asked our opinion, or put any counterfactual case at all [to the OIO]," he said.

Meanwhile, McDonald said the anonymous claim that Shanghai Pengxin's chairman was linked to the Shanghai criminal underworld did not originate from the Kiwi conglomerate.

"Unlike the OIO and Landcorp in this, we've been thoroughly up front and transparent, I think. Landcorp's been telling porkies. They've been in this since July last year. We've finally got a whole lot of stuff out of the Ombudsman from our Official Information Act request," he said.

"They were denying they were having discussions with [Pengxin] when we talked to them in September/October. All the blacked out material says they've been in it since the start of July."

The future of the consortium, which includes businessmen, farmers and iwi, was uncertain. Whether or not to look at purchasing some other farms had been discussed, "but you never know what the fallout from these things is going to be."

"It came together with a common purpose. There's a lot of good will around the table, but I can't really answer that," McDonald said.

We welcome your help to improve our coverage of this issue. Any examples or experiences to relate? Any links to other news, data or research to shed more light on this? Any insight or views on what might happen next or what should happen next? Any errors to correct?

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29 Comments

by [Christov](#) | 20 Apr 12, 10:27pm

What will Pengxin do next...?

They'll begin training insurgent cows to fertilise these fair pastures.

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by [Plan B](#) | 21 Apr 12, 3:59pm

no they will import Chinese labour to work the farms check out the Free Trade agreement we did with them.

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by [Christov](#) | 23 Apr 12, 3:49pm

yeah that's what I just said[Plan B](#)

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by [rastus](#) | 23 Apr 12, 3:07pm

...they will be a role model of corporate behaviour, paving the way for more enthusiastic sellers and their paid lackeys who couldn't give a stuff about selling off their children's homeland.

Once they have reached critical mass, they will cash in their Fonterra shares, build and supply their own factories and sit back and watch as the Fonterra model collapses.

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by [Casual Observer](#) | 23 Apr 12, 3:47pm

They will get to exercise their vote in the 2nd Fonterra TAF vote on 25 June, if they do take the farms over in May.

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by **iconoclast** | 23 Apr 12, 3:58pm

HOW IT WILL BE DONE

Preamble

In 1850 John D Rockefeller demonstrated that "owning" the distribution of oil was more powerful than "owning" the production of oil. The same lesson was played out again in 2006 in the dispute between Russia (producer) and Ukraine (distributor) over the means of distribution of Russian gas. Russia capitulated in one day.

A few years ago I had a client who was a supplier to Coles Supermarket. He manufactured "things" where his fixed costs were \$1 per unit, and variable costs were \$1 per unit, total costs were \$2 per unit and he sold them to Coles for \$3 per unit. He worked his operation for 40 hours per week. Coles offered a contract to double his supply and they would take the additional production for \$2 per unit. He could the run his business for 2 shifts, his fixed costs remained the same and the incremental production cost including night shift were \$1.50 so he made \$0.50 per unit from the additional business. At the end of the first year, come re-negotiation of the contract they screwed him down on the original contract. But he was still profitable so he agreed. At the end of the second year they screwed him down again. By this time Coles was 90% of his business. At the end of the third year they offered him a take-it-or-leave-it offer of \$1.50 per unit for the lot. He is no longer in business.

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by **Henry_Tull** | 23 Apr 12, 4:02pm

This is the meaning of "Supply Chain Management"

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by **iconoclast** | 23 Apr 12, 4:03pm

So, if you think that through strategically, where to next for Pengxin. Is the May Wang Tauranga UHT factory still closed down? Is it mothballed? Is it available for sale?

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by **Henry_Tull** | 23 Apr 12, 4:19pm

Good question.

We heard there was a set of build approvals/consents for a new non-Fonterra Nth Isle milk powder factory floating about looking for funding - Z?

Makes interesting method comparison to Bright's Synlait plant and \$80m odd cost, with no interest? in the Synlait farms...

They had visitors (see the pic.)

<http://www.stuff.co.nz/the-press/news/6767312/China-flexes-its-muscle..>

A high-ranking Chinese leader's visit to the Dunsandel Synlait milk factory hit a slight snag today after an employee missed the memo to keep the company's car park clear. The fourth-ranking member of the Chinese politburo, Jia Qinglin, is visiting New Zealand to celebrate the 40th anniversary of Kiwi-Chinese diplomacy.

Jia was on his way to the joint-venture Synlait factory when a minor incident developed. His vanguard found a Synlait employee's sedan in the middle of the company's car park, poised to play havoc with Jia's motorcade.

Desperate messages to get the owner to move the car were unsuccessful and it was left to Chinese strongmen from the country's consulate to lift and drag it 10 metres to the edge of the car park.

<http://www.stuff.co.nz/the-press/business/6777346/Chinese-visit-boosts-S...>

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by **Casual Observer** | 23 Apr 12, 4:30pm

That second plant you are referring to isn't the one at Arapuni is it Henry? I understand that they are looking for some real funding to get the place going - enter PRC?

This is one of the problems that DIRA throws up. There is no requirement, under current proposals, for export processors to compete at the farmgate. They can access 50m litres forever and a day, to the detriment of smaller NZ domestic market processors.

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by **Henry_Tull** | 23 Apr 12, 5:04pm

Location-wise I will have to check.

You are right.. There needs be competition at the farmgate.
For it is happening before our eyes.....

As the Herald revealed today, Fonterra chief executive Theo Spierings is inviting Bright personnel to the opening of the New Zealand dairy giant's third farm in China.

Bright Dairy wasn't happy when Fonterra plonked a "dryer" in Darfield, which it regarded as its territory. *There are also concerns whether the current high margins for New Zealand infant formula will continue in China.*

http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=1079...

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by [Henry_Tull](#) | 24 Apr 12, 11:37am

A third China group with a NZ factory/operations?

From this morning

"When the Russians came in we thought, 'Great; this is something we are going to treasure'. It does raise the question of how well they were vetted and how well you know what is going on for the company in other areas," he said. Coles said he had met the prospective Chinese buyers of the factory in the past couple of months and had thought the deal was nearly finalised.

<http://www.stuff.co.nz/the-press/business/6795845/Chinese-interest-in-Ru...>

There had been a second South Canterbury plant approved

From a year ago:

Synlait Milk has entered into an agreement to acquire all assets of Oceania Dairy, based around land and consents in South Canterbury.

Oceania Dairy had hoped to build its own \$95 million dairy processing factory in an operation south of Waimate in South Canterbury.

<http://www.stuff.co.nz/business/farming/4687539/Synlait-to-buy-Oceania-a...>

How many data points do we need for a trend?

May be the Bank of China should open a branch in Ashburton

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by [Casual Observer](#) | 24 Apr 12, 11:44am

My understanding Henry is that it is Synlait (Bright Dairies) who are interested in the Russian factory. They need another avenue for milk outside their current hunting ground if they are to grow. It makes sense to buy an existing factory that has room for expansion than start a new one from the ground up.

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by [iconoclast](#) | 23 Apr 12, 4:35pm

What was he doing driving a "Vanguard" ... a bit like Moses coming down off the Mount on his Triumph (motorcycle)

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by [Henry_Tull](#) | 23 Apr 12, 4:50pm

Synlait had been told to keep the car park clear for the motorcade, which included a 40-seater bus, two BMW sedans and accompanying police motorcycles and patrol cars, Wan said.

State Highway 1 had been closed while the motorcade turned off the main road and again when Jia left.

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by [iconoclast](#) | 23 Apr 12, 5:09pm

It was a joke Henry ... you would have to be old to know what a Vanguard Car was http://en.wikipedia.org/wiki/Standard_Vanguard

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by [Henry_Tull](#) | 23 Apr 12, 5:17pm

use to go picking potatoes in a brown/rust coloured one - straps for

door pulls.

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by [powerdownkiwi](#) | 23 Apr 12, 5:24pm

That was Standard
:)

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by [Casual Observer](#) | 23 Apr 12, 4:25pm

I heard that there is 'someone' interested in the Tauranga UHT factory. The National govt is deafening in it's silence to supplier queries on why processors taking DIRA non-domestic market milk don't **have** to compete at the farmgate for milk. The silence is equally deafening when asked why the DIRA legislation isn't ring fencing/prioritising the domestic milk supply over milk supplied to the export market.

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by [Hamish](#) | 23 Apr 12, 5:05pm

It would make me laugh if we could end up buying a 2L of pengxin milk cheaper at the local supermarket than any of the fonterra brands.

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by [jh](#) | 23 Apr 12, 5:43pm

Once feted as saviours in much of Africa, Chinese have come to be viewed with mixed feelings—especially in smaller countries where China's weight is felt all the more. To blame, in part, are poor business practices imported alongside goods and services. Chinese construction work can be slapdash and buildings erected by mainland firms have on occasion fallen apart. A hospital in Luanda, the capital of Angola, was opened with great fanfare but cracks appeared in the walls within a few months and it soon closed. The Chinese-built road from Lusaka, Zambia's capital, to Chirundu, 130km (81 miles) to the south-east, was quickly swept away by rains.

Business, Chinese style

Chinese expatriates in Africa come from a rough-and-tumble, anything-goes business culture that cares little about rules and regulations. Local sensitivities are routinely ignored at home, and so abroad. Sinopec, an oil firm, has explored in a Gabonese national park. Another state oil company has created lakes of spilled crude in Sudan. Zimbabwe's environment minister said Chinese multinationals were "operating like *makorokoza* miners", a scornful term for illegal gold-panners.

Employees at times fare little better than the environment. At Chinese-run mines in Zambia's copper belt they must work for two years before they get safety helmets. Ventilation below ground is poor and deadly accidents occur almost daily. To avoid censure, Chinese managers bribe union bosses and take them on "study tours" to massage parlours in China. Obstructionist shop stewards are sacked and workers who assemble in groups are violently dispersed. When cases end up in court, witnesses are intimidated.

<http://www.economist.com/node/18586448>

What the reporter, Oliver August (he emailed me while he was working on the article but I was in Ethiopia and we never managed to talk), got right was a generalized sense that lower standards, lack of "corporate social responsibility" (social and environmental) in business practices, poor labor relations, competition with import substitution industries (especially textiles), and not enough hiring of local labor are the downside of China's increasingly prominent presence in Africa. These are serious issues and rightly tarnish the general reputation of China in Africa. I've written about them all in *The Dragon's Gift*.

<http://www.chinaafricarealstory.com/2011/05/chinese-in-africa-economist-gets-some.html>

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by [Ms de Meanour](#) | 23 Apr 12, 6:28pm

Says at least as much about standards of governance and law enforcement in Africa as it does about Chinese business practices.

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by [moa man](#) | 23 Apr 12, 8:12pm

I don't think the poor standard of African governance and law enforcement has been disputed in a long time.

What [jh](#) seems to be pointing out, is that Chinese influence is making it worse. A situation which is mirrored in the Pacific Islands.

NZ and AusAid projects up this way, normally involve clean water supplies to remote schools etc.

Chinese aid, more often than not, consists of a container load of office equipment

to a local opposition political party.

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by **Ms de Meanour** | 23 Apr 12, 6:29pm

double post, sorry

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