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Aggressive Fonterra eyes even more Chinese expansion

David Williams | Friday April 13, 2012 | [7 comments](#)

Fonterra is eyeing up dairy-farm opportunities in other Chinese provinces as it pursues an aggressive offshore growth strategy.

The dairy giant, New Zealand's largest company, announced yesterday [it will spend \\$100 million](#) building two more large-scale dairy farms in China's Hebei province, where it already has two farms operating and another being built.

To produce one billion litres of milk by 2020 - its stated goal - it will have to build more than 25 farms, clustered in "hubs", and spend more than \$1 billion, whether alone or with other companies.

Speaking to NBR Online from Yutian county, where Fonterra's second Hebei province farm opened yesterday, Fonterra general manager of international farming Peter Moore says construction of the two new feedlot farms will hopefully start this year.

They will be built in tandem and hopefully open early in 2014.

"This is really about taking what was one farm in 2007, we've just opened the second one, now this is about generating a much bigger milk pool in China," Mr Moore says.

"We are looking at other provinces. We're looking at the five-to-six farm as being a hub in a province.

"That's not to say we wouldn't have more than one hub in some provinces, but it's more likely that we will have hubs in a number of provinces over time."

Like its latest farm, Mr Moore says the two new ones will milk around 3200 cows, with about 2000 supporting stock, and produce about 30 million litres of milk a year.

Mr Moore says there might be further expansion in Hebei province, within different counties, because of its proximity to Beijing, adequate water supply and plentiful maize feed.

Asked if there would be announcements of farms being built in other provinces during this financial year, Mr Moore replies: "We're working on that but I certainly couldn't give you a firm timeline on when we're likely to announce where we would go next, but we're certainly looking at the next options."

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"If we want to accelerate in China we can't continue like we have been - one farm a year - we need to be building two or three a year and also looking at diversity in other provinces.

"At this stage, we're still in the early stages of investigating where we will go next and what we will do next."

Fonterra's grand target for China is to produce "up to" a billion litres by 2020, on predictions that dairy consumption will double in China by 2020.

By comparison, Fonterra process 14 billions of milk each year in New Zealand, which is predicted to rise to 22 billion litres by 2020.

Fonterra's expansion plans come as the World Bank has cut China's GDP growth forecasts for the year from 8.4% to 8.2%. Last month, the company posted an [increased half-year profit](#).

Melamine crisis

Why did it take five years for Fonterra to open its second farm in Hebei? Part of that, at least, might be explained by the 2008 melamine crisis.

Sanlu, a company part-owned by Fonterra, was implicated in the contaminated milk scandal, in which six children died and hundreds of thousands became ill.

Since 2008, China's milk production has flattened, while overall dairy consumption has taken off.

Fonterra already exports \$1.8 billion of whole milk powder a year to China.

Fonterra seems to be putting melamine behind it and is hoping Chinese consumers do the same. It's mantra is now "high quality, safe food".

The New Zealand co-operative's Chinese farms are different to its sprawling, low-cost, pasture-based New Zealand farms. They are feedlots, as seen in the United States, with huge barns housing thousands of animals, over about 40ha.

Another big difference is ownership - or lack of it.

Mr Moore says Fonterra has a 50-year lease for one parcel of land, which has key buildings such as the office block and accommodation, while it rents the rest, negotiated on six-year, 12-year or 18-year terms.

"You can't own the land but certainly the leases are very, very secure for the length of the 50 years."

How important is China to Fonterra? Mr Moore says it is "one of the critical paths".

"China is not just a country, it's a huge continent, almost. There is massive population growth and growth in wealth so people are looking for high-value products."

More by David Williams

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Comments and questions

7

#1 by **The Doctor** 1 year ago

So where are all the Xenophobic fools now - re the reverse Crafar farms saga

The more we work with Chinese here and in China the more it will be mutually beneficial. We are achieving more with the Chinese with agricultural collaboration than we have in the last 100 years with the USA. The USA have always insisted on protecting their subsidised agricultural sector - not working on mutually beneficial opportunities

Go Fonterra - well done for your innovation and foresight and vision

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by **Anonymous** 1 year ago in reply to **The Doctor**

Think it through. This milk product production is for Chinese domestic consumption. So if you previously didnt know how to produce, who better to show you how to make the best milk products in your own country but the worlds best.

Once you have acquired all the intellectual property you need, how hard is for the Chinese Govt to tell Fonterra to F-off and then what can Fonterra do? Where in China do you expect to find a Chinese court that will find against its own government and protect Fonterra's rights.

If you have ever dealt with China like our company has then you learn very quickly how the Chinese are only ever in it for the Chinese. Do you really think a country of 1.3b really needs to hold hands with a country of 4mil other than for acquiring intellectual property? When they get what they want, we'll be gone.

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by **The Doctor** 1 year ago in reply to **Anonymous**

How small minded

Just like when Russia opened up to the west, the first movers made a fortune long term - BP for oil through our own Kiwi controlled Renaissance Capital. At that time we were indoctrinated by the USA that the Russians couldn't be trusted - only because the US couldn't bare to imagine that Russia had the potential to match them in every sector and prior to the end of the Cold War the USA had Russia painted as the bad guy - how wrong they were.

So I say well done Fonterra I admire you for the vision - obviously Fonterra spent considerable time and money researching and validating the opportunity.

When will NZ Inc grow up and embrace change and different cultures??

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by **M Ross** 1 year ago in reply to **The Doctor**

New Zealanders embrace change?

Not for another 50 years at least until the current racist xenophobic lot die out.

Look at the losers that they represent - 1987 crash, 1990s contributory mortgage debacle, 2000s dot com bust and then, the finance companies' disaster.

Like moths to fire, they keep flying at the flame.

And like the racists that they are, they will keep looking at the color of the skin rather than where NZ sits - as part of Asia.

No complaints yet from any of them losers about the Germans or French buying NZ farms.

And who slaughtered New Zealanders during WW1 and



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WW2? Not the Chinese.

And who committed a terrorist act on Nz soil? Not the Chinese.

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by **Anonymous** 1 year ago in reply to **The Doctor**

Small minded? you really are a bore. I would rather be Xenophobic and own the IP than bend over and welcome the Chinese to take me from behind like you obviously prefer.

Remember it was only as of Feb 2012 that that the iPad has now been officially banned in China. Did they invent it or just having seen how to make it after the R&D was done in the USA, decide to ban it for convenience?

How about as a challenge put your own money on the line on a venture with your commie mates rather than being a Lazyboy boy liberal or are you simply not "man enough" to back yourself?

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by **Anonymous** 1 year ago in reply to **Anonymous**

Get your facts right before you write, moron.

The iPad is for sale in China and a Court in China ctually ruled for Apple in respect of a trademark dispute.

Go get your children and partner to embrace Uncle Sam who has been very good at screwing you hard - Telecom being the best example.

Go and screw with your Aussie mates who are very very good at screwing you - Air NZ/Ansett being the best example.

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by **Anonymous** 1 year ago in reply to **Anonymous**

China is already a very large dairy producer. They have circa 20 million cows verses NZ's 4 - 5 million. They are around 70 - 80% self sufficient.

As the article above says the farming method in China is different to NZ so in fact NZ has some things to contribute but not all. If you look for barn systems you look at the US and Canada as the leaders.

And in terms of production in China it will pay to listen and learn from the Chinese also - as they do have some knowledge and experience.

China will continue to grow its production base it has to. NZ cannot supply its requirements from NZ. China is looking to increase cow numbers by I think 5 m maybe 10 in the next 10 years. We cannot double or trebble the NZ dairy industry, so we either get invovled in China or other markets or we let someone else fill the gap.

Can the Chinese tell Fonterra to p**s off - yes they can, as can any other country ultimatley. Would they - I doubt it as that would cost them in terms of World Trade Organisation etc. Like another comment re Russia these markets are changing and the money and value will be created by those in early enough. By the time it is safe the value has been taken by others.

Fonterra is perhpas already too slow off the mark, but given the size and pace of the market they will still create some real value.

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