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LP TASMANIA'S drive to increase milk production is dependent on foreign investment, industry leaders say.

The State's largest dairy company, Van Diemen's Land (VDL), recently had plans for a \$122 million expansion at Woolnorth approved by Deputy Premier Brian Green, which chief executive Michael Guerin said would be funded by private counterparties. Mr Guerin was tight-lipped on the source of investment but admitted there was "more international capital than domestic at the moment".

TD VDL began an equity raising process 2.5 years ago which had "taken longer than we thought", Mr Guerin said.

"Sometimes a good marriage takes a reasonably long courtship," he said.

"It's important not only to raise the money but raise it from the right places."

Discussions with interested parties were in an "advanced stage" and could see the company increase the number of dairy farms on the property to 23.

DairyTas chief executive Mark Smith said the expansion would see VDL producing about 25 per cent of Tasmania's milk and would help the State reach its targets of increasing production by 40pc in 2018.

Mr Smith said Chinese investors had shown interest in VDL and more recently the Little Lion company, which owns nine dairy farms across Tasmania and is valued at \$80m.

A hurdle for investment was East Asian interest in setting up processing facilities, he said.

"They (financiers) come in wanting infant milk formula, but you can't just turn the tap on straight away," he said.

Last year Tasmanian Dairy Products opened a \$80m processing facility at Smithton, while more recently Lion invested \$150m in their Burnie and King Island factories.

Mr Smith said foreign investment allied with growth in smaller farms would imbue confidence in the industry.

Liffey farmer Grant Archer recently bought a 134-hectare neighbouring grazing block, which he plans to convert to dairy country.

Mr Archer, who currently milks 250 cows on 124ha, bought the farm with excess equity he had built up from years of sharefarming.

"We believe in the value of land and we think the industry has a bright future," Mr Archer said.

WILLIAM VALLELY

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