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HD Food companies find room to grow in Australia, NZ

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LP Free trade pacts offer favorable policies for expansion, investment as appetite for higher-protein food grows

Companies based in China are investing in Australia and New Zealand's agricultural sectors as they pursue a larger foothold in these lucrative markets through favorable policies offered by bilateral free trade agreements.

TD As China and Australia announced the practical conclusion of negotiations on an FTA in November, the new trade agreement has benefited Australia's agriculture and services industries in particular, as well as leading to growth in Chinese investment in the country.

Zhejiang Tianma Bearing Group Co, a bearing manufacturer, is planning to build a wine sales network in Australia next year. Its main target is China's domestic market.

The company announced in November that Chinese and Australian regulators had approved an A\$18 million (\$14.62 million) acquisition of two pasturelands, the Balfour Downs and Wandanya stations in Western Australia. The total area of these two grazing lands is 634,000 hectares.

Ma Xingfa, chairman of TBG, said that as Chinese consumers switch from traditional staple foods to higher-protein foods such as beef, lamb and milk, the prices of these products will be fairly attractive to the Chinese market under the China-Australia FTA framework.

The agreement will cover more than 10 areas, including a simplified review procedure for investments, most-favored-nation treatment, favorable market access rules and market transparency.

China now imposes 12 to 25 percent tariffs on Australian beef, but these levies will be phased out within nine years under the pact. Tariffs on Australian wine will be dropped by 2018.

Australia shipped A\$200 million worth of wine to China in 2013, with a customs duty rate of 14 to 30 percent per bottle.

"This will help Chinese companies diversify their business categories and raise their incomes in the global market," said Ma. "We will have fewer restrictions in tapping the Australian market, and meanwhile, Australia will find new opportunities for its economic growth in the coming decade in partnerships with China."

Australian beef accounted for 53 percent of China's beef imports in 2013. The agribusiness research department of the Australia and New Zealand Banking Group Ltd has forecast that the total value of Australian beef shipped to China will reach A\$130 billion by 2030.

New Hope Group, a Chengdu-based maker of animal feed and foodstuffs, in November announced plans to invest A\$500 million in Australia's food and dairy sectors. It acquired a majority stake in Queensland beef processor and exporter Kilcoy Pastoral Co, the fourth-largest Australian beef processor, in 2013.

"After a free trade agreement signed between China and New Zealand in 2008, the country's agricultural sector, especially its dairy industry, has seized big opportunities in China's huge market," said Lu Bu, a researcher specializing in agricultural resources at the Chinese Academy of Agricultural Sciences in Beijing.

It has been reported that the dairy industry in New Zealand achieved fivefold growth as a result of the China-New Zealand FTA.

Chinese dairy giant Yili Industrial Group's first major plant abroad was officially opened in New Zealand in November. The plant in Glenavy, South Canterbury, which cost NZ\$236 million (\$183 million), was built by Oceania Dairy Ltd, a wholly owned subsidiary of the Inner Mongolia-based Yili. The company said that it planned to invest another NZ\$400 million in the plant, which makes infant formula, over the next five years.

Yu Xubo, president of China National Cereals, Oils and Foodstuffs Corp, said: "China's hunger for high-protein food has pushed the nation's companies to seek takeover targets and cooperative opportunities that can help feed that demand."

State-owned COFCO, the country's largest food trader, has invested significantly in Australia and New Zealand, including building a milk powder factory in New Zealand in 2013 and the acquisition of Australian sugar producer Tully Sugar Ltd in 2011.

"Assisted by favorable policies of two bilateral free trade agreements, we will continue to seek more agricultural investment opportunities that are profitable in Australia and New Zealand," said Yu. "Our new products will range from farming to processed foods over the next five years."

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