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HD **Fonterra hopes to extend its presence**
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The NZ co-operative sees no end to the sector's consolidation FONTERRA chief Lukas Paravicini has warned the consolidation of the Australian **dairy** sector is far from over and the New Zealand **dairy** co-operative is determined to play a major role.

Fonterra, which owns **dairy** brands including Perfect Italiano and Mainland **cheese** as well as Western Star **butter**, announced this week it would invest about \$30 **million** in new capacity at its Victorian processing plant after signing a \$60m, 10-year supply deal with supermarket giant Woolworths for its house-**brand milk**.

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Speaking to The Australian in Sydney, Mr Paravicini said the deal was just one example of Fonterra's determination to expand its Australian presence.

"Australia is an important strategic market where we see a lot of benefits — we're already No 1 in the food service sector and we're very strong in the domestic market, but we see Australia playing a fundamental role in the export market and we want to leverage Fonterra's existing reach in more than 140 international markets," he said.

Canadian **dairy** giant Saputo snared 87.92 per cent of Victorian **milk** processor Warrnambool **Cheese & Butter** in a \$500m-plus takeover battle that wrapped up in February, prompting expectation that other processors could be **sold** as increasing demand from Asia drives **dairy** prices higher.

"I don't think we've seen the end of the consolidation — we're following it closely and we're very interested in the market, but we'll only engage if we see an opportunity to create value," Mr Paravicini said.

In November Fonterra picked up a 9 per cent **stake** in Australian **dairy** processor Bega **Cheese**, which at the time was engaged in a three-way takeover battle for Warrnambool.

While Fonterra has said the **stake** was designed to protect its commercial relationship with Bega, with which it has a 25-year licensing deal to use the Bega **cheese brand**, the move prompted speculation Fonterra was readying itself for a takeover.

However, Mr Paravicini said Fonterra had no deals under consideration. "Some of the assets available aren't the right assets — either they're in the wrong location or they're not efficient — so we have to be very cautious," he said.

The bigger opportunity, he said, was in boosting Australia's **dairy** production by improving profitability for **dairy** farmers — a task Fonterra was tackling by introducing new herd management techniques to farmers.

While other processors including Lion — owner of the Pura **milk brand** — have blamed supermarkets' \$1 a litre **milk** for slashing processors' profitability, Mr Paravicini said Fonterra's deal with Woolies paved the way for further expansion.

"Farmers need stability and certainty so when they ramp up production they know the demand is there, so this deal with Woolworths is about giving them that stability," he said.

Fonterra on Friday was fined \$NZ300,000 (\$277,210) over four charges relating to last year's recall of a number of **dairy** products following a contamination scare.

The **dairy** giant recalled products across Asia after warning they could contain clostridium botulinum, which can cause botulism, but the scare was later found to be a false alarm. Mr Paravicini said a recent slowdown in **Chinese** demand was driven by higher **dairy** prices, which had outpaced **Chinese** income growth. He added: "Long-term, there's a huge demand ... for **dairy** protein from emerging markets, largely from their youth population, but also the elderly — which is good for us because we have innovative supplement products that aid mobility."

CO foncop : Fonterra Co-operative Group Limited

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