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HD **Fonterra takes baby steps into China**
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FONTERRA has announced a proposed partnership with leading **Chinese** baby food manufacturer Beingmate, as part of a bid to seize more of the lucrative infant formula market.

The **company's** Darnum factory in West Gippsland, Victoria, will be purchased as part of a joint deal to supply infant formula, but Fonterra will continue to run the factory.

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Fonterra chair John Wilson said the proposed partnership was all about capturing more of the growing market for infant formula, by moving to high-value products.

He said the partnership would be a "game-changer" and was all about maximising returns to farmers and creating a vertically integrated supply chain.

The first part of this process is expected to start immediately, with Fonterra starting a partial tender to shore up a 20 per cent **stake** in the listed **Chinese dairy company** Beingmate.

If successful, Fonterra will then enter into a distribution agreement with Beingmate, which has access to 80,000 points of **sale** across **China**. This will include distribution for the Fonterra's Annum infant formula **brand**, but Fonterra will also supply product for Beingmate's **brand**.

At the same time, a joint venture will be established between Fonterra and Beingmate to **buy** the Darnum factory, which produces infant formula.

Beingmate will have a 51pc share in the plant and Fonterra 49pc. The plant will continue to be run by Fonterra.

Fonterra Australia managing director Judith Swales was excited about the potential of the partnership.

"We've talked a lot about the increasing demand for infant formula in **China**," she said.

This provided the **dairy company** the opportunity to connect all the way through from its Australian **milk** pools to **Chinese** customers, she said.

At the moment, Fonterra supplies about 90pc of all whole **milk** powder to **China**, but this was a chance to grab hold of the infant formula market " and establish an end-to-end supply chain.

Fonterra chief executive Theo Spierings agreed and said by working alongside Beingmate, the partnership will participate in growth in a category where there is huge demand.

"The infant formula market in **China** is worth about NZ\$18 **billion** today and is expected to be worth NZ\$33 **billion** by 2017. This growth is driven by increasing urbanisation, higher disposable incomes, a preference for premium brands, and relaxation of the one child policy," he said.

He added that **China** was the **company's** number one market and the proposal to join forces with Beingmate was an important building block in Fonterra driving volume and value, and taking a step forward in terms of being a "globally relevant co-operative".

Ms Swales said Beingmate was a strong fit with Fonterra.

The **Chinese company** has a 10pc share in the infant formula market, as well as access to 20,000 maternal service consultants, who work with young mothers. It also has six of state-of-the-art plants that produce infant formula in **China**.

Ms Swale said Beingmate also had a strong reputation for safety, with stringent controls in place across the supply chain.

The **sale** of Darnum factory goes must be approved by the Foreign Investment Review **Board**, but Ms Swales could not foresee any reasons why the deal would not pass.

She said the purchase would not change the day-to-day operations at the plant, but production was expected to grow.

"It currently produces about 50,000 tonnes of nutritional product per year," she said.

"With this investment, it can get to 100,000 tonnes."

She said the investment would be a "win-win" for Darnum, providing security for staff and suppliers.

The partnership process may take up to eight months.

CO foncop : Fonterra Co-operative Group Limited

IN ifood : Food Products | i41 : Food/Beverages/Tobacco | icnp : Consumer Goods | i413 : Dairy Products

NS cpartn : Partnerships/Collaborations | c11 : Plans/Strategy | ccat : Corporate/Industrial News

RE china : China | saustr : South Australia | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | austr : Australia | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

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