

# NZ Milk Scare Dents China Belief in Foreign Brands

LOUISE WATT, Associated Press

BEIJING (AP) — A botulism scare has soured China's taste for New Zealand milk powder that amassed big sales on a reputation for purity, but consumers even more wary of their own country's dairy industry likely won't eschew the foreign product for long.



A woman carries a child as she shops for milk powder in a supermarket in Beijing, China, Monday, Aug. 5, 2013. A botulism scare has soured China's taste for New Zealand milk powder in what has rapidly become one of its biggest markets, but consumers even more wary of their own country's industry likely won't eschew the foreign product for long. (AP Photo/Ng Han Guan)

China's dairy business has long been beset by quality lapses and criminal scams, the most infamous in 2008 when six babies died and hundreds of thousands were sickened by infant formula contaminated with a chemical added to mask that the product had been watered down.

The current food scare created by New Zealand's largest company, Fonterra, stems from a dirty pipe in one of its plants last year, which led to a contamination of whey protein concentrate that could cause botulism.

While this has worried Chinese consumers who have been willing to pay a premium for foreign brands they believe are safer, school teacher Zhu Danyan said the current case is different from what happened in 2008.

"In this case, the producer did not mean to hurt babies. They made a mistake in their work," she said. The earlier scandal in China was "more serious and unforgivable," Zhu said. "They knew what they are doing. They just wanted to make money."

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While angry at Fonterra for taking several months to identify the contamination problem, Zhu said she wouldn't switch to Chinese milk for her 6-week-old baby. "I just have no sense of confidence in Chinese milk."

Fonterra, the world's largest dairy exporter, announced Saturday that hundreds of tons of infant formula, sports drinks and other products sold in seven countries could be tainted. The scare prompted China and Russia to stop importing some Fonterra products, according to New Zealand officials and the company.

China's General Administration of Quality Supervision, Inspection and Quarantine ordered officials to "step up supervision" of dairy products from New Zealand. On Tuesday, Sri Lanka's health ministry ordered all milk products imported from New Zealand stopped at ports and the withdrawal of whey protein products from supermarkets as a precaution.

China's state media have jumped on the scare, saying "even famous foreign brands can't always be reliable." "Some Chinese consumers have expected 'absolute safety' of foreign brands," wrote the People's Daily, the mouthpiece of the ruling Communist Party, on Tuesday.

Fonterra has stressed there have been no reports of anyone being sickened and that it has been open in dealing with the contamination.

"We decided to be fully transparent with the market and to go out straight after we found it on the 31st of July although we did not have all the answers available at that time," Fonterra's chief executive Theo Spierings told a news conference Monday in Beijing, where he also apologized for any distress caused.

China's thirst for quality milk made it New Zealand's top export market for the first time in the first quarter of this year, overtaking Australia which had long been its neighbor's biggest market. China slipped back behind Australia in the second quarter, the offseason for dairy products. New Zealand's dairy exports were worth \$13.4 billion in the year to June 2013. Of that, dairy trade to China was worth \$3.17 billion.

While there may be a short-term decline in sales of milk products with New Zealand ingredients, "the market will ultimately recover," said David Mahon, managing director of Mahon China Investment Management, a Beijing research and investment advisory firm.

Some parents may take comfort that no one was sickened and "at least there was an act of transparency here," he said. "Frankly some will have no choice but to go back to the brand they have been using because a Chinese brand in their minds may not be a better alternative, but if there are other brands, a Dutch brand, a South Korean brand, and they can secure it, they will."

Since the 2008 formula scandal, China's milk testing standards have begun to improve and domestic companies that produce infant formula are increasingly required to become accountable for the entire supply chain, said Mahon. A dairy

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farmer and a milk salesman were executed and 19 other people were jailed for their role in adding melamine, an industrial chemical, to diluted dairy products to make protein counts appear normal.

However, Chinese parents with enough money have largely shunned local brands since 2008.

Foreign brands' market share was 30 percent in 2008 and more than 50 percent in 2012, while it was 70 percent in the high-end milk powder market, according to a domestic media report citing the China Chamber of Commerce of Foodstuffs and Native Produce.

In March, Hong Kong's government enacted measures to restrict the amount of baby formula individuals could take out of the city to two cans after supermarket shelves were emptied by mainland Chinese visitors. Even retailers in Britain and Germany and elsewhere in Europe limited purchases of baby formula earlier this year to prevent customers from bulk-buying and exporting it to China for profit.

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AP researcher Fu Ting in Shanghai and writers Nick Perry in Wellington, New Zealand, and Krishan Francis in Colombo, Sri Lanka, contributed to this report.

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