



## China Stops Importing New Zealand Milk Powder, Minister Says

China has stopped all imports of New Zealand milk powders after Auckland-based dairy producer Fonterra Cooperative Group Ltd. warned of a contaminated ingredient, Trade Minister Tim Groser said.

The decision by Chinese authorities is "appropriate," Groser told Television New Zealand in an interview broadcast today. Fonterra has said that an ingredient used in baby formula and other food showed strains of bacteria.

Fonterra, the world's largest dairy exporter, is issuing the warning as China steps up scrutiny of local and international food companies after a spate of safety scandals. Any restrictions would be a blow to the South Pacific nation as China is the biggest buyer of New Zealand dairy products, mainly milk powder.

"This could be quite a big deal for New Zealand's prospects, certainly in the near term," said Paul Bloxham, chief Australia and New Zealand economist at HSBC Holdings Plc in Sydney. "This is likely to have an influence in the short run on the New Zealand dollar and on markets in New Zealand on Monday."

Dairy products make up about a quarter of New Zealand's total overseas sales. China last month disclosed a probe into pricing of baby formula, prompting companies from Danone to Nestle SA (NESN) to cut prices. Fonterra in July said it would cut prices in China for Anmum supplements for pregnant women.

### Whey Ingredient

Fonterra said yesterday that three batches of a whey ingredient made at a New Zealand plant last year may contain a bacteria that can cause a rare illness called botulism. The U.S. Centers for Disease Control and Prevention describes botulism as a rare but serious paralytic illness.

The batches were mixed with other ingredients to form products sold in other markets, and several countries including China are affected, the New Zealand Ministry for Primary Industries said.

"It's reputational risk more than anything," said Stephen Toplis, head of research at Bank of New Zealand in Wellington. "I doubt there will be any long-term economic impact provided the process is handled properly,"

Four Chinese companies including units of Hangzhou Wahaha Group Co. imported possibly tainted products from Fonterra, Chinese quality supervision regulators said in a statement today. The products have been recalled, the regulator said. China yesterday asked local agencies to step up inspections of milk products from New Zealand.

### 'Serious Situation'

New Zealand officials are working closely with Chinese and other authorities, Groser said, adding that the trade issues "are not just about China."

"This is a very serious situation" for New Zealand, he said in the TV interview. "How serious it is depends obviously on the extent of the problem and how long it lasts."

Calls made today to the offices of China's commerce ministry and national quality inspector went unanswered. Chinese infant formula maker Yashili International Holdings Ltd. (1230) sources its milk from New Zealand, the company has said in its annual report. Yashili's media relations department couldn't be reached outside of working hours.

No Fonterra-branded consumer products are affected by the quality issue, the company has said. Fonterra separately markets a range of commercial ingredients that are sold to other food companies. The New

Zealand Company got about 14 percent of its revenue from China in the six months ended Jan. 31.

Fonterra said it had told eight clients about a quality problem after tests showed the possible presence of a strain of the bacteria Clostridium in a whey protein that the company's customers use in infant formula, types of milk powder and sports drinks. There have been no reports of any illness linked to consumption of the affected product, it said.

Fonterra said Chief Executive Officer Theo Spierings, who is visiting China for scheduled meetings, will speak with customers there.

### Serious Illness

In New Zealand, five batches of Nutricia Karicare follow-on formula products for children from 6 months old were identified as potentially containing contaminated protein, the Ministry for Primary Industries said. Nutricia said it recalled two baby formula products in New Zealand.

Fonterra in January had to assure China that traces of an agricultural chemical found in some milk posed no health risks. In 2008, locally made melamine-contaminated milk powder may have killed at least six infants in an industrywide scandal in China, causing the collapse of Fonterra's partner Sanlu Group.

Groser said the government wants to know why the contamination occurred and why it took so long for the extent of the threat to surface. (Bloomberg)