

Botulism Scare Halts N.Z. Milk-Powder Sales to China, Russia (2)
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(Updates with product quantity in third, eighth paragraphs.)

By Matthew Brockett

Aug. 5 (Bloomberg) -- China and Russia halted imports of some milk powder from New Zealand's Fonterra Cooperative Group Ltd. after the largest dairy exporter warned of a contaminated ingredient. The kiwi dollar fell to a one-month low.

Russia temporarily suspended purchases of all New Zealand dairy products, Trade Minister Tim Groser said today at a press conference in Wellington. China stopped imports of whey protein and a dairy base powder from Fonterra used in infant formula, not all Fonterra milk powder as earlier stated by the Ministry for Primary Industries, Groser said.

Fonterra said on Aug. 3 that three batches of the product made last year may contain bacteria that can cause a rare illness called botulism. The contamination affects about 38 metric tons of whey protein concentrate, the company said today. Chief Executive Office Theo Spierings apologized in Beijing today and said China will lift restrictions on its products as soon as the company provides more information.

The bans are nevertheless a blow for New Zealand, which counts China as its biggest trading partner. Dairy products make up about a quarter of the South Pacific nation's exports, which account for about a third of economic output. Fonterra collects 89 percent of the milk produced in New Zealand.

"It's not good," said Stephen Toplis, head of research at Bank of New Zealand in Wellington. "It's reputational risk more than anything, and that will be determined by what happens over the coming weeks in terms of how the company responds."

Dollar Drops

The New Zealand dollar fell to as low as 76.93 U.S. cents, the weakest since July 8, before recouping ground to trade at 78.03 cents at 7:14 p.m. in Wellington, a loss of 0.5 percent on the day. The Fonterra Shareholders' Fund fell 4.4 percent to NZ\$6.03 at the close, the most since the securities that track Fonterra's dividends and earnings began trading last year.

The potentially contaminated whey protein was manufactured at one New Zealand plant in May 2012 and sold to eight Fonterra customers, the company said. It is an ingredient in products ranging from baby formula to sports drinks. The U.S. Centers for Disease Control and Prevention describes botulism as a serious

paralytic illness.

About 17 tons of the contaminated protein was used by customers in Australia and New Zealand to make about 2,100 tons of infant formula, Fonterra said today on a call. The rest was used by other customers including Coca-Cola Co. in other products.

There have been no reports of any illness linked to consumption of the affected products, Fonterra said.

Economic Impact

Markets including China, Australia, Thailand, Malaysia, Vietnam and Saudi Arabia may be affected, according to the Ministry for Primary Industries.

It's too soon to speculate on any economic impact on New Zealand, Groser said, adding he's hopeful the trade bans can be lifted in a matter of weeks.

Coca-Cola in China said it quarantined some whey protein it received from Fonterra. Chinese regulators said companies including Hangzhou Wahaha Group and Danone's Dumex brand were among importers of the potentially tainted ingredient. The products were recalled, the regulator said.

Wahaha hadn't found contamination in whey protein imported from New Zealand last year in a recent self-check, the company said in a statement on its website. No food safety issues were found in products already sold and the company is closely screening inventories, it said.

Scott Gallacher, acting director-general at the Ministry for Primary Industries, said earlier today he wasn't aware of any market closures other than China and Russia.

China Trade

Fonterra, which accounts for about a third of the global trade in dairy products and collects milk from 10,500 New Zealand farmers, has said it expects dairy demand in China to double by 2020.

The company started offering baby formula under its own Anmum brand in selected Chinese cities this year. None of its own branded consumer products are affected by the quality issue, Fonterra said.

Prime Minister John Key said today that New Zealand can't afford to lose the trust of Chinese consumers. "It's not what the government thinks, it's what consumers think, and that's our risk now," he told Television New Zealand in an interview.

Spierings, who is visiting China for scheduled meetings, apologized for the incident in Beijing today.

"We deeply apologize to the people who have been affected

by the issue,” Spierings said. Fonterra will be transparent and work with the Chinese authorities to restore confidence, he said.

Recall

Coca-Cola Greater China said in a statement that 25 kilograms of Fonterra’s whey protein were used in the production of isolated batches of the company’s Minute Maid Pulpy Milky product. The company said it will recall products from these batches in China. A further 4,775 kilograms of the whey protein have been quarantined, it said.

External and internal experts confirmed its products are safe due to an ultra-high temperature manufacturing process and low acidity, which sanitizes the final product, Coca-Cola said.

In Vietnam, the health ministry ordered Abbott Laboratories’ local unit to immediately recall and stop circulation of baby formula products imported from Fonterra, according to an Aug. 3 statement. Dumex Thailand said yesterday it was recalling five baby formula products although none had tested positive for contamination.

In New Zealand, five batches of Nutricia Karicare follow-on formula products for babies were identified as potentially containing contaminated protein. Nutricia, part of the Danone Group, recalled two infant formula products in New Zealand.

Public Safety

Australia’s Department of Agriculture said the potentially contaminated ingredient was imported from New Zealand for further processing and it’s investigating whether any consignments have been shipped on from Australia. Fonterra’s “first and foremost interest” is food safety and the safety of people in China and globally, CEO Spierings said in Beijing.

Fonterra drew about 14 percent of its revenue from China in the six months ended Jan. 31, according to data compiled by Bloomberg.

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 caused an industry wide scandal in China, prompting the collapse of Fonterra’s partner Sanlu Group.

China is stepping up scrutiny of local and international food companies. This year it disclosed a probe into pricing of baby formula, prompting companies from Danone to Nestle SA to cut prices. Fonterra in July said it would cut prices in China for Anmum supplements for pregnant women.

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--With assistance from Tracy Withers in Wellington and Xin Zhou in Beijing. Editors: Madelene Pearson, Indranil Ghosh

To contact the reporter on this story:

Matthew Brockett in Wellington at +64-4-498-2215 or

mbrockett1@bloomberg.net

To contact the editors responsible for this story:

Andrew Hobbs at [+61-2-9777-8642](tel:+61-2-9777-8642) or

ahobbs4@bloomberg.net;

Jason Rogers at [+65-6231-3673](tel:+65-6231-3673) or

jrogers73@bloomberg.net