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China to boost domestic formula brands

By Lucy Hornby in Beijing



China is set to unveil subsidies and other support for five of its dairy companies to develop infant formula brands to compete against the foreign brands that currently dominate the premium end of Asia's largest formula market.

If successful, the policy, expected to be announced on Saturday, could create new competition for companies such as [Nestlé](#), [Danone](#) and [Abbott Laboratories](#).

The latest move is a continuation of policies that forced dairy processors to invest in their own dairy farms, after at least six infants died and 300,000 were sickened in 2008 after drinking formula contaminated with melamine, a byproduct of coal. Farmers and middlemen added melamine to substandard milk to pass protein tests.

The scandal and attempted cover-up set off a scramble by Chinese parents to buy foreign brands despite their higher price, with the wealthiest travelling abroad to shop for formula.

The five beneficiaries include China's largest dairy groups – Mengniu, Yili and WonderSun – as well as US-listed Feihe Dairy and the little-known Treasure of Plateau.

The support could add up to Rmb30bn (\$4.9bn), Chinese media said. The Ministry of Industry and Information Technology and the China Dairy Industry Association did not respond to requests for comment.

Ma Junxi, deputy head of WonderSun, said: "Foreign companies already sell a lot of high-end formula but few domestic producers do, so the government wants to choose those with good brands and good systems that can guarantee quality."

Mengniu, which is now controlled by state grains trader Cofco, recently beefed up its formula processing and marketing capacity by buying privately owned Yashili in the southern province of Guangdong.

The addition of Treasure of Plateau has raised eyebrows in China because it only began producing infant formula this year. The company raises herds on the vast grasslands of the Tibetan Plateau and already targets the premium sector with its yak milk powder.

The Chinese formula market is expected to stop growing in the next few years with a steep drop in the number of Chinese women in their 20s after 2017, said Matthieu David, who has conducted formula market research for Daxue Consulting. Meanwhile, rising incomes are expected to intensify competition at the premium end of the market as manufacturers focus on margins rather than volume.

"It's a question of positioning as a premium product," said Mr David. "Getting into the market is important, but it has to be done now."

Chinese mothers associate price with quality and are willing to pay top dollar for imported formula as well as foreign brands made in China.

Foreign companies were recently forced to lower their prices after regulators launched price-fixing investigations, fining some. Beijing also recently took steps to restrict Chinese companies processing powder from New Zealand into "foreign" brands for the Chinese market.

French food company Danone was accused by state television of bribing hospitals in the port city of Tianjin to carry its Dumex infant formula. Danone said it was conducting an investigation and would release the results soon.

Additional reporting by Zhao Tianqi

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