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### EXCLUSIVE

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# a2 extends China milk deal in latest sign tensions with Beijing are easing



by Andrew Tillett

The a2 Milk Company will extend its lucrative arrangement with a massive state-owned agricultural company to sell powdered infant formula into China in a deal that shows trade ties have remained strong despite the well-documented diplomatic differences between Canberra and Beijing.

The deal, which is being covered by an extensive Chinese media contingent, coincides with recent signs of a thawing of the diplomatic freeze that Australia has endured.

A signing ceremony will be held at Parliament House in Canberra on Tuesday for a2 and China State Farm representatives, attended by Trade Minister Steven Ciobo. China's ambassador to Australia, Cheng Jingye, has been invited to attend.

The agreement will renew China State Farm's exclusive import and distribution rights for a2 for another three years, with the option for a fourth.

a2 Milk chief executive Jayne Hrdlicka told *The Australian Financial Review* China State Farm had been an important partner for five years and the new deal cemented both organisations' ambitions to grow sales in China.

"They do a really nice job for us in navigating a gateway into the country and then access out to roughly 62 distributors that help us cover the physical retail market in China for our nutrition product," she said.

"As a state-owned enterprise they have quite a deep perspective on the regulatory framework, the importance of relationships throughout the regulatory system, and they are our eyes and ears in respect to managing a market that isn't our home market.

"Together we realise we have a product which resonates with the Chinese mums and their desire to ensure the best possible nutrition for their children."

Ms Hrdlicka was unable to disclose how much the new contract was worth, citing blackout restrictions before the release of a2's full-year results.

However, the company reported \$114 million in revenue from Chinese and other Asian-market sales in the six months to December 31. a2 has about 5.4 per cent market share of China's premium powder formula segment. China's total infant formula market is worth \$US20 billion annually.

## **Business as usual**

Relations between Beijing and Canberra soured last year over accusations China was interfering in Australian politics, and Chinese anger at Australia's criticism of Beijing militarising the South China Sea and using foreign aid to build influence.

While the strains were largely limited to the diplomatic level – such as a freeze on ministerial visits – there were concerns the damage could spill over into the trade relationship. Wine exporters faced some delays getting product into China, and the industry privately blamed this on the tensions.

Prime Minister Malcolm Turnbull moved last week to reset the relationship with a conciliatory speech acknowledging China's rise did not need to be a threat and that Chinese students in Australia made a valuable contribution to regional stability, a move welcomed by universities who feared a slowdown in enrolments.

Ms Hrdlicka said a2 had not experienced any backlash during the present difficulties.

"We're seeing a market that is continuing without any obvious signs of political influence," she said.

"We've got a consumer that is very focused on the underlying health and nutrition of their children, and that's a big priority, as it is in every country around the world.

"There is a lot of discussion about the increasing power of the Chinese consumer market and increasing consumerism in China, and I think that we're in a category that is very obvious and evident."

As part of the visit by China State Farm officials, a2 has paid for nine Chinese journalists to come to Australia whose coverage is seen by a potential audience numbering in the hundreds of millions of people. The journalists visited a2's western Sydney factory and a supermarket on Monday, and will travel to a dairy farm, to gain a better understanding of the brand.

Mr Ciobo said the a2-China State Farm deal builds on the Chinese-Australia Free Trade Agreement and would help continue growing exports.