Fonterra in Latin America: a Case Study of a New Zealand Company Abroad

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Political Science 2009 61: 19
DOI: 10.1177/00323187090610010301

POLITICAL SCIENCE, VOL. 61, NO. 1, JUNE 2009, PP. 19-32

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Abstract: *This article looks at Fonterra's investments into the Latin American dairy industry. It traces the development of the New Zealand co-operative from exporter of New Zealand dairy products to investor into other countries. It explains why Latin America is a particular focus of this expansion, and outlines the Dairy Partners America alliance with Nestlé. The article narrates the controversies and achievements of Fonterra's involvement in Chile, the site of most investment, before considering how New Zealand involvement affects the development of the Chilean dairy industry.*

Keywords: *Fonterra, Latin America, New Zealand*

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INTRODUCTION

Foreign investment in one's home country is an emotive issue. The prospect of foreigners buying New Zealand companies – Auckland airport, for example – leads the public to consider the possible loss of economic sovereignty, and even identity, as the nation's riches are siphoned off to faraway lands. New Zealand Dairies Ltd is a small, relatively new South Canterbury dairy company. Even so, the approval of its purchase by the Russian company Nutritek – the first foreign ownership of such a sacred cow as a dairy company – provoked debate in Parliament and in the media. The statements made by the Overseas Investment Office in its May 2008 approval of the investment were trundled out: the creation of new jobs, the introduction of new technology and business skills to New Zealand, increased export receipts, and greater market competition and efficiency.[1] On the other side of the debate, New Zealand First MP Winston Peters described Nutritek's purchase as 'the start of a big foreign campaign to buy out the New Zealand dairy industry … New Zealanders appear to face a certain future as the lowly paid servants of foreign masters in the farming industry.'[2]

When New Zealand is on the delivering, rather than receiving end of foreign investment, debate is no less polarised. This article looks into the investments of New Zealand's largest company, Fonterra, into Latin America, primarily Chile. Fonterra has been increasing its presence in the Latin American region since 2001, and in April 2008 obtained a majority stake in Chile's largest dairy processing company, Soprole. Fonterra executive Philip Turner describes its interests in Chile as 'working with the local industries to create and build major export businesses with the help of New Zealand expertise.' It is 'a classic case of working

[1] Michael Cullen, 'Nutritek gets green light to increase stake in NZDL', Government Media Release, 27 May 2008, http://www.beehive.govt.nz/release/nutritek+gets+green+light+increase+stake+nzdl (3 July 2009).
[2] Winston Peters, 'Kiwis sold out in NZDL sale to Russians', New Zealand First Media Release, 27 January 2008, http://www.scoop.co.nz/stories/PA0805/S00554.htm (20 March 2009).

together to the advantage of both sides.'[3] On the other side, the president of Fedeleche, Chile's national federation of milk producers, argues that: 'New Zealand recognizes our milk producing potential and through control of the business Soprole [has] taken charge of generating conditions to impede the development of [Chile as] a new competition in international markets.'[4]

Foreign investment refers to the 'international capital flows by which a firm in one country creates or expands a subsidiary in another.'[5] Firms are profit-driven, and will invest outside their home countries if it is believed higher returns can be obtained from location specific advantages such as low cost labour and capital and strategic assets. A multinational corporation (MNC), by operating overseas, creates an internal market between itself and its subsidiaries that allows it to bypass the real-world market, in what is called 'internalisation.' In one (the orthodox or neoliberal) point of view, this maximises global welfare by increasing efficiency; it allows firms to bypass market imperfections, and utilise advantages such as specialisation and superior co-ordination.[6] In the alternative (structuralist or Marxist) point of view, foreign investment is not carried out in the pursuit of efficiency; rather it seeks to control foreign operations, for 'the reduction of rivalry':[7] that is, 'in order to remove competition between the foreign enterprise and enterprises in other countries.'[8]

Unsurprisingly, opinions vary on the effect of investment from developed countries, such as New Zealand, to developing countries, such as those of Latin America. The orthodox view is of foreign investment as a central tool for development. Foreign investment provides access to technological, organisational and skill assets that can assist the host country in its development through improving production and training workers. It is also a net addition to resources, can contribute jobs, can stimulate local entrepreneurship, spur competition and enhance market access.[9] The alternative perspective sees foreign investment as inimical to development, with limited prospects for employment creation and a tendency to transfer profits out of the host country. As the purpose of foreign investment is to reduce competition, it will not transfer its technology to the host country. Foreign companies will monopolise the industry, crowding out local firms and increasing prices.[10] Politicians and their policy makers of course follow votes rather than economic theories, as the rejection by the neoliberal Labour government of the sale of a 40 percent stake in Auckland Airport to a Canadian pension fund in April 2008 makes clear.[11]

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[3] Philip Turner, 'Using Our Geography: New Zealand, Asia and Latin America in a World of Multiplying Trade Agreements', NZCLAS Seminar, 19 July 2005, http://www.arts.auckland.ac.nz/research/index.cfm?P=9395 (25 May 2008).

[4] Jorge Alamos Rodríguez, 'Carta al Presidente Lagos de Fedeleche', Fedeleche Press Release, 18 March 2002, http://www.fedeleche.cl/comunicados/d_al_presidente20020318.htm (25 May 2008). [Note: all renderings from Spanish into English are by the author].

[5] P.R. Krugman and M. Obstfeld, *International Economics: Theory and Policy* (New York: Addison-Wesley, 2003), p. 171.

[6] Pradeep Kanta Ray, *FDI and industrial organization in developing countries: the challenge of globalisation in India* (Hampshire: Ashgate, 2005), p. 16.

[7] Stephen Hymer cited in John H. Dunning and Christos N. Pielis, 'Stephen Hymer's contribution to international business scholarship: an assessment and extension', *Journal of International Business Studies*, vol. 39 (January 2008), p. 176.

[8] Stephen Hymer cited in Kanta Ray, FDI *and industrial organization in developing countries: the challenge of globalisation in India,* p. 22.

[9] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development* (New York and Geneva: United Nations, 1999).

[10] Kanta Ray, *FDI and industrial organization in developing countries: the challenge of globalisation in India,* p. 23.

[11] David Parker, 'Ministers release decision on overseas investment proposal for Auckland International Airport,' Government Press Release, 11 April 2008, http://www.beehive.govt.nz/release/ministers+release+decision+overseas+investment+proposal+auckland+international+airport (30 March 2009).

This article looks at foreign investment by telling the story of Fonterra's purchases in Latin America, focusing on Chile, where Fonterra's presence is strongest in the region.[12] It is a story seldom told, and an unfamiliar one: New Zealand, so accustomed to being a small fish in a big pond when it comes to business, is an important and sometimes feared presence in the Latin American dairy industry. The article is divided into three sections. The first section looks at the New Zealand dairy industry and describes its shift in focus from exporting to investing in other countries. It explains why and how Fonterra has radically increased its involvement in Latin America in recent years, and the company's regional strategic alliance with Nestlé. The second section looks specifically at Chile, describing the controversies associated with purchasing Soprole, one of the country's largest dairy companies. The third section returns to the debate on the effects of foreign investment outlined above, to discuss how New Zealand investment affects the development of the Chilean dairy industry.

THE NEW ZEALAND DAIRY INDUSTRY AND THE WORLD

New Zealand is one of the world's most efficient dairy producers. This is due to its low-cost, low-input pasture-based production system, established industry infrastructure, decades of government subsidies and support of research and development, a highly skilled workforce, and the absence of dairy price supports since 1988, which has removed uncompetitive producers.[13] Like other dairy industries, New Zealand's has become increasingly concentrated. In 1935 there were 400 co-operatives and by 1960 this had dropped to 180. By 2001 there were just four, and by the end of that year, 95 percent of milk production was concentrated into just one co-operative.[14]

Due to a small domestic market, New Zealand exports 97 percent of its dairy produce.[15] Over several decades, efficiency gains alongside the conversion of sheep land into dairy has been enough for dairy production to keep growing – at the high rate of 6.2 percent per annum from 1995-2001 – and keep up with expanding overseas demand. However, by 2001 it was recognised that, due to environmental constraints, production growth in New Zealand was finite.[16]

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[12] This strong presence is reflected by large New Zealand investments into dairy production in Chile. Drawn by similar environmental and soil conditions, Fonterra's presence, the P4 partnership, an inviting tax regime, and vastly cheaper land and labour, New Zealand investors have purchased significant quantities of land in Chile's southern regions to convert to New Zealand style dairy farms. Reactions have been mixed: New Zealanders have been applauded for bringing in capital and passing on superior dairying techniques, while their purchases have been criticised for pushing up prices beyond the reach of local investors (E. Moraga Vásquez, 'Neozelandeses invierten en lecherías de la X Región', *Revista del Campo, El Mercurio*, 27 November 2006, http://www.produccionbovina.cl/wwwfondef/noticia.php?codigo=1471 (25 May 2008); New Zealand Trade and Enterprise (NZTE), 'NZTE P4 Workshops: A report on the four workshops organised by NZTE and held around New Zealand in November 2005', 2006) http://www.nzte.govt.nz/common/files/p4-workshops.pdf (25 May 2008); ProChile, 'Inversionistas Lecheros Neozelandeses Apuestan al Mercado Lácteo Chileno', *TodoChile Nº359,* 25 November 2005, http://www.prochile.cl/rancagua/ver_noticia.php?IdNoticia=252 (25 May 2005); Luis Fromin, 'Inversionistas lecheros neozelandeses aterrizan en la X Región apostando al mercado lácteo', *La Tercera,* 30 October 2005, http://www.icarito.cl/medio/articulo/0,0,3255_5676_168282431,00.html (30 March 2008)).

[13] David Colman, 'Market and structural change in the dairy sector' in OECD, *Global Trends in the Dairy Industry: Outlook for the Baltics* (Paris: OECD, 2002), p. 102.

[14] Jerker Nilsson and Camilla Ohlsson, 'The New Zealand Dairy Cooperatives' Adaptation to Changing Market Conditions', in *Journal of Rural Cooperation*, vol. 35, no. 1, 2007, p. 44.

[15] Pavel Vavra cited in Colman, 'Market and structural change in the dairy sector.'

[16] W.D. Dobson and Andrew Wilcox, 'How Leading International Dairy Companies Adjusted to Changes in World Markets', in Babcock Institute for International Dairy Research and Development Discussion Series, 2002, p. 6.

In addition, the failure of the Uruguay round of trade negotiations to produce substantive dairy trade liberalisation meant that the New Zealand industry realised that finding new markets to export would not be getting any easier. In the words of one executive, '[w]hile we have been successful in achieving a third of international dairy trade … the lion's share of the global dairy business is not traded across borders … Ninety four percent of the market is largely inaccessible to us because of trade restrictions.'[17] New Zealand's new strategy would be to concentrate on investing as well as exporting, seeking acquisitions and joint ventures in different growth markets.[18]

Partly to fulfil these aims, the dairy industry proposed a merger of the New Zealand Dairy Board (NZDB), which had to this point been the sole overseas marketer of New Zealand milk, and the two largest cooperatives (the New Zealand Dairy Group and Kiwi), which had controlled the NZDB and were responsible for 95 percent of dairy production.[19] The government passed special legislation to allow the company – Fonterra – to form, and it was approved by 84 percent of shareholders in 2001.[20]

Fonterra is a cooperative owned by its 11,000 farmers; however, in recent years attempts have been made to get shareholders to approve a public share sale in order to access more capital for global expansion.[21] Fonterra is fully vertically integrated: it runs dairy herds, manufactures and distributes dairy products, and is responsible for packaging, transportation, shipping and quality control.[22] Fonterra generates 20 percent of New Zealand's export receipts and 7 percent of its GDP. It produces and exports commodities to 140 countries, and is responsible for a third of international dairy trade.[23]

Overseas expansion began days after Fonterra came in to being. In 2001 Fonterra announced plans for co-operation with Nestlé in the Americas, Arla in the United Kingdom and Britannia Industries in India.[24] Such strategic partnerships allow Fonterra to secure supplies of milk from diverse regions, reducing price volatility.[25] It is also a way to enter markets where demand is met by local supply without major capital investments and financial risk.[26] This especially facilitates entry into developing country markets, which can otherwise be difficult because of the tendency towards disorganised supply structures.[27] Thus, Fonterra's idea is 'to put your horsepower behind local brands and improve them, forming alliances and making acquisitions behind country borders and trade barriers.'[28]

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[17] Roadley cited in Dobson and Wilcox, 'How Leading International Dairy Companies Adjusted to Changes in World Markets', p. 12.

[18] Roadley cited in Dobson and Wilcox, 'How Leading International Dairy Companies Adjusted to Changes in World Markets', p. 12.

[19] The merger bypassed scrutiny by the Commerce Commission, the competition authority. It drew criticism from commentators who argued that it was anti-competitive (*National Business Review*, 2001 cited in Nilsson and Ohlsson, 'The New Zealand Dairy Cooperatives' Adaptation to Changing Market Conditions', p. 53).

[20] Nilsson and Ohlsson, 'The New Zealand Dairy Cooperatives' Adaptation to Changing Market Conditions', p. 44.

[21] Dean Best, 'Fonterra's farmers must back share sale', *Just Food,* 16 November 2009, http://www.just-food.com/article.aspx?id=100380 (15 March 2008).

[22] Chris Bolling and Mark Gehlhar, 'Global Food Manufacturing Reorients To Meet New Demands' in Anita Regmi and Mark Gehlhar (eds.), *New Directions in Global Food Markets* (Washington D.C.: United States Department of Agriculture, 2005), p. 72.

[23] Nilsson and Ohlsson, 'The New Zealand Dairy Cooperatives' Adaptation to Changing Market Conditions', p. 46.

[24] A. Krijger, 'Structural developments in the dairy processing sector' in OECD, *Global Trends in the Dairy Industry: Outlook for the Baltics* (Paris: OECD, 2002), p. 102.

[25] Don P. Blayney and Mark J. Gehlhar, 'US Dairy at a New Crossroads in a Global Setting', *Amber Waves* (Washington D.C.: United States Department of Agriculture, 2005), p. 34.

[26] Blayney and Gehlhar, 'US Dairy at a New Crossroads in a Global Setting', p. 34.

[27] Rabobank cited in Vivien Knips, *Developing Countries and the Global Dairy Sector: Part 1 Global Overview* (Rome: Food and Agriculture Organisation, 2005), p. 18.

[28] Former chief executive of the NZDB Warren Larsen cited in Hugh Stringleman, 'Finally Fonterra' in *Marketing Magazine,* October 2001, http://www.archivesearch.co.nz/?webid=MKT&articleid=1153 (30 March 2008).

While Fonterra has extended its reach into various regions, Latin America has been a particular focus. Reasons cited by Fonterra include the suitable natural conditions for efficient dairy farming,[29] the relative closeness of Latin America to New Zealand as opposed to other growth regions such as Eastern Europe or China,[30] and the fact that dairy is already an accepted part of the Latin American diet.[31] Such investment is promoted by the governments of Chile and New Zealand under the closer economic partnership known as the Trans-Pacific Strategic Economic Partnership.[32] Finally, a primary reason was the likelihood of a major competitor export business rising in Latin America, and, as Fonterra's CEO put it, '[f]rankly we intend to be that individual rather than waiting for somebody else to do it.'[33] Or, in the words of New Zealand's then Minister of Trade,

> We're not going to be able to stop [the development of a dairy industry], the question is whether we collaborate with it and gain commercial advantage from so doing rather than simply go out and try to compete against a country that has a vastly greater land area and vastly lower costs.[34]

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[29] Turner, 'Using Our Geography: New Zealand, Asia and Latin America in a World of Multiplying Trade Agreements'.

[30] O. Hembry, 'New Zealand's Latin love affair', *New Zealand Herald,* 8 December 2007, http://www.nzherald.co.nz/section/3/story.cfm?c_id=3&objectid=10481113&pnum=1 (30 March 2008).

[31] Andrew Ferrier cited in Hembry, 'New Zealand's Latin love affair'; Craig Norgate cited in Stringleman, 'Finally Fonterra'.

[32] The TPSEP, or Pacific Four (P4), which covers Chile and New Zealand as well as Singapore and Brunei, entered into force in 2006. Special allowances were made in regard to dairy to placate Chilean farmers who feared an influx of cheaper New Zealand products. The agreement has had limited impact on trade, and is better understood as an investment agreement, giving Chilean business access to superior technology and New Zealand investors access to relatively low labour costs (J.R. Barton, R.N. Gwynne and W.E. Murray, 'Competition and co-operation in the semi-periphery: closer economic partnership and sectoral transformations in Chile and New Zealand', *The Geographical Journal,* Vol. 173, September 2007, p. 230). While negotiation on the investment section of the agreement has not yet been completed (Ministry of Foreign Affairs and Trade, 'Pacific Four (Chile-Singapore-Brunei Darussalam-New Zealand) Closer Economic Partnership - Information Bulletin and Call for Submissions', February 2008, http://mfat.govt.nz/Trade-and-Economic-Relations/Trade-Agreements/Trans-Pacific/Information-Bulletin-Feb-2008.php (20 March 2008)), even from its first stage the P-4 encouraged investment in less concrete ways. As a New Zealand official told a Chilean newspaper, 'the P4 shows that the New Zealand government recognises Chile as a trustworthy country' (Oehninger cited in Marcelo Valdebenito, 'Expectativas del TLC P4: Un acuerdo en el que todos ganan', *El Mercurio,* 11 March 2006, http://www.edicionesespeciales.elmercurio.com/destacadas/detalle/index.asp?idnoticia=0110032006021X0030058&idcuerpo=497 (30 March 2008)). A strategic alliance between the two nations' economic development agencies aims, in the words of New Zealand's then Prime Minister Helen Clark, to promote 'the involvement of a significant number of New Zealand businesses in Chile through investment, joint ventures, and licensing agreements by 2010, and using NZTE [New Zealand Trade and Enterprise] and CORFO [Corporación de Fomento de la Producción – Chile's economic development agency] programmes and funds to facilitate bilateral commercial partnerships' (Helen Clark, 'New Zealand's growing relationship with Chile', Government Press Release, 21 November 2006, http://www.beehive.govt.nz/node/27787 (20 March 2008)). CORFO is presently carrying out the 'CHILE INVEST Beef & Dairy Expanding Markets.' Through this Chile is promoted as 'an attractive platform for production and export, given the availability of fertile land, competent labour, competitive prices, political and economic stability, in addition to its advanced road infrastructure and optimal phytosanitary conditions' (CORFO, 'Chile busca atraer inversiones neozelandesas en los sectores lácteo y ganadero', 2007, http://www.corfo.cl/opensite_det_20071210163614.aspx (25 May 2008)). The first of the activities of the programme, undertaken with NZTE in November 2007, was to invite a delegation of New Zealand journalists to Chile to visit Chile to promote the advantages of investing in beef and dairy in Chile's southern regions (CORFO, 'Chile busca atraer inversiones neozelandesas en los sectores lácteo y ganadero'). On the New Zealand side, there are various 'Go to Chile' seminars to teach companies and farmers how to do business in Chile (Derek Fairweather cited in E. Moraga Vásquez, 'Neozelandeses invierten en lecherías de la X Región', *El Mercurio,* 27 November 2006, http://diario.elmercurio.cl/detalle/index.asp?id=%7Bd86fdf42-b3ce-4d11-affa-eab45584fd89%7D (27 April 2009)).

[33] Andrew Ferrier cited in Hembry, 'New Zealand's Latin love affair'.

[34] Phil Goff cited in Hembry, 'New Zealand's Latin love affair'.

New Zealand dairy has been involved in Latin America since the mid-1980s, primarily as an importer of New Zealand dairy products, but also as an investor in processing firms in Venezuela, Chile and Mexico.[35] New Zealand became more active in the region when Fonterra was established in 2001. In fact, the name Fonterra was chosen partly because of its resonance to Spanish speakers, reflecting Fonterra's major market intentions for the region.[36] As stated by present CEO Andrew Ferrier, 'we started focusing on growing behind borders when we formed Dairy Partners America (DPA) in 2002 with Nestlé in South America.'[37]

Dairy Partners America (DPA) is a joint venture between Fonterra and Nestlé, one of the world's largest food and beverage companies. Fonterra provides 'the expertise in large-scale milk procurement, processing, technologies and brands' and Nestlé provides 'its brands, product development expertise and distribution infrastructure.'[38] Fresh milk is sourced from dairy farmers in the region (at present Bermuda, Brazil, Argentina and Ecuador) with ingredients obtained in New Zealand. A variety of dairy products such as chilled milk drinks, milk powders and liquid milk are marketing under DPA using existing brands of either company.[39] The first step of DPA was to restructure the two companies' share holdings in the region to give them 50/50 ownership.

At its establishment in 2002, Fonterra had inherited the ownership of 100 percent of New Zealand Milk Products (NZMP) companies in Venezuela, Mexico, Guatemala and Panama (responsible for Central America) and Peru. It had also inherited shares in the processing companies mentioned: 51 percent of Soprole (Chile), 100 percent of Cadiro Milk Products SA (Venezuela) and 50 percent of Corporación Inlaca CA (Venezuela), and 100 percent of Lacteos Finos (Mexico).[40] In the first stage of DPA, from January 2003, Fonterra purchased 50 percent of Nestlé's businesses in Argentina and Brazil,[41] and Nestlé purchased 50 percent of Fonterra's ownership of Corporación Inlaca CA. Fonterra also divested from Central America.[42]

In the second phase of DPA, from July 2004, Fonterra and Nestlé began joint operations in Ecuador and Colombia,[43] and agreed to manage parts of the major Argentinean company Sancor's consumer products business, and to market and distribute its exports.[44] Fonterra divested from Mexico in 2004 following the poor performance of its Mexican companies.[45] In

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[35] Barton, Gwynne and Murray, 'Competition and co-operation in the semi-periphery: closer economic partnership and sectoral transformations in Chile and New Zealand', p. 232.
[36] Craig Norgate cited in Stringleman, 'Finally Fonterra'.
[37] Andrew Ferrier cited in Andrew Janes, 'Milk 'n Money go hand in hand', *Dominion Post,* 14 July 2007.
[38] Nestlé, 'Nestlé and New Zealand's Fonterra to Enter into Dairy Alliance for the Americas', 30 August 2001, http://www.Nestlé.com/MediaCenter/PressReleases/AllPressReleases/FonterraDairyAllianceAmericas-30Aug01.htm?Tab=2001 (30 March 2008).
[39] Nestlé, 'Nestlé and New Zealand's Fonterra to Enter into Dairy Alliance for the Americas'.
[40] Fonterra, *Annual Report 2002,* March 2002, http://www.fonterra.com/wps/wcm/connect/5fae8500452c4d7bb487ff873d7e2c80/fonterra_annual_report_2002.pdf?MOD=AJPERES (29 March 2008), p. 68.
[41] Fonterra, *Annual Report 2003*, March 2003, http://www.fonterra.com/wps/wcm/connect/8d42e380452c4c40a16eff873d7e2c80/2003_AR.pdf?MOD=AJPERES (20 March 2008), p. 20.
[42] Fonterra, *Annual Report 2003,* p. 19.
[43] Fonterra, *Annual Report 2004,* March 2008, http://www.fonterra.com/wps/wcm/connect/d9fef980452c4dbbb68aff873d7e2c80/Fonterra_Annual_Report_03_04.pdf?MOD=AJPERES (25 May 2008), p. 10.
[44] Fonterra, *Half Year Report,* November 2004, http://www.fonterra.com/wps/wcm/connect/98267280452c4d2bafb6ff873d7e2c80/Interim+Report+-+final.pdf?MOD=AJPERES (25 May 2008), pp. 3-4.
[45] Fonterra, *Annual Report 2004,* March 2004, http://www.fonterra.com/wps/wcm/connect/38a36680452c4c48a18aff873d7e2c80/FonterraHalfYear2005-2006.pdf?MOD=AJPERES (25 May 2008), p. 4.

2005, DPA's joint ventures in Brazil, Argentina, Venezuela, Colombia, and Ecuador collected 2.5 billion litres of milk in total.[46]

The advantages of the alliance are, according to Nestlé: 'combined sales progression in existing and new markets, optimization of capital expenditures through optimal use of each others' assets, cost efficiency through the use of their respective infrastructures, optimal use of resources, distribution and manufacturing strengths, purchasing synergies and optimal use of research and development as well as product development resources.'[47] However, it also allows the two to combine their market power to potentially control prices. Such a strategic alliance echoes one observed in various product markets, of 'oligopolistic disequilibrium … in which the leading participants are attempting to maintain or improve on their market share through takeovers and alliances until a new oligopolistic equilibrium is reached.'[48] While investing in Latin America allows Fonterra to combat the threat of the rise of a dairy export business that could rival New Zealand, its partnership with Nestlé allows it to reduce rivalry within the Latin American market.

FONTERRA IN CHILE

Chile has about 16,000 dairy farmers, who produce 2 million tonnes of milk per annum.[49] Government studies indicate that the South, especially the 10th Region, could potentially triple its dairy production.[50] The top processor of milk in Chile is Soprole, which in 2004 processed 22.5 percent of the total milk received by industrial plants.[51] Chile has been a net exporter since 2001, with most exports going to Latin American countries, assisted by Chile's web of free trade agreements. In 2003 Chile exported US$55 million worth of dairy products, compared to only $5 million worth in 1990.[52] In 2004 Soprole was responsible for 36 percent of total dairy exports,[53] and dairy is thought to be a key export for the future. According to Rodrigo Varela, Soprole's export manager, 'the country has achieved self-sufficiency and if we want to grow beyond internal demand, we must look for new market alternatives.'[54]

The New Zealand Dairy Board (NZDB) bought 51 percent of Soprole in 1987. Most of the dairy imported to Chile from New Zealand from this time was intra-company trade between Soprole and the NZDB. Concurrent with the rise of domestic milk production and the rise in imports from Argentina under Mercosur tariff reductions, imports from New Zealand fell from 16.5 thousand tonnes of dairy products in 1995/6 to 2000 tonnes in the 2002/3 year.[55] As New

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[46] Turner, 'Using Our Geography: New Zealand, Asia and Latin America in a World of Multiplying Trade Agreements'.
[47] Nestlé, 'Nestlé and New Zealand's Fonterra to Enter into Dairy Alliance for the Americas'.
[48] South Centre, *Foreign Direct Investment, Development, and the New Global Economic Order: a policy brief for the South* (Geneva: South Centre, 1997), http://www.southcentre.org/index.php?option=com_docman&task=doc_download&gid=199&Itemid=68 (27 May 2008), p. 32.
[49] In comparison, New Zealand produces 12 million tonnes per year, Argentina produces 8 million tonnes per year, and the US produces 76 million tonnes (OECD, *Global Milk Production: Comparative Trends and Potential and the World Market* (London: DSF Conference, 2004)).
[50] Fonterra, *Chile Report,* http://chileanexperience.com/images/Chile_report_Feb_05_.doc (25 May 2008), p. 13.
[51] H. Fazio, *La transnacionalización de la economía chilena* (Santiago: Lom Ediciones, 2005), p. 273.
[52] Fonterra, *Chile Report,* p. 8.
[53] Fazio, *La transnacionalización de la economía chilena,* p. 276.
[54] Rodrigo Obreque Echevarria, 'La industria láctea mira al exterior', *El Mercurio,* 4 July 2007, http://www.portalechero.com/ver_items_descrip.asp?wVarItem=1209 (25 May 2008).
[55] Fonterra, *Annual Report 2005,* March 2005, http://www.fonterra.com/wps/wcm/connect/38a36680452c4c48a18aff873d7e2c80/FonterraHalfYear2005-2006.pdf?MOD=AJPERES (30 May 2008).

Zealand imports to Chile became less important, the New Zealand shareholder sought to exercise more control over the local dairy business.

Thus the NZDB's 2001 rebirth as Fonterra, the global dairy giant which wished to 'grow behind borders', more or less coincided with several key events in Soprole and in Chile's dairy industry. Firstly, the low milk prices of the late 1990s had meant that management were prepared to make major changes to become a world class low cost milk producer.[56] Secondly, and linked to this, Soprole's reputation in the industry was worsening because of 'purchasing price reductions, cartel activity, and not meeting union demands on the distribution of quotas'.[57] Thirdly, Chile had become a net dairy exporter, so the main avenue for growth would be exporting rather than increasing the domestic market.[58]

While the NZDB had been throughout the 1990s 'essentially a passive investor', Fonterra was, in the words of Fonterra's chairman, 'committed to taking a more active role.'[59] In the words of Jose Luis Letelier, president of Soprole, 'Fonterra [or the NZDB] was an absent controller. Its directors came once a month, it was all very nice, but they didn't interfere … And they didn't because the situation did not merit it. Then Chile became a net exporter and Fonterra became an international company and formed an alliance with Nestlé. All this meant Fonterra took a position of control that it did not exercise before.'[60]

Fonterra's newly active role led to a relationship with the other major shareholder, Fundación Animat, described by Soprole's director as 'not a very harmonious marriage.'[61] Fundación Animat, as a charitable organisation established by one of Soprole's original founders, was committed to raising funds for children with Downs Syndrome as well as watching out for the interests of Chile's milk producers. One observer described a shareholders' meeting in the following way: 'There are so many shouts, disagreements and verbal insults between the two … that it is difficult to believe that they can make any decisions.'[62] Criticism was directed at Fonterra by Fundación Animat and others for changes in management and style, for its detrimental effects on the Chilean dairy industry, and for its attempts to merge Soprole into the DPA.

Some commentators resented the fact that Fonterra replaced Soprole's director, Enrique Alcalde, who was also head of Fundación Animat. In response, Soprole's new director, José Luis Letelier, asked, 'Why should we not have representation in management in proportion to our control?'[63] Criticism was also directed at Fonterra for holding meetings at odd times, insisting these were held in English, insisting on moving some meetings to New Zealand, and allowing Fonterra and not Soprole employees to claim expenses from these meetings. These claims have been disputed, Letelier arguing that these were decisions made unanimously and that learning from New Zealand as an exporter was important.[64] Representatives of Fundación

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[56] M. Angelica Zegers, 'Soprole.....Y lo pudieron lograr', *Capital,* 18 June 2004, http://newsletter.asapchile.net/capital/Capital_Soprole.asp (25 May 2008).
[57] Barton, Gwynne, and Murray, 'Competition and co-operation in the semi-periphery: closer economic partnership and sectoral transformations in Chile and New Zealand', p. 232.
[58] Frank H. Fuller, John C. Beghin, Michael Boland, Bruce A. Babcock and William Foster, *Global Prospects for Dairy in Argentina and Chile: Evidence from Field Visits and Model Simulations* (Iowa: Midwest Agribusiness Trade and Research Centre, Iowa University: 2006), http://www.card.iastate.edu/publications/DBS/PDFFiles/06mbp11.pdf (25 May 2008).
[59] Greg Gent, 'Address to Wellington Breakfast for the Chilean Business Delegation', 21 November 2006, http://www.lanzbc.co.nz/final%20speech.doc (30 March 2008).
[60] Cited in Lorena Medel, 'Soprole: Moscas en la leche', *Capital,* 27 August 2004, http://newsletter.asapchile.net/capital/Capital_Soprole2.asp (30 May 2008).
[61] Cited in 'Eduardo Teisaire llega a encabezar Soprole', *El Diario Financiero*, 30 April 2008, http://www.fedeleche.cl/pub/index.php?option=com_content&task=view&id=984&Itemid=1 (30 May 2008).
[62] Medel, 'Soprole: Moscas en la leche'.
[63] Cited in Medel, 'Soprole: Moscas en la leche'.
[64] Medel, 'Soprole: Moscas en la leche'.

Animat also complained of 'harassment' by Fonterra to sell their shares so that Soprole could align with Nestlé under the DPA. In response Letelier replied that 'these are economic, and not political decisions.'[65]

Other commentators accused Fonterra of using Soprole as part of its global strategy in a way that would sacrifice both Soprole and the Chilean dairy industry. It was argued that 'Fonterra intends to change the company to a mere exporter of prime materials … via its subsidiary Prolesur[66]… [T]hey are only interested in Soprole and its [proposed] alliance with Nestlé, as it opens up the world market to provide it with its principal commodity, powdered milk.'[67] Apparently, the only thing that Fonterra knew how to do was 'to take the milk out of the cow and dry it,'[68] and Fonterra therefore does not know about and is not interested in adding value, despite the fact that 'the success of Soprole is based on elaborated products, and its brands.'[69] While it is certainly true that Soprole has been making large investments into milk powder plants, its directors argued that this would be to the benefit of the business.[70]

Another cause for dispute between Fonterra and Fundación Animat was the former's attempts to bring Soprole into the DPA by incorporating Soprole with Nestlé's Chilean venture, as the companies had done throughout the region since 2003. However, aware that this would concentrate 60 percent of Chile's industrial milk production, Chile's competition authority (the Tribunal de Defensa de la Libre Competencia (TCLC) warned that in the event of establishing an alliance the two companies would have to seek approval from the authority first.[71] The Fundación Animat and Fedeleche both opposed the idea, arguing that further concentration in the industry would worsen prices for producers.[72]

It was not until May 2006 that Nestlé made a proposal to the authority. The proposal was not to fuse the two companies, but to create a third company that was owned between them and would produce and commercialise fresh milk, yoghurt and desserts. Thus the companies would continue competing in other types of dairy products, including powdered milk, cream, cheese, butter, *dulce de leche*[73] and condensed and evaporated milk. Nestlé argued that applying the alliance to only some products would prevent a monopoly, and that there was no barrier to prevent other companies from competing. The entity would control only 48.7 percent of liquid milk, 61.3 percent of yoghurt and 92 percent of refrigerated desserts.[74] Nestlé said that the advantages of the alliance would be as follows: lowering the price of products and optimising production efficiencies; more effective publicity for investment; minimising costs in transport, distribution and commercialisation; and increasing export efficiencies.[75]

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[65] Medel, 'Soprole: Moscas en la leche'.
[66] Prolesur is the branch of Soprole which takes care of the process of buying and processing milk from producers (*El Diario Financiero,* 'Fundación Aninat tras venta de 43% de Soprole: "Se hará un uso profesional de los recursos"', 29 April 2008, http://www.fedeleche.cl/pub/index.php?option=com_content&task=view&id=983&Itemid=1 (27 March 2008)).
[67] Sebastián Oddó cited in 'Soprole: Moscas en la leche'.
[68] Oddó cited in 'Soprole: Moscas en la leche'.
[69] Medel, 'Soprole: Moscas en la leche'.
[70] Medel, 'Soprole: Moscas en la leche'.
[71] Cristian Rodriquez, 'Próxima a cerrarse está fusión Soprole-Nestlé', *El Mercurio,* 7 July 2003, http://diario.elmercurio.cl/detalle/index.asp?id={78c89902-3652-4858-bb2d-70dab9a2445b} (20 May 2009).
[72] Medel, 'Soprole: Moscas en la leche'.
[73] *Dulce de leche* is a caramel spread.
[74] Andrea Ornelas, 'Nestlé busca alianza estratégica en Chile', Swiss-info, 4 July 2006, http://www.swissinfo.ch/spa/portada/Nestlé_busca_alianza_estrategica_en_Chile.html?siteSect=105&sid=6867600&cKey=1152011869000&ty=st (30 May 2009).
[75] 'Los argumentos de Nestlé para defender la alianza con Soprole en el TDLC', *El Diario*, 6 June 2006, http://mail.fne.cl/db/actualidad.nsf/88f4113ea5bc795b8425733e00712d52/486ECCD93297FDB484257185004BF622?OpenDocument (20 May 2009).

Fedeleche reiterated its opposition before the competition authority. It was also opposed by Chilean dairy companies Danone and Colun.[76] Furthermore, the National Economic Prosecutor gave evidence to the authority that the proposal was 'worrying' as it would 'impede, restrict or hinder competition' and would be a mere preamble to the DPA itself.[77] Whether the authority would have agreed is not known, as Nestlé withdrew its proposal because the exact details of the alliance were delayed for several months and finally did not meet official requirements.[78] Chile's leading newspaper stated that as of January 2008 the firms were preparing a new petition to the TDLC.[79]

Fonterra has attempted to obtain full ownership of Soprole since 2001. It managed to increase its shareholding to almost 57 percent by December 2003;[80] however, the other major shareholder, the Fundación Animat, refused to sell. It was not until late 2007 that rumours of a change of mind began to circulate. The purchase of the Fundación Animat's shares in April 2008 for US$200 million means that Fonterra now owns 99.4 percent of Soprole[81] and 86.2 percent of Prolesur.[82]

According to Fonterra CEO Andrew Ferrier, Soprole was bought out of a desire to 'create new opportunities in the rapidly expanding South American dairy markets.'[83] However, there are several other reasons Fonterra wished to obtain full ownership. Firstly, it would simplify the decision-making process, as Fonterra and Fundación Animat had not been seeing eye-to-eye for several years.[84] This would mean more control over the ingredients end of the business, which had been run quite independently of Fonterra, as, according to Ferrier, Fonterra needs 'another good source of high-quality milk that we can move into our international network.'[85] In addition, full ownership would, again in the words of Ferrier, 'allow us to focus more on sharing ideas around Soprole's consumer products and brand people and other parts of Fonterra' which would mean Fonterra 'won't have to worry about a minority partner in sharing ideas and technology and so on.'[86]

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[76] 'FNE se opone a posible alianza estratégica entre Nestlé y Soprole', *El Diario,* 7 June 2006, http://mail.fne.cl/db/actualidad.nsf/88f4113ea5bc795b8425733e00712d52/F7927E0220D4C3E3842571A3004DD128?OpenDocument (30 May 2009).

[77] Enrique Vergara Vial on behalf of the National Economic Prosecuter, '...en los autos sobre consulta de NESTLE Chile S.A. sobre alianza estratégica con SOPROLE S.A., Rol NC 138-06', Tribunal de Defensa de la Libre Competencia, http://mail.fne.cl/db/jurispru.nsf/60e31f9065c2d5a38425733e005df9fa/6D7E592BEF46BEF1842571BF00771F23/$FILE/OperacionNESTLESOPROLE.pdf (20 May 2009).

[78] *El Diario Financiero,* 30 April 2008. 'Fonterra y posible fusión Soprole-Nestlé: "Es válido pensar en una alianza."' Available at: http://www.df.cl/portal2/content/df/ediciones/20080430/cont_4672.html.

[79] 'Fundación Aninat a punto de cerrar venta de participación en Soprole', *El Mercurio,* 23 January 2008, http://www.mer.cl/modulos/generacion/mobileASP/detailNew.asp?idNoticia=C12R7PRJ20080123&strNamePage=MERSTSP004BB2301.htm&codCuerpo=710&iNumPag=04&strFecha=2008-01-23&iPage=1&tipoPantalla=240 (30 January 2008).

[80] Fonterra, *Annual Report 2004/ 2005,* 2005, http://www.fonterra.com/wps/wcm/connect/45dc3900452c4be79c82df873d7e2c80/Fonterra_Annual_Report_2004-2005.pdf?MOD=AJPERES (24 May 2008), p. 78.

[81] Fonterra plans to bid for the remaining shares, but is prevented from forcing a sale by Chilean law (Hembry, 'New Zealand's Latin love affair').

[82] M. Vélez., 'CEO de Fonterra cuenta detalles de la negociación por Soprole', *Diario Financiero,* 2 May 2008, http://www.df.cl/portal2/content/df/ediciones/20080502/cont_4818.html (25 May 2008). Fundación Aninat decided to maintain some stakes in Prolesur to 'show the intention of continuing to protect milk producers' (*El Diario Financiero,* 'Fundación Aninat tras venta de 43% de Soprole: "Se hará un uso profesional de los recursos"').

[83] Hembry, 'New Zealand's Latin love affair'.

[84] Hembry, 'New Zealand's Latin love affair'.

[85] Kent Atkinson, 'Fonterra: Soprole purchase will allow us to share secrets', *National Business Review,* 29 April 2008, http://www.nbr.co.nz/article/fonterra-soprole-purchase-will-allow-us-share-secrets (25 May 2008).

[86] Atkinson, 'Fonterra: Soprole purchase will allow us to share secrets'.

The purchase by Fonterra of Fundación Animat's remaining shares was viewed negatively in the Chilean press, for having dire effects on producers, Soprole, and on the Chilean dairy industry in general. In looking at this, it is important to keep in mind the anti-foreign investment discourse present in Chile as a mining country,[87] despite the extremely welcoming policies put in by General Pinochet's military government following its 1973 coup, and mostly unchanged by subsequent democratic governments.[88] This discourse is made more extreme due to the unusual status of Soprole's other major shareholder. While the typical investor's prime motivation is profit, Fundación Animat is a charitable foundation whose constitution states that it will look out for the interests of producers.[89] Thus their selling of shares was bound to generate controversy.

Firstly, in this discourse Fundación Animat was portrayed as focusing on the interests of producers, whereas Fonterra was portrayed as wanting to simply maximise profitability, even at the cost of producers.[90] It was claimed that selling would be 'a betrayal of the will of [founder of the Fundación] señor Undurraga' as 'these shares were passed to the Foundation with the objective of them watching over the wellbeing of the milk producers.'[91]

Secondly, Fonterra was portrayed as bad for the business, and willing to sacrifice Chile and the Chilean dairy industry. It was said that negotiations were being made in secret because businesses knew it would not be good for the sector. In the words of one critic, 'For [Fonterra] Chile is a means and not an end; deep down it makes no difference to them.'[92] To Fedeleche president Enrique Figueroa:

> The Fundación Animat has acted as a rational shareholder within Soprole, without second intentions … But if I have a holding and I own businesses in Chile, Argentina, Norway and New Zealand I'm going to want to maximise the profitability of my global investment … To me, this guarantees that they will sacrifice business here and Soprole will weaken.[93]

Fonterra's ownership was also thought of as having negative impacts on the Chilean dairy industry because it would lead to the fusing of Soprole with the DPA.[94] A Soprole representative has denied that this is on the cards,[95] while Fonterra representatives have said that

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[87] Victor Bulmer Thomas, 'Globalisation and the new economic order in Latin America', in Victor Bulmer-Thomas, John H. Coatsworth and Roberto Cortes Cones, *The Cambridge Economic History of Latin America Volume II: The long twentieth century* (New York: Cambridge University Press, 2006), p. 150; Joanne Fox Przeworski, *The Decline of the Copper Industry in Chile and the Entrance of North American capital* (Manchester, New Hampshire: Ayer Publishing, 1980), p. 274; Simon Collier and William F. Sater, *A History of Chile, 1808-2002* (Cambridge: Cambridge University Press, 2004), pp. 334-7.
[88] Chile's non-discriminatory rule, established under the Decree Law 600 of 1974 and guaranteed in the 1980 Constitution, and under which 80 percent of foreign investment enters Chile, favours foreign investors over domestic investors in a number of ways (Foreign Investment Committee, 'Invest in Chile, an opportunity', 2007, http://www.inviertaenchile.cl/archivos/investinCHILE.pdf (25 May 2008), p. 84).
[89] 'Fundación Aninat negocia venta de participación en Soprole a Fonterra', *El Diario Financiero*, 30 November 2007, http://www.fedeleche.cl/pub/index2.php?option=com_content&do_pdf=1&id=875 (30 May 2008).
[90] 'Fundación Aninat negocia venta de participación en Soprole a Fonterra'.
[91] Enrique Figueroa cited in Hugo Ocampo, 'Fuerte movida de empresas lecheras', *CampoLider,* 5 December 2007, http://campolider.com/php/desarrollo_noticia.php?id=1109 (1 June 2008).
[92] Oddó cited in 'Soprole: Moscas en la leche'.
[93] Enrique Figueroa cited in "Fedeleche critica a Fundación Aninat por negociación", *Diario Financiero*, 3 December 2003, http://www.sofofa.cl/mantenedor/detalle.asp?p=60&s=6060&n=21747 (4 July 2009).
[94] 'Fedeleche hace advertencia a Fundación Animat en caso de venta a Fonterra', *Diario Finaciero,* 15 January 2008, http://www.uem.cl/2008/01/15/fedeleche-hace-advertencia-a-Fundación-aninat-en-caso-de-venta-a-fonterra/ (30 May 2008).
[95] Soprole president Eduardo Teisaire cited in Vélez, 'CEO de Fonterra cuenta detalles de la negociación por Soprole'.

it is a possibility.[96] While it will be the Comisión Preventiva that decides, gaining full control of Soprole probably matters; some believe that the testimony of Fundación Animat, as a major shareholder, was important for convincing the competition authority of the need for vigilance.[97] Any suggestion that Soprole will become part of the DPA will no doubt foster more controversy.

FONTERRA'S IMPACT ON THE CHILEAN DAIRY INDUSTRY

The presence of multinationals on a host country can have many effects. They can transfer technology to the host country or keep it to themselves. They can increase or limit competition.

Technology transfer is widely thought of as a key benefit of foreign investment. Multinationals are seen to have superior technology and marketing know-how, which can improve local production.[98] According to a Fonterra representative, 'our support and our intellectual property are helping to lead Chilean farmers towards more efficient milk production which will provide the platform for competitive dairy exports.'[99] Fonterra has established model farms using New Zealand technology in order to help its suppliers become more productive. Under the Proyecto Praderas (Pastures Project) initiative, and in what is described as 'Fonterra-driven measures', Soprole arranges university extension programmes, facilitates access to capital, and holds a Chilean Farmer of the Year competition, the winners of which go to New Zealand. Fonterra also co-operates in government-funded farmer exchanges to New Zealand and New Zealand/Chile information-sharing mechanisms.[100] On the processing side, under Proyecto Praderas, Fonterra through Soprole has 'approved projects focusing on food safety, quality, and increasing processing capacity.'[101] Examples include factory upgrades, such as a US$25 million investment to increase dryer capacity at the Prolesur plant, and a US$11 million investment to develop whey permeate powder processing facilities.[102]

It is clear that the involvement of Fonterra is assisting Soprole and its suppliers to improve their production, in terms of both quality and volume. The key debate of technology transfer, however, is whether there are spillovers to local industry participants. In this case these participants are Soprole's rival processors and their producers. Assessing whether this is the case is beyond the scope of this study. Certainly there is much debate in the literature on whether the presence of MNCs in a particularly industry in a particular country assists local firms or whether on the contrary MNCs are 'islands of knowledge', fiercely guarding their ideas from competitors.[103]

Foreign investment can have a positive effect on competition as the entry of multinationals can encourage domestic competition and lead to higher productivity in local companies as well as better quality and cheaper products.[104] This effect, however, is observed only in some industries and in some countries.[105] In addition, effects can be limited as when MNCs enter

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[96] Andrew Ferrier cited in 'Eduardo Teisaire llega a encabezar Soprole'.
[97] Ocampo, 'Fuerte movida de empresas lecheras'.
[98] S. Jain and S. Vachani, *Multinational Corporations and Global Poverty Reduction* (Cheltenham, UK: Edward Elgar, 2005), p.9.
[99] Gent, 'Address to Wellington Breakfast for the Chilean Business Delegation'.
[100] Clark, 'New Zealand's growing relationship with Chile'.
[101] Gent, 'Address to Wellington Breakfast for the Chilean Business Delegation'.
[102] Gent, 'Address to Wellington Breakfast for the Chilean Business Delegation'.
[103] Jain and Vachani, *Multinational Corporations and Global Poverty Reduction.*
[104] Kamal Malhotra, 'Will a trade and investment link in the global trade agenda be good for human development?'in Rajnesseh Narula and Sanjaya Lall, *Understanding FDI-Assisted Economic Development* (New York: Routledge, 2006), p. 285.
[105] OECD, *Foreign Direct Investment for Development: maximising benefits, minimising costs (overview)* (Paris: OECD, 2002), http://www.oecd.org/dataoecd/47/51/1959815.pdf, (20 May 2008), p. 16.

developing countries they tend to have many advantages over local companies, making competition decidedly one-sided.[106] Multinationals can crowd out other firms and thereby lead to concentration in the industry, which harms competition and leads to price rigging.[107] Because of the tendency of multinationals to have a strong market position, foreign investment has an 'anticompetitive element inherently associated with it.'[108] Stephen Hymer argued of the existence of the 'law of increasing firm size', whereby firms historically have and will continue to grow and expand across borders, and via what he termed 'the law of uneven development', their size, mobility and power will allow them to monopolise the industry.[109] Forty years after those predictions, 'it is now assumed that market forces encourage the emergence of a relatively few dominant companies in industries characterised by economies of scale; the result is a growing number of markets characterised by oligopoly: that is, three or four giant MNCs that influence if not control prices.'[110]

Chile's oligopolistic market has already led to disputes. Fedeleche and some commentators argued that low milk prices throughout the 1990s were a result of a few powerful processors engaging in 'abusive and arbitrary' pricing practices.[111] In a survey conducted by the national milk producer organisation, Fedeleche, in 2004, 56 percent of Chilean milk producers blamed low milk prices on 'abuse of dominant position', with 79 percent believing that anticompetitive practices exist in the processors.[112]

Some of the factors that can exacerbate the likelihood of concentration is if the MNC entrant has an important international market position or if the host country is small,[113] both of which clearly apply to the case of Fonterra and Chile. At this stage, Fonterra's subsidiary Soprole does not have a monopolising effect, although it has been accused of using its strong market position in certain regions to rig prices.[114] However, this tendency will increase if, as discussed in the previous section, Nestlé Chile and Soprole merge under the DPA. Such alliances are increasingly commonplace in many industries and are generally thought to limit direct competition. It is debatable whether they lead to efficiency gains.[115] The anti-competitive elements of Fonterra's involvement in the Chilean dairy industry are particularly relevant given that such investment is vigorously promoted by the Chilean and New Zealand governments (see footnote 32). These governments agreed (under the TPSEP) to promote conditions of fair competition in the free trade area, keeping watch for 'abusive behaviour resulting from single or joint dominant positions in a market.'[116]

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[106] Manuel R. Agosin and Ricardo Mayer, *Foreign investment in developing countries: does it crowd out domestic investment?* (Geneva: UNCTAD, 2000), http://www.unctad.org/en/docs/dp_146.en.pdf (1 June 2008), p. 3.
[107] Martin Khor, *Globalization and the South: Some critical issues* (Geneva: UNCTAD, 2000), http://www.twnside.org.sg/title2/FTAs/General/globalisation_and_the_south-Martin_Khor.pdf (27 May 2008), p. 39.
[108] Stephen Hymer, 'The Efficiency (Contradictions) of Multinational Corporations', *The American Economic Review,* Vol. 60, No. 2, 1970, p. 443.
[109] Stephen H. Hymer, 'The multinational corporation and the law of uneven development', in J. N. Bhagwati (ed.), *Economics and World Order* (London: Macmillan, 1972), p. 113.
[110] Stephen D. Cohen, *Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity* (New York: Oxford University Press, 2007), p. 106.
[111] Javier Pardo cited in Fazio, *La transnacionalización de la economía chilena,* p. 184.
[112] Fedeleche, *Encuesta,* 2004, http://www.fedeleche.cl/encuestas (25 January 2008).
[113] OECD, *Foreign Direct Investment for Development: maximising benefits, minimising costs (overview*), p. 16.
[114] Challies cited in Barton, Gwynne and Murray, 'Competition and co-operation in the semi-periphery: closer economic partnership and sectoral transformations in Chile and New Zealand', p. 232.
[115] OECD, *Foreign Direct Investment for Development: maximising benefits, minimising costs (overview*), p. 16.
[116] Governments of Brunei Darussalam, the Republic of Chile, New Zealand and the Republic of Singapore, 'Trans-Pacific Strategic Economic Partnership Agreement', http://mfat.govt.nz/downloads/trade-agreement/transpacific/main-agreement.pdf (12 June 2008), pp. 12-13.

CONCLUSION

This article has sought to explain why and how Fonterra has invested in Latin America. This story is worth telling simply because it is a New Zealand story that has not been told as a whole before. The article also outlined how the investment has been perceived and how it may positively or negatively affect the development of the dairy industry in Chile. Some might argue that an analysis of Fonterra's activities in Chile is irrelevant: that all that matters is whether Fonterra turns a profit. But it should be of interest: to the 10,600 New Zealand dairy farmers who own Fonterra, to the New Zealand government that encourages and makes it easy for Fonterra to invest in Chile, to New Zealanders who care about the impact of our policies and companies on the rest of the world, and on developing countries in particular, as well as our international reputation. If the tragedy of melanine tainted milk in Fonterra's Chinese joint venture[117] teaches us anything, it should be that only by fully understanding all the implications of our foreign investments can we ensure that New Zealand profits are not at the cost of other countries' well-being.

[117] In 2008 four children died, and thousands more sickened, after Sanlu's baby formula was contaminated with the industrial chemical melanine, which can be added to make protein levels look higher. Fonterra owned owned 43 percent of Shijiazhuang Sanlu Group Co. (NZPA, 'Fonterra's Sanlu told to import melamine detection gear', 17 October 2008, http://www.stuff.co.nz/national/662893 [20 May 2009]).