

Costa sees a berry bright future in China

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By 2010, the emerging urban-affluent class in China was starting to make headlines. A report by McKinsey published in the late noughties highlighted the ballooning spending power matched by the voracious spending appetite of this group of Chinese who were already controlling 10% of the urban disposable income despite making up just 1% of the population. Many large companies were already exploring operations in China and Australian food business Costa was no exception.



Starting in 2010 and taking nearly five years to complete, Costa and its 30% joint venture partner Driscoll's undertook a series of detailed studies to identify the best sites, the best varieties and the practical considerations involved in setting up a fully-fledged berry growing, packing and marketing business on Chinese soil.

In China's far south-west corner, Yunnan province was identified as the best location with several important factors coinciding:

- Suitable land and water were available
- Labour was available
- The climate conditions in the southern part of the province were favourable and suited the cropping window
- Agriculture is very important to Yunnan which then delivers supportive National and Regional policies
- The area has plenty of room for future development

Across two main growing locations – Honghe and Xishuangbanna prefectures – five sites have now been established with a sixth in the planning. As of November, 2019, the farms had total plantings of 174 hectares (CHART 1) providing harvest windows spanning much of the year (CHART 2). The 2020 planting program will see a further 62 hectares of blueberries planted which will complete Costa's original five-year plan.

COSTA CHINA OPERATIONS

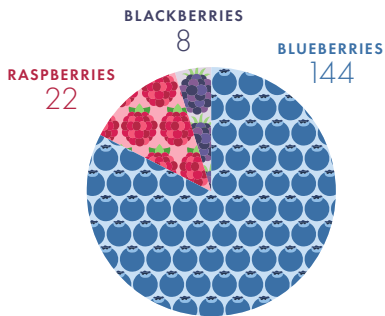


CHART 1. Total hectares planted by crop at Nov 2019

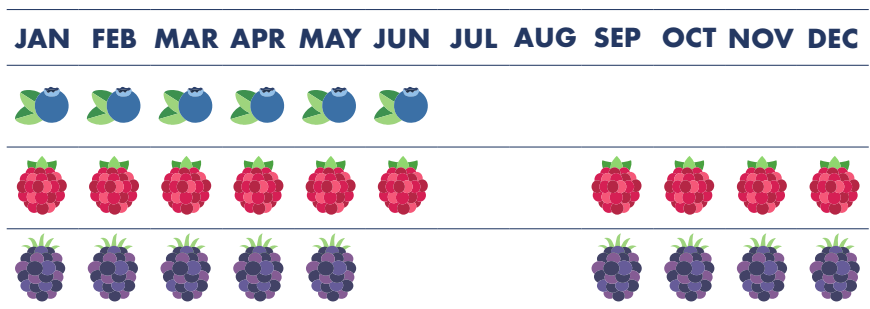


CHART 2. Harvesting windows by crop

The journey has been far from straightforward as would be expected when setting up a major agribusiness anywhere in the world, but there have been a set of drivers which have worked together to promote success.

- Costa committed to establish a significant footprint using its world leading genetics in order to supply the Chinese domestic consumer with high quality premium berries grown right on their doorstep
- The venture started from the beginning with world best practice growing technology and agronomic practices, with all plantings in substrate
- The Costa China team committed to working cooperatively and harmoniously with stakeholders from government and officials all the way through to their new neighbours in the local villages
- Recognising and committing to the key Chinese government agricultural policies, specifically with regard to rural economic development, positive environmental impacts and contribution to the wider social good
- Introducing sustainable commercial farming practices whilst ensuring a safe and healthy work environment for employees
- Respecting and complying with all local labour laws and customs with a key focus on fair remuneration
- Building a career pathway for local workers with a strong focus on the young people of the area

Once the fruit is harvested, the packing and distribution is all handled by joint venture partner Driscoll's using existing local cold chain infrastructure with plans to significantly upgrade capacity in the next two years. The fruit is sold under the Driscoll's brand in the major east coast cities like Shanghai and Beijing.

Costa's China operations are overseen by the General Manager of Costa International Peter McPherson with Lew Dagger performing the on-the-ground role of General Manager, China. In a recent interview with the Australian Financial Review Weekend, Lew highlighted that the secret to success as a foreign business operating in China is to ensure that you give something back.



Fundamentally, you have to be a good citizen and respect the local communities... The key things are to do what you say you are going to do and show very clearly what benefit you can bring, whether that is technical or environmental. You have to remember that you are a guest in this country.

And with Yunnan being one of the poorest provinces in China, regular local employment with a fair wage will make a large difference in the lives of the communities surrounding the four farms.