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Chinese Formula Maker Hid Toxic Danger for Weeks

*Distributors Say
They Weren't Told
Reason for Recall*

By GORDON FAIRCLOUGH and LORETTA CHAO

SHIJIAZHUANG, China -- A Chinese manufacturer and local-government officials declined for weeks to disclose the discovery that a popular baby formula contained a toxic chemical even while the maker was recalling the product, the company's foreign partner and some domestic distributors said Wednesday.

According to one distributor for Shijiazhuang Sanlu Group Co., Yu Qingyang in the southern province of Guizhou, Sanlu said in early August that it was taking back the formula because it "planned to change the packaging." China's government says contamination of baby formula with melamine has killed three infants and sickened more than 6,244 since the first reports of sick children in March. The figures include 158 infants with acute kidney failure. Authorities said this week that tests in recent days found melamine in baby formula from 22 Chinese manufacturers, including some of the country's biggest dairy companies.

Evidence is mounting that such contamination is more widespread in China's dairy industry, with unscrupulous suppliers adulterating ingredients as a way to mask protein-deficient or diluted milk. On Tuesday, a Hong Kong supermarket chain pulled a mainland Chinese brand of yogurt popsicles from its shelves, saying they had tested positive for melamine. The poisonous chemical, used to make plastics and fertilizer, also boosts the apparent presence of protein.

"It's not just a problem with Sanlu now. So many companies have been involved," said Sherry Meng, mother of a 5-year-old boy. "As a consumer and a mom, I feel really angry, and concerned. It makes it hard to believe in any dairy products produced by China."

Sanlu reported to its board on Aug. 2, six days before the Olympic Games opened in Beijing, that its baby formula was tainted. But public announcement of a recall came only last week, and the delay is drawing increasingly angry criticism from Chinese parents and others. On Wednesday, Fonterra Co-operative Group Ltd., a New Zealand dairy company that owns 43% of Sanlu, said the Chinese company told local health authorities in early August that Sanlu had discovered melamine in samples of its product.

Instead of warning consumers, Fonterra said, Sanlu and the local government in its headquarters city here in northern China decided to quietly remove the toxic formula from stores. "We encouraged Sanlu, we encouraged the authorities, to go public," said Andrew Ferrier, Fonterra's chief executive. "They made their own judgment."

Some critics in China have suggested on the Internet that a desire to avoid bad

news around the Olympics may have prompted Sanlu to maintain its public silence. While there is no evidence of that, Chinese companies were under strict orders at the time not to be the source of bad news that could disrupt the Games, and Chinese reporters were told not to report negative news.

Sanlu executives have issued an apology but haven't responded to repeated requests for comment. Fonterra also has been fiercely criticized for not going public. Mr. Ferrier said that after some "soul searching," it initially decided not to make a public statement on its own. It only informed its own government a few weeks later .

China's central government said it became aware of the problem only last week. Authorities have since announced a well-publicized recall, arrested several suppliers and sacked several local officials, including the head of a local food-and-drug agency. On Wednesday they detained for questioning Sanlu's former chairwoman, who was fired this week.

Two of the companies whose products contained melamine have sold infant formula in Bangladesh, Burundi, Gabon, Myanmar and Yemen, according to the authorities. It isn't clear whether any of the exported formula was contaminated. Sanlu milk powder exported to Taiwan has been recalled there.

The magnitude of China's adulteration problem underscores the risks in the country's often-diffuse and poorly regulated supply chains for foods, pharmaceuticals and other products. China has struggled to tighten oversight after a series of high-profile safety lapses -- including pet food contaminated with melamine and toothpaste tainted with a chemical used in antifreeze. Adulterated supplies of the anticlotting drug heparin from China were linked this year to more than 80 deaths in the U.S.

Many companies doing business in China strictly supervise suppliers to ensure their materials are safe. Bristol-Myers Squibb Co.'s Mead Johnson baby-formula unit said it imports all the milk it uses to manufacture formula at its plant in southern China because it considers the local supply chain too unsafe to use. Groupe Danone SA's International Nutrition Co. unit also says it uses only imported milk for the baby formula it makes in China. Nestlé SA said it buys milk from local farmers who are supervised daily by its own agricultural officers.

Sanlu buys milk from many sources, including milk traders who buy raw milk from small farmers and mix it together before reselling it. Police have arrested three milk dealers, including two brothers who live in Sanlu's hometown. The pair began putting melamine in their milk last year to pass Sanlu's quality tests, according to China's official news agency, citing a police spokesman.

Agriculture experts say the way Chinese dairy farmers raise cows can result in protein-deficient milk. Some government officials also have surmised that dealers have been diluting their milk to maximize profits and using melamine to mask their actions.

Milk production has grown rapidly as farmers in recent years rushed to raise dairy cows, outstripping demand. As a result, many dairy farmers are struggling. Fu Guofang, a 48-year-old dairy farmer in Zhejiang province, said he sold about half his herd last year when milk prices dipped. "It is true milk farmers add water to raw milk when the purchasing price is too low," said Mr. Fu. But he said he doesn't think farmers know enough to add chemicals to the milk.

Sanlu began investigating reports of illnesses among children drinking its formula as early as March, according to Fonterra. Fonterra's CEO, Mr. Ferrier, said repeated lab tests over the following months failed to find any problems. Meanwhile, Sanlu donated baby formula to victims of the Sichuan earthquake in May.

Shortly before a Sanlu board meeting Aug. 2, the company discovered melamine in the formula, and promptly informed its directors including three Fonterra representatives, Mr. Ferrier said. He said Fonterra urged an immediate public recall.

But local authorities said they "were not in a position" to make a public announcement, Mr. Ferrier said. "They were very clear about how they wanted to proceed."

When weeks went by with no public comment from the Chinese authorities, Fonterra reported the situation to the New Zealand government. New Zealand Prime Minister Helen Clark was informed, and she ordered her ambassador in Beijing to notify authorities there. The ambassador did so Sept. 9, said Ms. Clark's spokeswoman.

China's central government said it was informed of the problem by provincial authorities Sept. 8 and quickly responded.

—Bai Lin in Shanghai and Kersten Zhang, Gao Sen, and Sue Feng in Beijing contributed to this article.

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