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Farmer vote on giant dairy merger too close to call

By LIAM DANN

The future of New Zealand's dairy industry is decided tomorrow. For months, a merger to create New Zealand's biggest corporate - Global Dairy Company - was considered a done deal, but with the farmer vote just hours away the outcome is too close to call.

Our single biggest money earner - 16% of export earnings - dairying is the backbone of the economy. Forget about the sheep's back, if the New Zealand flag is redesigned it should have a cow on it, says BNZ economist Tony Alexander.

No wonder then the lead-up to tomorrow's vote has seen political debate and infighting of - to use the preferred GlobalCo phrase - an "extremely robust nature".

In reality, the battle between leaders of the Taranaki based Kiwi Co-operative and Waikato based Dairy Group - the two co-operatives that must merge with the Dairy Board to create the super company - is out of control.

Negotiations have teetered on the brink of collapse in an environment which has seen meetings end with threats of punch-ups and smear campaigns.

GlobalCo chairman John Roadley is adamant the two groups have now reached common ground. "The conflict thing has been hugely overplayed," he said. "Although at times I've got to concede it was very torturous and quite stressful as people have debated and argued on how we were going to put this thing together."

The fact that "two strong, proud companies with a long heritage of interprovincial rivalry" had agreed was a huge success, he said. "What we did miss on was the time line. We didn't do it as fast as I said we were going to," he admitted.

But the central conflict, which slowed and threatened to derail the process - the appointment of the GlobalCo CEO - was never a parochial issue, he said.

The dispute boiled down to Kiwi advocating the appointment of a New Zealand boss - ideally their man Craig Norgate - and the other side pushing for the recruitment process to include international candidates, Roadley said.

There was no choice but to delay the process. The group doesn't have the legal authority to appoint anybody until legislation is passed in parliament. "That wasn't factored into our initial thinking."

Unfortunate perhaps, given the level of conflict the issue generated, but for now at least both sides are claiming to be content.

Once the vote is passed - and he was quietly confident it would be - the political debate would be over, Dairy Group chairman Henry van der Heyden said. "The board of directors will have accountability to all the shareholders. They've got to leave the past behind."

The Dairy Group had agreed to the recruitment process and accepted the first chief executive would be an internal candidate. This was the most important decision the industry had faced and the debate had been healthy, he said.

Kiwi chief executive Norgate said there was a huge amount of goodwill between the two groups, despite the perceived differences. He declined to comment on the leadership battle given he and Dairy Board executives Chris Moller and David Pilkington are in the running for the job.

Despite the public unanimity the leaders now show, industry sources say many of tomorrow's "yes" voters are not convinced by the GlobalCo model. "A lot of people voting yes in the Dairy Group are still sceptical and uncertain," said one key figure. There was a weary feeling among farmers it was time to get it over with, he said.

Even Agriculture Minister Jim Sutton is understood to have privately voiced concern the single company option may not be the best commercial model. Publicly he maintains he does not have a personal view. Hardly an overwhelming vote of confidence.

The government will support the farmers' choice and there appears to be little party political opposition to hamper the progress of legislation needed to make GlobalCo a reality. If one thing has forced the GlobalCo leaders to show solidarity in the last two weeks it has been the arrival of organised opposition to the merger.

Farmers for a Better Dairying Deal is a group opposed to the single structure, concerned no alternative is being offered to voters.

Spokesperson **Tony Baldwin** - not a farmer but who has dairy industry experience at a policy level - believes the leadership issue is far from settled. "There will be further conflict," he said. "What we're seeing with this new found solidarity is just the political party machine. It's intellectually dishonest. I think they are fooling themselves."

The paper war between the groups escalated last week as both sides sought to offer evidence supporting their conflicting views.

The debate centred on Better Dairying claims that the original 1999 report on options for the industry - by McKinsey and Co - did not support the one company model. Unless certain conditions were met the two-company system would be financially superior to the tune of \$300 million, they said.

McKinsey has since accused the Better Dairying group of misinterpreting the report and has offered its full backing to GlobalCo.

Regardless of who's technically correct, Better Dairying has attracted support from farmers all over the country. The group's website includes an email from Alana Fraser, wife of former Dairy Board chairman Graham Fraser, who quit this year in protest against the merger and who has refused to comment on GlobalCo.

"Farmers have no idea what they are letting themselves in for," she wrote. "They are letting themselves be run by people with great ambitions but no care for farmers."

If the group achieves a "no" vote, the dairy industry will wake up on Tuesday with a hangover. No one seems sure what would happen next. According to an industry insider, there is an agreement between the companies to negotiate the splitting up of the Dairy Board if the GlobalCo deal fails.

But it was more likely, if the vote was close, there would be a panic stricken effort to organise another vote, he said. "Then we would see GlobalCo really pull out all the stops."

Norgate said the two groups had a plan but would not go into details. "I think we'd be back behind square one."

Roadley denied there was any set strategy in the event of a "no" vote. "Clearly the business has to go on. The cows are going to calve and the milk's going to flow."

The way he sees it, New Zealand has no choice but to support his company. "There is a new merger, strategic alliance or amalgamation in this industry every 2 1/2 days. That is a response to the globalisation of the food retailing giants. If we want our dairy products and brands on the supermarket shelves in every continent in the world then we have got to be of a size that can meet the needs of those massive companies. We have no option but to grit our teeth and drive on."