

MEDIA RELEASE

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GLOBAL CO IS AN EXPENSIVE MISTAKE

What's wrong with Global Co?

- The Government has followed seriously bad process. Without question, Global Co should go to the Commerce Commission. Jim Sutton and Helen Clark are completely wrong when they say the merger is "outside the Commission's core business". Even their own officials disagree (*see para 29 of Cabinet Paper One released on Monday*).
- Government officials are not confident the proposed regulatory package will work. It's very experimental and has been prepared in a great rush (*see para 20 of Cabinet Paper One and para 33 of Cabinet Paper Two released on Monday*).
- Government officials say that two competing NZ co-ops would be better than one (Global Co) (*see para 22 of Cabinet Paper One*). The Commerce Commission was also inclined to the same view in 1999 (*see the Commerce Commission's draft determination in 1999 at pages 135 – the 'two company' counterfactual scored much better than the one company proposal*).
- A 75% vote of farmers should not decide what is good for the wider economy. Jim Sutton said at his press conference: "[Global Co] is the option [dairy farmers] believe is best for them.....They deserve to be able to have the main say....."
- The Government is saying, in effect: "Because the dairy industry is so big, so special and so successful, we'll do what they think is best". The Government has abdicated responsibility for the wider economy.
- In reviewing the industry's 1999 'one company' proposal, the Commission found the NZ economy would suffer to the tune of \$525m per year in detriments. For this, it would only gain \$25-90m in benefits (*see the Commerce Commission's draft determination in 1999 at pages 113, 131 and 135*).
- Global Co suffers from many of the same problems as the 1999 proposal.
- In 1999, the industry couldn't quantify the claimed benefits from creating a monopoly. They still can't. The Government is giving them an exemption on the basis of hype and PR.
- The worst feature of Global Co is that it will suffocate innovation – the vital ingredient we need to succeed as a country (*see para 19, bullet-point 2 and para 22, bullet-point 2 of Cabinet Paper One. In 1999, the Commerce Commission estimated the loss of innovation at \$325m per year – see page 135 of their draft determination*).

Loss of innovation

Put simply, a handful of farmer-directors and managers in Global Co simply *can't* spot all the opportunities for creating wealth around the dairy world.

The chances of Global Co making some big mistakes? – like any business, it's pretty high.

But if Global Co gets it wrong, all farmers go down. In fact, we all go down.

No alternative milk processors

Sure, there will probably be several new boutique dairy businesses starting up – along the lines of Southern Fresh's Movenpick ice cream venture.

But Global Co will be overwhelmingly dominant in NZ. The prospects of a serious alternative entering the NZ market over the next 3 years are very slight (*see the Commerce Commission's draft determination in 1999 at pages 69, 73, 78, 79, 80, 82 and 85*).

Global Co is not sustainable

Global Co is simply not honest. And it's not sustainable.

The industry's leaders are pretending they can avoid the inevitable. They can't.

Before too long, they will need to bring in outside share capital – and the industry's leaders know it. If they don't, they shouldn't be leaders.

If they think they can just hold back returns to farmers and use quota rents to fund the new overseas businesses, the farmers should be very worried.

Lost opportunity

The Government and the industry leaders have squandered a rare opportunity to do something really good for the economy.

Instead of showing vision, innovation and a confident outward view, they have set up a defensive and inward-looking fortress driven by fear and a misguided fixation with control.

Global Co is a wobbly castle built on sand, which will slowly collapse under its own weight.

The really sad thing is that farmers and the wider economy will find out too late – because outside scrutiny and accountability is so weak.

By-passing the Commerce Commission is simply reprehensible. NZ as whole will be worse off for some years.

ENDS

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A copy of the Commission's draft determination can be found at http://www.comcom.govt.nz/publications/GetFile.CFM/3388dr.pdf?Doc_ID=201&Filename=3388dr.pdf.

Further information on my concerns is set out at
<http://tbaldwin.homestead.com/GlobalDairy.html>