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NEWZTEL NEWS: RNZ "NINE TO NOON"

FRIDAY 13 SEPTEMBER 2002

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PRESENTER (LINDA CLARK): LET ME READ YOU SOMETHING. "I STEP DOWN FROM THIS JOB WITH A DEGREE OF DISAPPOINTMENT AND FRUSTRATION THAT THINGS HAVE NOT GONE AS WELL AS YOU WOULD HAVE WANTED AND AS I HAD HOPED. MANY OF THE THINGS THAT WE HAVE SLIPPED UP ON RECENTLY APPEAR TO BE SO SIMPLE AS TO BE INEXCUSABLE." WELL, WITH THOSE WORDS FONTERRA CHAIRMAN, JOHN ROADLEY, STEPPED ASIDE YESTERDAY AT THE ANNUAL MEETING OF SHAREHOLDERS. FONTERRA IS NEW ZEALAND'S BIGGEST COMPANY. IT EARNS ABOUT 20% OF OUR EXPORT REVENUE BUT IT HAS LOST THE CONFIDENCE OF MANY FARMERS WITH A SERIES OF MISHAPS, BASIC THINGS. IT'S FAILED TO COLLECT MILK FROM FARMERS. WHEN IT HAS COLLECTED, THERE HAVE BEEN PROBLEMS WITH GRADING AND WITH DOCKETS. IT'S PAID OUT \$5.33 A KILOGRAM. ITS TINY RIVAL, TATUA, PAID \$6.80.. AND EVEN THEN IT POSTED A LOSS. FARMERS AT YESTERDAY'S INAUGURAL SHAREHOLDERS' MEETING WERE LESS THAN IMPRESSED.

FARMER, 1: GENERALLY, YEAH I THINK IT'S A FAIR MEETING.

FARMER, 2: OH, I THINK WE'RE JUST GETTING WHAT WE EXPECTED TO GET, NOT THE REAL ANSWERS BUT I FEEL AS THOUGH AS WE'RE GETTING A GOOD COVER-UP FOR IT.

FARMER, 3: THESE DIRECTORS UP THE FRONT HERE, THEY'RE NOT ANSWERING

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THE QUESTIONS PROPERLY. THEY GLOSS OVER A LOT OF THINGS. IT'S REALLY DISGRACEFUL HOW SOME OF THEM CARRY ON.

FARMER, 4: PROBABLY GOT AS GOOD AS YOU COULD EXPECT.

PRESENTER: WELL, AS I SAID AT THE OUTSET, WE HAD WANTED TO TALK TO FONTERRA'S NEW CHAIRMAN BUT HE WANTS A LITTLE LONGER IN THE JOB BEFORE HE FRONTS UP TO THE MAINSTREAM MEDIA SO WE'LL KEEP CALLING HIM. IN THE MEANTIME TONY BALDWIN IS A DAIRY INDUSTRY ANALYST AND, TO BE HONEST, TONY, GOOD MORNING TO YOU..

TONY BALDWIN (DAIRY INDUSTRY ANALYST): GOOD MORNING, LINDA.

PRESENTER: YOU HAD YOUR DOUBTS ABOUT FONTERRA EVEN BEFORE IT WAS CREATED?

BALDWIN: I DID. I CERTAINLY WAS INVOLVED WITH A GROUP THAT WAS SUGGESTING IT WAS THE WRONG WAY TO GO.

PRESENTER: AND NOW?

BALDWIN: WELL, I THINK IT'S STILL CLEARLY THE WRONG WAY TO GO AND SOME OF THE PROBLEMS ARE STARTING TO BECOME APPARENT. I MEAN IT'S CERTAINLY A HARD ASK. PUTTING TOGETHER THREE BIG COMPANIES IS A VERY CHALLENGING UNDERTAKING AND THEY HAVE YOU KNOW, DONE SOME

THINGS THAT ARE GOOD BUT I THINK IT'S NOT REALLY.. IT'S THE MORE FUNDAMENTAL THING THAT'S THE PROBLEM. IF YOU RECALL THAT WHEN FONTERRA WAS ANNOUNCED, HELEN CLARK WAS A VERY STRONG SUPPORTER OF IT AND SAID THAT THIS WAS THE WAY WE WERE GOING TO GO FROM BEING A THIRD WORLD EXPORTER TO A FIRST WORLD EXPORTER. YOU KNOW, WE WERE GOING TO EXPORT THINGS THAT ADDED VALUE AND THAT'S KIND OF THE KEY THING BEHIND IT. IT'S THE REASON WHY I'VE BEEN INTERESTED IN IT, AND BASICALLY THAT DOESN'T SEEM TO BE HAPPENING. IF YOU BOIL IT DOWN, THIS IS A BUSINESS THAT TURNS GRASS INTO MILK USING COWS, AND THEN THEY TURN THE MILK INTO BUTTER, CHEESE AND MILK POWDER SO IT'S SORT OF LIKE EXPORTING LOGS UNPROCESSED. YOU KNOW, IT'S A VERY LOW-VALUE PRODUCT AND THE IDEA IS TO SORT OF CHANGE THAT SO WE ARE MORE LIKE TATUA, THE LITTLE COMPANY YOU MENTIONED, WHICH IS EXPORTING THINGS THAT CUSTOMERS PAY A LOT OF MONEY FOR AND THERE DOESN'T SEEM TO BE ANY MOVEMENT IN THAT DIRECTION.

PRESENTER: I MEAN TATUA IS TURNING GRASS, TO USE YOUR ANALOGY.. WELL IT'S NOT AN ANALOGY BUT TO USE YOUR EXAMPLE.. TATUA IS TURNING GRASS INTO THINGS LIKE PHARMACEUTICAL PRODUCTS, ISN'T IT?

BALDWIN: EXACTLY, IT IS AND IT'S DOING CONTRACTS.. YOU KNOW, CADBURYS, MAKING CHOCOLATE BARS WHERE YOU KNOW, THE COST OF MAKING IT IS QUITE LOW BUT THE PRICE THAT THE CUSTOMER PAYS IS REALLY HIGH SO THE RETURNS ARE REALLY TERRIFIC.

PRESENTER: YOU SEE, THE THING ABOUT FONTERRA THOUGH IS THAT THEY SEEM TO.. I MEAN THE RHETORIC IS THERE. IN MEAN IN YESTERDAY'S.. AT YESTERDAY'S ANNUAL GENERAL MEETING THERE WAS YOU KNOW, A STRATEGY UNVEILED FROM FONTERRA AND ONE OF THE THINGS THEY SAID THERE IS, THEY WANT TO MAKE MILK AS VALUABLE AS POSSIBLE. WELL, YES THEY DO.

BALDWIN: WELL AGAIN IT'S RHETORIC AND IT'S SOMETHING THAT DRYDEN SPRING WHO IS SORT OF LIKE THE GODFATHER OF THE DAIRY INDUSTRY BACK IN THE 70'S AND 80'S AND 90'S, HE WAS SAYING THAT ALL THROUGH THE 90'S. YOU KNOW, IT'S SOMETHING THAT POLITICIANS HAVE BEEN TALKING ABOUT FOR YEARS BUT THERE'S NOTHING IN THE ACTION. YOU KNOW, THE STRUCTURE OF FONTERRA DOESN'T ALLOW IT AND THE REASON WHY IT'S HARD TO DO IS BECAUSE FONTERRA WAS SET UP TO PROVIDE A GUARANTEE TO FARMERS THAT EVERYTHING THEY MADE WOULD BE COLLECTED AND PROCESSED. TATUA ON THE OTHER HAND, THEY LIMIT THE AMOUNT OF MILK THAT THEIR FARMERS CAN SELL TO THEM SO YOU KNOW, TATUA GOES TO THE CUSTOMER AND SAYS WHAT DO YOU WANT TO BUY AND HOW MUCH MILK DO WE NEED TO MEET YOUR DEMANDS, WHEREAS IT'S THE OTHER WAY AROUND FOR FONTERRA. FONTERRA SAYS YOU MAKE AS MUCH MILK AS YOU LIKE AND WE'LL COLLECT IT. AND THEN THEY HAVE THESE HUGE DRYING FACTORIES. WE HAVE THE BIGGEST DRYING FACTORIES IN THE WORLD TO TURN MILK INTO MILK POWDER AND THEN THEY HAVE TO TRY AND SELL IT. SO THEY'RE SELLING IT AS A COMMODITY. YOU KNOW, THEY'RE DRIVEN BY PRODUCTION, NOT BY WHAT THE CUSTOMERS WANT.

PRESENTER: SO OF THE.. YOU KNOW IF YOU TAKE ALL OF THE RAW PRODUCT THAT FONTERRA DEALS WITH, WHAT PERCENTAGE OF IT DO WE KNOW, IS PRODUCED AT THE END OF THE DAY OR IS SOLD AT THE END OF THE DAY IN BASIC EITHER SORT OF MILK POWDER OR MILK OR CHEESE?

BALDWIN: OH, WELL OVER 80%. IT'S JUST OVERWHELMINGLY A MILK POWDER BUSINESS. WHAT IT DOES IS TAKE YOU KNOW, A BILLION GALLONS.. LAST YEAR IT PRODUCED A BILLION GALLONS OF MILK AND IT'S GOT TRAINS AND TRUCKS THAT COLLECT THIS MILK FROM FARMERS AND THEN THEY PUT THEM THROUGH REALLY BIG FACTORIES THAT BASICALLY DEHYDRATE THE MILK. THEY JUST TAKE ALL THE WATER OUT OF THE MILK AND YOU FINISH UP WITH SOME SOLIDS, AND MOST OF THAT GOES INTO MILK POWDER, BUTTER AND CHEESE. AND THEN THEY SELL IT TO YOU KNOW, THIRD WORLD COUNTRIES AT COMMODITY PRICES.

PRESENTER: WELL, I WAS JUST GOING TO SAY THAT. I MEAN IF THAT'S YOUR MARKET, IF THAT'S WHERE YOU WANT TO SELL, YOU'RE NEVER GOING TO GET TOP DOLLARS?

BALDWIN: NO, EXACTLY. AND SO THE PROMISE OF FONTERRA, AND THIS WAS HELEN CLARK'S PROMISE, WAS THAT WE WERE GOING TO GO FROM THIRD WORLD TO FIRST WORLD AND IT WAS GOING TO RIDE THE KNOWLEDGE WAVE. WELL, IT'S JUST SO OVERWHELMINGLY LOCKED INTO COLLECTING MILK AND PROCESSING THE BIGGEST VOLUME OF MILK EVER THAT IT'S REALLY HARD TO SORT OF BECOME A TATUA.

PRESENTER: IN TERMS OF WHY THOUGH, IT'S LOST.. YOU KNOW, FONTERRA HAS HAD SUCH A ROCKY RIDE IN THE PAST YEAR, I MEAN THE CLAIMS AND ALLEGATIONS ARE THERE THAT IT'S OVER-SPENT FOR INSTANCE, AND WE KNOW BECAUSE OF INFORMATION RELEASED A MONTH OR SO AGO, THAT NINE OF ITS EXECUTIVES ARE PAID MORE THAN A MILLION DOLLARS?

BALDWIN: YEP. WELL, I THINK IT'S.. I MEAN IT CERTAINLY HAS A CULTURE THAT IT HAS LOTS OF MONEY, YOU KNOW, AND IF YOU ADD A PERCENTAGE HERE AND A PERCENTAGE THERE YOU KNOW, IT'S NOT GOING TO MAKE A LOT OF DIFFERENCE. IT'S SORT OF WHAT YOU EXPECT FROM A MONOPOLY AND YOU HAVE TO REMEMBER THAT FONTERRA IS A MONOPOLY. IT DOESN'T HAVE ANY COMPETITION. TATUA IS.. YOU KNOW, FONTERRA HAS GOT 13,000 FARMERS WHO SUPPLY MILK, TATUA HAS GOT 135. SO FONTERRA IS, YOU KNOW, IT, AND YOU KNOW, IT'S WHAT HAPPENS WITH MONOPOLIES AND THEY ALL.. THE DIRECTORS AND MANAGERS IN MONOPOLIES ALWAYS SAY YES, WE'RE TERRIFICALLY EFFICIENT BUT IT'S NOT UNTIL YOU ACTUALLY HAVE SOME COMPETITION YOU FIND OUT THAT THEY'RE NOT, A BIT LIKE YOU KNOW, LOTS OF THINGS WE'VE SEEN BEFORE.

PRESENTER: JOHN ROADLEY SAID AT YESTERDAY'S MEETING.. CONCEDED THAT THIS EPISODE THAT'S NOW CALLED POWDERGATE HAD BEEN A MASSIVE DISTRACTION TO THE NEW COMPANY. NOW, SOME OF THE LISTENERS WILL NOT HAVE FOLLOWED POWDERGATE AND WON'T KNOW WHAT IT WAS ABOUT SO IN THE MOST SIMPLE TERMS I MEAN WHY WAS THAT SUCH A DISTRACTION?

BALDWIN: WELL, UNDER THE OLD SYSTEM BEFORE FONTERRA WAS FORMED, THE DAIRY BOARD WAS THE ONLY BUSINESS THAT COULD EXPORT DAIRY PRODUCTS IN NEW ZEALAND SO THEY HAD A MONOPOLY ON EXPORTING. AND WHAT HAPPENED WAS THAT THE KIWI DAIRY CO-OP IN THE TARANAKI AREA MAINLY..

PRESENTER: AND WHICH IS WHERE CRAIG NORRIDGE, THE CHIEF EXECUTIVE OF FONTERRA, COMES FROM, ISN'T IT?

BALDWIN: YEAH, IT WAS CRAIG NORRIDGE'S COMPANY. THEY EXPORTED ILLEGALLY, THEY EXPORTED WITH.. IN SECRET WITHOUT THE PERMISSION OF THE DAIRY BOARD AND THEY DEVELOPED A SCHEME TO TRY AND COVER THAT UP AND DO IT SECRETLY, AND THAT WAS DISCOVERED AND IT BECAME KNOWN AS POWDERGATE. THERE WAS AN INTERNAL INVESTIGATION AND TWO EXECUTIVES IN AUSTRALIA GOT SACKED AND GOT PAYOUTS. AND THERE'S A GENERAL SUSPICION IN THE INDUSTRY THAT CRAIG NORRIDGE KNEW ABOUT IT.

PRESENTER: SOMETHING HE HAS ALWAYS DENIED?

BALDWIN: SOMETHING HE DENIES VERY STRONGLY. THE GOVERNMENT IS DOING AN INVESTIGATION INTO THE AFFAIR AND PRESUMABLY INTO WHETHER CRAIG KNEW ABOUT IT, AND THAT REPORT IS YET TO COME OUT. SO I THINK THERE'S A SENSE THAT CRAIG HAS THIS SHADOW HANGING OVER HIM WHICH NEEDS TO BE CLEARED UP, IT NEEDS TO BE SORTED ONE WAY OR THE OTHER.

PRESENTER: WELL, CERTAINLY YOU COULD UNDERSTAND WITH SOMETHING LIKE THAT, I MEAN WITH A GOVERNMENT INQUIRY INTO SOMETHING LIKE THAT HANGING OVER HIM.. BECAUSE OBVIOUSLY IF IT FOUND OUT THAT HE DID KNOW SOMETHING ABOUT IT, THEN HE WOULDN'T BE ABLE TO STAY AS CHIEF EXECUTIVE OF FONTERRA..

BALDWIN: CORRECT, YEP.

PRESENTER: I MEAN YOU CAN UNDERSTAND WHY HE MIGHT.. HIS ATTENTION MIGHT BE SOMEWHAT DISTRACTED?

BALDWIN: I THINK THAT'S TRUE. I THINK IT MAY AFFECT HIS CONFIDENCE. IT MAY AFFECT HIS ABILITY TO SORT OF MAKE DECISIONS AND IT MAY ALSO AFFECT HIS SORT OF SENSE OF CREDIBILITY AMONG HIS SHAREHOLDERS. BUT ALSO I THINK IT PROBABLY GOES TO SOME OF THE PEOPLE WHO WERE ON THE BOARD BECAUSE THERE ARE LOTS OF KIWI DIRECTORS ON THE BOARD AND THE QUESTION IS WHETHER THEY KNEW ANYTHING ABOUT IT AS WELL. NOW, I READ SOMETHING YESTERDAY WHERE JOHN STOREY SAID IN ONE OF HIS NOTES THAT THERE ARE SKELETONS IN THE CLOSET, THAT HE.. AS FAR AS HE'S CONCERNED THEY SHOULD REMAIN BURIED.

PRESENTER: I WANTED TO ASK YOU ABOUT THAT. YEAH, JOHN ROADLEY SAID THAT. HE SAID "I HAVE NO INTENTION OF UNEARTHING SKELETONS THAT MOST OF YOU, AND I, WANT LEFT BURIED." I WAS INTRIGUED BY THAT?

BALDWIN: YEP. SO I THINK WHAT THEY'RE REALLY SAYING IS YES, THERE MAY BE SOME QUESTIONABLE PRACTICES BUT THEY'RE IN THE PAST AND WE'RE IN THE FUTURE, BUT I THINK.. AND MAYBE LOTS OF DAIRY FARMERS FEEL THAT WAY BUT WHILE IT'S STILL THERE IT'S SORT OF LIKE THERE'S AN UNRESOLVED INDICTMENT SITTING ON YOU OR A POSSIBLE, YOU KNOW, SUSPICION OF CRIMINAL.. OR NOT CRIMINAL BEHAVIOUR BUT ILLEGAL BEHAVIOUR.

PRESENTER: THE BOARD HAS BEEN SLIGHTLY RECONFIGURED TOO, HASN'T IT? I MEAN ROADLEY STEPS DOWN AS CHAIRMAN. HE'S NOT BEING REPLACED AS ANOTHER FARMERS' REPRESENTATIVE, AND THERE'S GOING TO BE ONE MORE NON-FARMER REPRESENTATIVE ON THE BOARD. IS ALL OF THAT GOING TO MAKE ANY DIFFERENCE IN TERMS OF HOW WELL THIS THING OPERATES?

BALDWIN: IT DEPENDS ON WHO THEY APPOINT. I THINK THEY'VE GOT.. WHEN MIKE SMITH.. MIKE SMITH WAS SORT OF A NON-FARMING DIRECTOR.

PRESENTER: NOW, HE IS THE GUY THAT STEPPED DOWN VERY EARLY ON BECAUSE HE WAS WORRIED ABOUT THE GOVERNANCE OF FONTERRA AND WORRIED ABOUT WHERE IT WAS GOING?

BALDWIN: I THINK IT'S FAIR TO SAY THAT MIKE SMITH WAS PROBABLY ONE OF THEIR BEST DIRECTORS, A VERY SHARP GUY, VERY EXPERIENCED, VERY CAPABLE. AND WITHIN A FEW MONTHS OF FONTERRA'S FORMATION MIKE

STEPPED DOWN SAYING YOU KNOW, THINGS ARE NOT RIGHT HERE AND I'M NOT SATISFIED THEY'RE GOING TO CHANGE SO I'M OUT OF HERE, AND THAT WAS A MAJOR BODY BLOW. AND WHETHER FONTERRA CHANGED ANYTHING AS A RESULT I DON'T KNOW BECAUSE THE DAIRY INDUSTRY GENERALLY GOES INTO PR MODE, GOES INTO DAMAGE CONTROL MODE RATHER THAN DEALING WITH THE SUBSTANCE, AND I THINK FARMERS ARE STARTING TO YOU KNOW, SEE THAT AND GET ANNOYED BY IT.

PRESENTER: BUT ALSO.. I MEAN THE ONE THING THAT FARMERS ARE ABOUT TO SEE IS THEY'RE GOING TO GET.. THEIR INCOMES ARE GOING TO BE AFFECTED. I MEAN THIS YEAR THEY GOT WHAT DID I SAY..?

BALDWIN: 5.33.

PRESENTER: 5.33 A KILOGRAM. AS IT WAS, FONTERRA PAID OUT REALLY MORE THAN IT OUGHT TO BECAUSE IT POSTED A..

BALDWIN: DIPPED INTO RESERVES.

PRESENTER: DIPPED INTO RESERVES TO PAY FOR THAT, AND NEXT YEAR IT'S TALKING MUCH LOWER, ISN'T IT?

BALDWIN: IT IS. I MEAN THEY'RE TALKING ABOUT INSTEAD OF PAYING 5.33, PAYING 3.70. NOW, THAT'S A LOSS OF YOU KNOW, AROUND \$130,000 PER FARMER. IT'S YOU KNOW, A LOSS OF BILLIONS OF DOLLARS TO THE

ECONOMY AND I THINK SOME OF THE FARMS, THE BIG CONVERSIONS.. YOU KNOW HOW THE LAND IN SOUTHLAND HAS BEEN TURNED FROM SHEEP FARM INTO DAIRY FARM ON A REALLY BIG SCALE, WELL, SOME OF THOSE FARMS NEED ABOUT A RETURN OF 3.85 TO STAY AFLOAT, OR CERTAINLY TO MEET THEIR OVERHEADS, THEIR DEBT. SO IT'S GOING TO MAKE THINGS PRETTY TOUGH DOWN ON THE FARM AND I THINK YOU'LL FIND THAT TATUA WHICH DOES THIS VALUE ADDED STUFF, THEY'RE NOT GOING TO GO DOWN ANYTHING LIKE THAT AND THAT WILL MAKE FARMERS VERY, VERY ANGRY. SO I MEAN, COMING BACK TO YOUR QUESTION ABOUT THE DIRECTOR, THE GUY WHO REPLACED MIKE SMITH IS DAVID HOAR [PHON] AND HE WAS FROM TELSTRA IN AUSTRALIA AND HE'S ALSO A DIRECTOR OF BANKERS TRUST. HE'S QUITE AN EXPERIENCED COMMERCIAL DIRECTOR AND I UNDERSTAND HE'S MADE QUITE A DIFFERENCE. YOU KNOW HE'S.. BECAUSE FARMING DIRECTORS ARE NOTORIOUSLY POLITICAL. YOU KNOW, IT'S A REALLY TRIBAL THING, KIWI VERSUS THE DAIRY GROUP VERSUS THE DAIRY BOARD AND THIS IS ANOTHER PROBLEM WHICH FONTERRA HASN'T SORTED. IT'S MERGED THREE COMPANIES BUT THEY STILL ACT IN A TRIBAL WAY AND I THINK HE'S SORT OF CUTTING THROUGH SOME OF THAT. SO IF THEY GET ANOTHER GOOD EXPERIENCED PERSON WHO'S NOT INTO THIS FARMER POLITICS RUBBISH IT COULD MAKE A GOOD DIFFERENCE.

PRESENTER: AND THE NEW CHAIRMAN?

BALDWIN: WELL, HENRY IS A BIT OF AN UNTRIED QUANTITY. IT'S CURIOUS THAT HE DIDN'T WANT TO COME ON BECAUSE HE'S BEEN A FARMER DIRECTOR FOR YOU KNOW, A LONG TIME. HE'S BEEN SITTING ON THE FONTERRA BOARD

SINCE IT WAS FORMED SO HE KNOWS EVERYTHING ABOUT IT BUT WHETHER HE CAN MAKE THE HARD CALLS IT WILL BE INTERESTING TO SEE. HE HAD THE CHANCE WHEN FONTERRA WAS FORMED.. MANY PEOPLE THINK THAT HE WOULD PREFER NOT TO HAVE YOU KNOW, GONE THE FONTERRA ROUTE BUT HE..

PRESENTER: TOO LATE NOW, HENRY.

BALDWIN: EXACTLY. SO THE QUESTION IS, WHEN YOU'RE IN THE TOUGH SPOT HOW DO YOU ACT? DO YOU FOLLOW YOUR FARMERS OR DO YOU LEAD THE FARMERS? AND IF HE FOLLOWS THE FARMERS THERE'S PROBABLY NOT GOING TO BE A LOT OF CHANGE. IF HE LEADS THE FARMERS HE COULD MAKE A DIFFERENCE.

PRESENTER: TONY BALDWIN, A PLEASURE TALKING TO YOU. TONY BALDWIN THERE, IS A DAIRY INDUSTRY ANALYST AND WE WERE TALKING ABOUT FONTERRA.

ENDS