

ARTICLE PUBLISHED IN "THE DAIRYMAN"

Published by Rural Press, NZ

February 2005

By Aaron Smale

FONTERRA shareholders are being left in the dark about the company's bid for Australian company National Foods, says an industry commentator, and a recent press conference would seem to confirm his views.

Tony Baldwin says Fonterra shareholders have no say in the takeover decision, whether they like it or not, and they don't have as much information available to them as National Foods shareholders.

At a press conference, held by Fonterra to discuss the company's interim results, journalists repeatedly asked about the takeover bid, only to be stonewalled.

One journalist said many farmers were concerned and it is the subject of the highest interest among shareholders. "There is an obligation on management to shed some light on what is happening," he said.

Another scribe also mentioned an Australian report that Fonterra was carrying out further due diligence on National Foods.

However, chairman Henry van der Heyden and chief executive Andrew Ferrier refused to discuss the bid.

Mr Baldwin says Fonterra shareholders are not well informed, compared with shareholders in National Foods. "They are operating in an information vacuum, relative to shareholders in a publicly-listed company in a similar situation."

He says investors in listed companies have plenty of information available when making a decision about a takeover offer. "If you are a National Foods shareholder, there are several institutes informing you. Meanwhile, the New Zealand farmer is sitting there having to trust Fonterra's directors.

"There's no question that some of the directors are out of their depth, but they are nice guys, so they are elected."

Fonterra extended the deadline on its \$5.45 a share takeover offer after a rival bid of \$6 from Phillipines company San Miguel.

"Farmers' capital is captured. If they don't like this deal, if they don't want to invest their \$200,000 in Australian milk, they don't have any choice. "If I was a shareholder, I would want to have confidence about how much money I put into it. If I want to invest in National Foods as a farmer, I can do so on the sharemarket," Mr Baldwin says.

"Quite a few farmers are going to say: 'This is outside the reason I am in Fonterra'.

"Farmers should have the option of whether they put money into these activities."

He says the takeover offer also highlighted the lack of independent advice Fonterra shareholders have available on the wisdom, or otherwise, of the bid.

"It highlights the weaknesses with Fonterra's structure, particularly for the shareholders. They lack the safeguards of good expert advice. They don't have any information from brokers and advisors."

Mr Baldwin says Fonterra's bid seems to be motivated by its desire to increase the value-add part of its business, which has been underperforming.

"For quite a few years, people have been expecting a big shakeout in the Australian dairy industry. Fonterra thinks it will be in a prime position to influence that.

"They are thinking, this way we can beef up New Zealand Milk."

However, he says, trying to move into value-added is at odds with the primary focus of a co-operative. "The co-op purpose is to take shareholders' milk and be paid the highest possible price.

"Everyone says you must move into value-added. That's almost a given. However, it's not a given unless you can do it profitably."

Consumer businesses are focused on consumers, not the farmer. "You can make money only if you make products consumers want to buy, not what farmers can produce. A co-op is completely production driven. The co-op is there to buy the milk you make. Value-added is all about what the consumer wants.

"Under a co-op structure, when shareholders put in capital it's not to achieve a dividend on capital. You are trying to get the best price, you are not trying to get a return.

"Fonterra is trying to do two different tasks."

He says New Zealand Milk should be opened up to outside capital, because consumer brands are extremely expensive to develop and 12,000 dairy farmers don't have enough capital to do it properly.

While some believe he is anti-co-operative, Mr Baldwin says he isn't.

"The dairy industry is too important to New Zealand's economy to not have it performing to its full potential."

He says farmers religiously hold a co-operative belief for a number of historical reasons and the board is too timid to do what is best for the industry as a whole.

"This is all about placating the middle to late-age farmers. However, the cost for the New Zealand economy is not for free."