

## Fonterra plan makes odd allies

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BUMPY ROAD AHEAD? Fonterra's board and senior management want to bring outside capital into the co-op to help finance an aggressive international expansion.

**A Labour-led government that appears increasingly hostile to any foreign ownership of key assets and risk-averse dairy farmers could find themselves unlikely allies in preventing Fonterra from partly listing on the stock exchange.**

Amid speculation that the Government may bristle at any foreign ownership of Fonterra ahead of next year's election, Agriculture Minister Jim Anderton said: "The Government has been engaging with Fonterra on the (capital structure) issue with a view to ensuring New Zealand's national interests are adequately considered.

"The issues are, however, both commercially sensitive and confidential to Fonterra, and the Government will have nothing further to say until Fonterra takes its recommendations to its shareholders."

It is understood that a team of officials from the Agriculture and Forestry Ministry and the Treasury has been assembled to advise the Government on the debate.

Fonterra will unveil its preferred capital structure option on November 15 at seven digitally linked meeting venues. Chairman Henry van der Heyden will make the announcement from Christchurch. It will kickstart a debate on Fonterra's future, in preparation for a vote that the dairy cooperative says will be the most important in its history. Fonterra's board and senior management want to bring outside capital into the co-op to help finance an aggressive international expansion.

Fonterra will present its preferred options, as well as others it has considered. It is understood that in early September the Fonterra board was down to just two options, both of which involved publicly listing part of the co-op.

When the vote on the issue - which will require the support of 75 per cent of shareholders - will take place is unclear. Fonterra has previously said it was aiming for a March or April vote, though there is now a view that the debate may take longer.

An industry source said Fonterra would find it hard to get government support for a part listing, especially during an election year in which foreign ownership of key assets was likely to be a major issue.

Even if a partial listing did not require enabling legislation it would be difficult to achieve without government support, the source said. "The Government has too much clout over them in a sense that they're (Fonterra) only there now because (Prime Minister) Helen Clark did the deal to enable Fonterra to form without going through the Commerce Commission. The Government will be looking at what levers they have to control them on this decision."

The source said that given the Government's recent stance on foreign investment in key assets, Fonterra's timing was not good.

But another source, closely connected to Fonterra, said he did not think the Government's view was a major issue, because shareholders were unlikely to vote for something radical enough to attract government opposition. He said the capital structure debate was likely to hinge on a couple of issues: was a farmer-owned cooperative the right vehicle for aggressive expansion internationally, and should suppliers who just wanted to get their milk processed and get a good price for it have to have their capital tied up in riskier overseas investments?

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