

Fonterra's value-add goal 'lacks evidence'

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Dairy industry commentators have greeted with scepticism Fonterra's goal of doubling its value-add return to 80 cents a kilogram within three years.

The value-add return measures the profit Fonterra makes over and above selling milk powder. It is largely made up of returns from Fonterra's branded products.

The goal was revealed in the co-operative's three-year business plan, which was leaked to media this week.

"We are hopeful it can be achieved," Federated Farmers dairy chairman Lachlan McKenzie said.
"But they have not got a proven track record in this department."

Since Fonterra was formed, value-add returns have remained static, or fallen. However, it is difficult to compare figures because Fonterra has changed the way it calculates the value-add return.

According to Fonterra's 2008 annual review, the value-add return was 28 cents in the 2003-04 season, 22c in 2004-05, 25c in 2005-06, 59c in 2006-07 and 31c in 2007-08. It is forecast to be 40c for this season.

"It's devoid of any indication of how they are going to achieve it," dairy industry commentator Tony Baldwin said. "It would imply increased investment in those parts of the business that generate value-add return."

There was no basis to suggest it could achieve the goal, from the information provided, Mr Baldwin said. "These are equivalent to political promises which are a bit aspirational. These types of statements have been made repeatedly in the past but there's no evidence of achieving them."

Fonterra said that, traditionally, the value-add return components had been associated with the regional consumer businesses. "But the reality is that the potential to increase profit is in all parts of the business."

Mr McKenzie said he hoped this did not mean that Fonterra would employ smoke and mirrors to re-allocate revenue and make it appear the value-add component was increasing. "If that is done, shareholders are going to be very disappointed," he said. "There needs to be a clear delineation

between core processing of New Zealand milk and added-value returns above that. We don't want the goal posts to continue to be shifted."

Other components of the three-year business plan included sourcing more milk from overseas, although the plan did not provide much detail on how it would be done.

A Fonterra spokesman said it would involve a range of things, including Fonterra possibly setting up more farms overseas with the help of external investors.

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