

MEAT ALLIANCE: Single desk meat giant opposed

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**EDLIN BOB CAPTION: Mega merger `not necessarily a panacea' for better
lamb export returns. FAIRFAX/HOWARD KEENE**

MOVES to create a mega meat- processing company based on the dairy industry's Fonterra model are being questioned by consultant and commentator **Tony Baldwin**.

"I'm not saying it's a bad idea, but it's not necessarily a panacea," said Baldwin, who was leader of the inter- departmental producer board project team in the 1990s when the National- led government dismantled a raft of producer boards.

The Meat Industry Restructuring Group is pushing for PPCS and the Alliance Group, between them comprising about 60% of the meat processing industry, to be merged to get better returns for lamb exports.

Their lobbying follows a decline in lamb prices in the past two years and coincides with the high \$Kiwi eroding the margins of the major meat processing firms, PPCS, Alliance Group, Affco and Anzco Foods.

In commodity businesses, Baldwin told The Independent Financial Review, people tended to start at the wrong end. "They look at the supply end rather than at the customer end."

They should first find if they are failing to produce what customers want, rather than address governance arrangements around the processing.

It was "complete nonsense" that prices could be better controlled through a co-operative, Baldwin said.

Those who believed an integrated mega meat-co-operative would provide the industry with price-making power "would be severely deluded."

The concept of a mega co-op failed to properly weigh the risks of efficiency and poor governance and the inflexibility these created.

Six years after Fonterra's establishment, Baldwin noted its directors and managers were trying fundamentally to change its capital and governance structure "so it's better suited to meet customers' needs."

Centralising an industry around a single giant company also reduced the range of ideas on marketing and how to solve problems.

"It is not a solution to providing innovation," Baldwin said.

If the fundamentals of an industry resulted in declining profitability because of reduced demand for a product or reduced margins "then you have to address the fundamentals, not try to insulate people from addressing them."

PPCS chief executive Keith Cooper is reported to oppose the establishment of a dominant seller in the meat industry, but to favour a single marketing body that could take a more strategic approach to global markets.

Agriculture Minister Jim Anderton, however, has signalled his readiness to go further and to support attempts to restructure the industry similar to the Fonterra model.

The government passed special legislation in 2001 to allow Commerce Commission rules to be skirted in Fonterra's establishment.

Anderton told Radio New Zealand this week the government had showed a lot of common sense in helping Fonterra to overcome competition hurdles and he would apply the same common sense to the meat industry.

He accepted that any restructuring in the meat industry would be complicated, but said he had already had some positive discussions with some in the industry.

Craig Norgate, managing director of Rural Portfolio Investments and the former chief executive of Fonterra, is reported to have said some form of tie-up between PPCS and Alliance makes sense.

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