

'Trading among farmers' confusing

ONNO VAN BEKKUM

AS AN overseas observer of the debate about Fonterra's restructure I would like to acknowledge at the outset that my perspective may be biased, and in sharing my views with *Dairy News*' readers I don't wish to suggest farmers vote either for or against the proposal.

However, I do wish to share some of my understanding of what's at stake.

Firstly, I find the term "Trading among farmers" to be confusing. The way I look at it, "farmer investors" and "farmer suppliers" are not the same.

like hybrid structures and will discount these investment units, putting the company and farmers under pressure. The moment farmers start to enforce decisions that run counter to investor interests this "ownership" battle will surface.

The board could easily dismiss the clamour of dairy equity following share price reductions in recent years as it had no connection to dairy equity. It would not be so easy with the new structure. Furthermore, reference is made to "friendly investors" such as "sharemilkers, dry farmers and offshore suppliers" but also includes "institutions



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is meant is that returns will be creamed off from the milk price. That isn't wealth creation; it's wealth redistribution.

Fonterra says "the current system penalises loyal shareholders who

effectively fund the return of share capital to farmers leaving the co-operative". I have my doubts about this statement too.

It is true generations acquire ownership from the previous ones so farmers leaving the cooperative redeem their initial and incremental investments, plus hopefully some value increase.

The new system doesn't necessarily change this though. It simply facilitates non-supplier buy-in.

To summarise, I question the validity and even relevance of a number of the arguments supporting the trading proposal. Some of the ideas, such as having a shareholder fund to provide flexibility, participation of offshore suppliers, and a dividend reinvestment programme are good, but they don't necessarily require trading among farmers.

There are many risks to farmer-supplier ownership by introducing share trading and I'm not convinced that this

is the way the cooperative should be moving forward.

The question is, of course, is there an alternative? It seems that during the past five years all eyes have been focused on share trading, first with the public listing option, and now with the more restricted (investor) "farmer" trading option, with public trading of investment units.

How much attention has been given to other options? "There is no cooperative anywhere in the world that is the same as

Fonterra".

True, but that doesn't mean there isn't anything out there to be learnt from and that could effectively be recombined into a new model solving Fonterra's redemption problem and capital growth challenge. I would think there are alternatives.

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For example, the statement "Additional capital raised from dry share issues would be directed to growing future farmer shareholder returns" appears to refer to farmer investors and not to farmer suppliers.

The suggestion is that since the beneficiaries of the proposal are proclaimed to be "farmers", milk suppliers will benefit.

But they should realise that instead we are talking about an exclusive group of investors: dairy farmers (though not as farmers), ex dairy farmers, possibly plus institutions and the public, but I'll come back to that.

The solidarity of farmer investors is far weaker than that of farmer suppliers. My concern is that the number of milk-backed shares would soon be outnumbered by a pool of dry shares, plus shares backed by the shareholder fund.

That will increase pressure for further reform, moving the cooperative further away from farmer-suppliers.

Digging a little deeper, the proposal purports to ensure "Fonterra remains 100% farmer controlled and owned", as "investment units" would have only economic, ie dividend and share value, rights, not voting rights. I believe this would be short-lived.

The market doesn't

and the public".

Friendly investors sounds nice but I doubt they really exist. I do, however, think co-investment by offshore suppliers is a great idea. Solidarity between farmers shouldn't stop at national borders.

The proposal aims to "strengthen the balance sheet of Fonterra" but in itself it doesn't generate new capital. It simply transfers balance sheet weakness from the cooperative to someone else. This would "make every farmer's investment in Fonterra more secure", says the co-operative, but farmers should realise they will be paying that bill themselves.

As for the "ability to make better use of retentions" to strengthen the balance sheet, this is common among companies and cooperatives, but I fail to see why it requires "trading among farmers".

Similarly, I don't see how trading among farmers will grow shareholder returns.

There are benefits from being relieved of the obligation to redeem billions of dollars of shares but if "opportunities with potential returns exceeding 20%" really exist surely farmers and their financiers would back those anyway.

Growing shareholder returns has nothing to do with the proposed trading system, unless what

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