

MEDIA RELEASE

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Fonterra Farmers' 2nd Vote on TAF: A Second Opinion

A report commissioned by the 'Our Co-op' group of Fonterra farmers from Netherlands cooperative expert Dr. Onno van Bekkum was published on 14 June 2012.

The report crushes the fundamentals of Fonterra's proposed Trading Among Farmers (TAF). "We have been concerned about the content and process of the TAF proposal for a long time", says Leonie Guiney, spokesperson of the 'Our Co-op' group of Fonterra farmers.

"This due diligence report highlights a series of flaws in TAF that compromise cooperative principles. It underpins the fact this is not how we see our cooperative's future."

Cooperative heart cut out; conversion into a farmer-owned business

Onno Van Bekkum said, "I am amazed to see how TAF strikes an axe at the cooperative roots of Fonterra. From the privatization of the Dairy Board Fonterra inherited a deficient share structure. But instead of replacing that with a genuinely cooperative share, TAF actually privatizes the cooperative itself. TAF would transfer the total outstanding redemption claim, currently valued at \$6bn, to the body of members.

"This is not 'cooperative'. By denying member access to the equity built up collectively in Fonterra for many years, TAF cuts out the heart from the cooperative.

"There is nothing 'cooperative' about the so-called 'Co-operative share' any more. If passed, TAF would convert Fonterra into what we call a 'farmer-owned business'.

"Less than that even: up to 20% financial ownership of the shares will be with external investors. A cooperative encouraging its members to sell shares so external investors may have their bite of the cake – that is unprecedented and anti-cooperative."

Investor interests and questions remaining

"TAF shifts Fonterra's primary focus to generating dividends," said Van Bekkum, "and that's how farmers will view their new 'investment'.

"Under TAF, farmers' perspective will be decreasingly 'cooperative'. In this proposed future, they will vote individually, as investors.

“TAF allows farmers to ‘share up’ 100% or sell down 33% of their ‘wet’ shares, creating a 3:1 distribution range in individual ownership. This disruption of the share-to-milk linkage fuels free riding behaviour and leads to member solidarity break-down.

“Further, this so-called ‘flexibility’ creates disincentives for farmers, in their primary role as milk suppliers, to invest in Fonterra. I wonder how, under TAF, Fonterra will be able to raise member capital for example to fund a major acquisition.

“Many questions remain unanswered. The same is true for example with regard to dealing with breaches of the Shareholder Fund’s size, such as when milk supplies drop strongly after a peak season. Buying back units from the Fund would be costly.

“How deep will the Board dig in its pockets before proposing a ‘temporary’ relaxation of Constitutional thresholds?

“There are too many risks and uncertainties associated with TAF for farmers.”

Completing the SWOT analysis

Our Co-op spokesperson Leonie Guiney said, “The Our co-op group has commissioned this report in the interest of providing an expert view to farmers from a co-operative perspective.

“Our purpose has always been to keep a strong, cooperative Fonterra delivering a profitable future for farming in New Zealand by prioritising the farmers’ primary production interests.

“We believe this report completes the SWOT analysis in a process that has emphasized the Strengths and Opportunities of TAF in communication from Fonterra, where in fact the Board had a responsibility also to openly discuss the Weaknesses and Threats. This they did not do.

“Farmers should have the opportunity to evaluate the risks of this proposal from a fully informed position and make their own choice as to whether the risks to the cooperative presented by TAF are in fact manageable risks that justify the argued benefits.

“We intend this report to help them make a fully informed choice for their own future and that of future generations of dairy farmers.”

Notes to the editor:

- The full report may be downloaded from www.ourco-op.co.nz

For more information:

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About CO-OP Champions

CO-OP Champions is a Netherlands based, independent cooperative expertise center offering advice and training to cooperative Board members and executives in the Netherlands, Europe and in the worldwide food & agribusiness. Cooperative Strategist and CEO, Dr. Onno van Bekkum, holds a PhD in Economics from Nyenrode Business University in the Netherlands, where, since 2001, he is a (guest) lecturer on cooperative business in the Food & Finance Executive MBA. The CO-OP Champions Database includes financial and organizational data for over 700 agribusiness cooperatives from about 40 countries worldwide.