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no

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## TAF warning

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### AN OVERSEAS cooperative expert warns Fonterra's proposed share trading scheme will eventually erode farmer ownership.

Netherlands-based Onno van Bekkum does not support the co-op passing on redemption risk to farmer shareholders under its Trading Among Farmers (TAF) plan.

In his submission to MAF, van Bekkum points out the loss of farmer control in Irish dairy Kerry Group.

He believes farmer ownership of Fonterra will be watered down under TAF.

It will be watered down gradually, he says.

"Just as it did in Kerry Group in Ireland, for example," he says.

"Not overnight, but gradually, driven by internal and external forces that make it very logical it will continue to water down, once you pass the watershed point.

"And while that generation of Irish dairy farmers earned a great deal, as dairy farmers they are now stuck with a fragmented dairy business that doesn't really serve their milk producer interests."

Van Bekkum says he fears the same would happen to Fonterra.

"The question is: do you want a New Zealand owned cooperative champion sustainably driving cash back to rural communities or do you prefer to set up Fonterra as a target for overseas investors, milking New Zealand farmers and therefore the economy?"

TAF allows Fonterra farmers to trade shares among themselves freeing up the co-op from redemption risk.

A Fonterra Shareholders Fund will trade dry shares and investors will be able to buy units and earn dividend payments on these dry shares. However, voting rights associated with dry shares remain with Fonterra farmers.

But Van Bekkum says there are flaws in the discussion about redemption risk.

Redemption risk is being passed from the cooperative to farmers and won't disappear, he says.

"It is still there. But now it hangs around the neck of farmers instead of the cooperative.

"Their only escape, eventually, is selling to external investors.

"Which is what the fund allows them to do.

"And which will happen, sooner or later."

Van Bekkum says formally Fonterra will be owned by farmers and non-farmers, but it will be so-called farmer controlled.

"But I see that only as a temporary arrangement.



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