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NEWS	1-15
WORLD	16-17
AGRIBUSINESS	19
MARKETS	20-21
HOUND, EDNA	22
CONTACTS	23
OPINION	22-25
MANAGEMENT	26-29
ANIMAL HEALTH	30-35
MACHINERY AND PRODUCTS	36-42
RURAL TRADER	43

Report questions TAF's need

» ANDREW SWALLOW

A DUTCH cooperatives expert is questioning whether Fonterra's farmers need TAF.

In a report commissioned by a group of shareholders concerned at the lack of independent analysis of the proposal, Onno van Bekkum slams many of the arguments for TAF put forward by the board.

While the 24-page report is a little long-winded and at times confusing, the concluding pages are damning.

TAF is complex, both in concept and in language; it attempts to integrate conflicting principles of cooperative and stockmarket models, and shifts the board mindset towards satisfying investor demands with strategic focus on return on investment, rather than milk processed, he argues.

"[It] looks at milk as a 'cost' factor rather than as a source of wealth creation [and] erodes the linkage between

milk supply and investment."

Some shareholders' focus will shift to that of investors, creating tensions between groups within the cooperative with different investment profiles.

The likely increase in share price will tax milk growth, inhibit entry to the cooperative, and incentivise exit.

Those trading shares into the fund but retaining supply rights could find they are "locked in" as prices rise such that they cannot afford to buy their way out.

Dividends paid to outside unit investors would be money lost to the dairy chain and for all the protection mechanisms Fonterra has proposed, van Bekkum doubts it could contain investor interest.

He drives a bus through the cooperative's selling points for TAF as outlined in the 'What you need to know' booklet, saying that rather than being an 'easier to use' method of buying or redeeming

Onno van Bekkum's report slams many arguments put up for TAF.



shares, it may well demand more from farmers.

Farmers are already 'in the driver's seat' and the three-year opt in/out periods do not require TAF to implement.

Claims that share value will be set by the price farmer shareholders trade at also don't wash. "No it won't. The share price will effectively be set by the public market."

As for TAF leading to 'a stronger cooperative', it may lead to a business with a stronger capital base but that is not necessarily the same as a stronger cooperative.

"But if TAF creates a stable capital base by solving the redemption problem, then this must be accepted as a valid argument.

More TAF stories page 4