Regulation & Competition Team
Sector Performance Policy
Ministry of Agriculture and Forestry
PO Box 2526
Wellington 6140
Email: dairyconsultation@maf.govt.nz

10 March 2011,
Ammerzoden, the Netherlands

Minister,

i. As an overseas observer and cooperative specialist, CEO of “CO-OP Champions”, I wish to share a number of concerns in relation to the “Trading Among Farmers” proposal of Fonterra.

ii. Ten years ago, when Fonterra was formed, the Dairy Industry Restructuring Act was introduced to create an orderly New Zealand dairy market. You are now about to revise that Act to accommodate changes because of Fonterra’s Trading Among Farmers proposal. You are asking for submissions from all interested parties. I believe Fonterra sets an important example for cooperatives worldwide. As promoter of cooperatives, I therefore consider myself an interested party.

Introduction

iii. **Merger.** I have followed Fonterra and its predecessors since 1998 when I was working on my PhD, comparing business strategies and capital structures of dairy cooperatives in Europe, Australia and New Zealand. One of my conclusions at the time was that it was very clear for an external observer to see why the New Zealand Dairy Group and Kiwi Cooperative Dairies really ought to merge. I was happy when later that year they finally did.

iv. **Dairy Equity.** When the Dairy Equity launched its Fund in August 2006, I thought that wasn’t going to be in the best interest of farmers. I felt relieved when farmers showed very little interest to contract their shares with the Fund.

v. **Stock listing.** I was unhappy when in November 2007 Fonterra finally did announce its proposals for a 35% stock listing. I was very unhappy to see so many farmers gradually losing ownership and control of their cooperatives during the years after a seemingly innocent introduction of external owners through a direct or indirect public floatation of shares. I didn’t like the idea of the same thing happening neither for New Zealand farmers nor for its potential international cooperative collaboration partners, nor for the example it would set to the rest of the world. "If Fonterra couldn't become a global company and remain cooperative, why would any other cooperative be able to do better?". But again I felt relieved when the Shareholders Council, still being renowned as 'watchdog' at the time, launched a counter-initiative and effectively blocked the proposal from being taken forward.

vi. **Trading among farmers.** Another two years elapsed until a watered down proposal in three stages was communicated to farmers. Farmers were very happy because of the "trading among farmers", i.e. the public was left out. Everybody was happy because redemption risk would be removed. And with the introduction of dry shares farmers could now demonstrate their determination to preserve their ownership of Fonterra. So far, apparently only 6% of the shares are dry shares. Was this worth making all the effort for, and adding a further risk for farmer ownership? A risk because speculative interests of dry shareholders might well run counter to the interests of wet shareholders. And I wonder with the current ideas about shares being placed in a Trust (maximum 25% of all shares if I understand well) and notes becoming publicly tradable, how much the new proposal is really going to be different, a few years down the road, from the November 2007 proposal...

General comments

vii. Why is Fonterra doing all this? Because of "removal of redemption risk", "market efficiency" & "freedom of farmer entry and exit", phrases echoed also in the Ministry's Discussion Paper.

viii. **Redemption risk.** I believe there are flaws in the discussion about redemption risk. Now that redemption risk is being passed on from the cooperative as a whole to farmers individually, redemption risk as such won't disappear. 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. Now I realize that formally speaking the Fund will trade non-voting notes. 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. Notes will trade a discount once farmers will decide anything against the interest of external investors. There is no control without ownership.

ix. **Historic value.** Ten years ago when Fonterra was formed, the value of the NZ Dairy Board accrued for the largest part to Fonterra. But the idea was that individual farmers should have the rights to that value. This was a wonderful gift to the farmer community and it wouldn't seem proper to allow the *current* generation of farmers to cash this value. The historical legacy of the Dairy Board belongs as much to the next generation(s) of farmers as it does to the current generation. The fair value share was introduced to make sure Fonterra wouldn't retain that value at the loss of exiting farmers. Whether they wanted to join a different dairy company, start a new dairy processing venture, or exit the industry. We are now ten years down the road. For how long should that historical value of the Dairy Board have to continue to play such an important role in Fonterra, to the extent that it has demanded an undue amount of attention from the Board for over five years, and is threatening the farmer ownership model at its very core?

x. **Producer interests.** If maximum liquidity means maximization of the share price, which I believe is the whole point of the Fund, then the investment burden for new and expanding farmers would increase. It is unlikely that farmers, being in there for the milk primarily, would be willing to pay as much for the shares as the external investor in the market. The Fund therefore not only provides liquidity, but also drives up the share price. That's good for exiting farmers, but is that good for remaining farmers too? And for their capacity to invest in Fonterra? The more they need to pay just to maintain their current combined ownership level, the less they are able to provide fresh capital to Fonterra. This would hamper the growth of Fonterra as a farmer-owned business. And hence speed up the transition to non-farmer ownership.

xi. **Freedom of entry and exit.** The consultation document stresses the importance of “the freedom of farmer entry and exit” - in reality meaning “freedom of exit”. Unless there is a waiting list, which is not the case at Fonterra, farmers are always free to enter. The whole discussion is about exiting farmers cashing maximum value for their share. With the exception of new farmers having started after 2001 or for increased milk production (just over 10% in ten years, in aggregate), most of the current ‘fair value’ wasn’t actually paid up in cash. It is a gift, really, that has very little to do with farmer transactions of milk with Fonterra, which is why they set up their cooperative in the first place.

xii. **Future entrants.** I wish to comment further on the interpretation of “freedom of farmers to enter and exit Fonterra”. To whom does it refer? Exiting farmers clearly are current members. That’s quite obvious. Entering farmers seems just as obvious, but is less so. Entering farmers may be 1) current dairy farmers supplying other parties in the market, 2) entrants to the industry currently in other fields of agricultural activity or 3) dairy farmers as yet professionally inactive or 4) generations of farmers yet unborn. My perception is that the TAF and DIRA restructuring takes a very shortsighted perspective, i.e. addressing the needs of the current generation of dairy farmers only. I would challenge Fonterra’s leadership and the Minister to re-examine the possible implications of the TAF for the next generation(s) of farmers: aren’t you creating structures now that will increase the risk that future farmers won’t have a farmer-owned Fonterra that they can ‘enter’?

xiii. **Undue focus on exit**. I recognize the rights of farmers who have been loyal members for many years and at some point decide it’s time to retire. There must be a proper way to reward them for their investments, insofar as these haven’t yet been distributed through the privileged relationship they have had for many years with Fonterra. There may also be the case of farmers, opportunistic or not, who wish to continue dairying but no longer as supplier to Fonterra. The rights of these exiting members should also be duly acknowledged. But why create a very complex and potentially unstable ownership structure that is primarily oriented at this group of members? Why? Why should their interests prevail over those of loyal members in the design of Fonterra’s ownership structure? The whole point of creating Fonterra was to build a NZ dairy champion that would sail the world and earn a solid income for NZ dairy farmers and the national economy. Why put the entire model at risk in order to transfer some historical amount to farmers who might or might not decide to leave the business? It seems the capital structure debate has lost its proper focus, and now the government is becoming part of that too.

xiv. **Market efficiency.** The TAF proposal wasn’t designed to improve market efficiency as such. It was designed in order for the cooperative to be relieved from the redemption problem. I agree it relieves the cooperative from redemption. But no new source of capital is created to allow redemption. There is no new class of owners. As a result, passing on the redemption obligation from the cooperative to individual members means that effectively the cooperative is sold already, but the moment of transition of ownership hasn’t occurred yet. Remaining members will make advance payments for redemption of exiting members, but redemption, eventually, takes place by a new class of owners: external owners. I therefore believe the TAF proposal was fundamentally flawed.

xv. **Redemption unsolved.** In the meantime, should large numbers of members leave, under the TAF proposal these exiting members will be redeemed at a discount because the restricted number of members in the share market won’t be capable and/or prepared to pay the full value. Free exit would be compromised with. The Fund doesn’t solve the problem.

Regardless whichever restricted amount put in the Fund (outside the NZD 500-900 mio range even) it couldn't provide liquidity for the entire share base. The 500-900 value rests on assumptions concerning the number of exiting kg's of milksolids. There could always be reasons for larger numbers leaving for whatever reason. The 500-900 can't therefore be carved in stone. It is a temporary solution with an inevitable outcome: loss of farmer ownership. I believe that would be bad for long term development of the NZ dairy sector and therefore for the NZ economy.

xvi. **Alternatives trading systems.** Are there alternatives for "trading among farmers" without placing shares valued NZD 500-900 million in a Fund for external? Yes, I think there are. There are other examples of cooperatives with internal trading mechanisms. These come in two forms: linked ('wet' shares in Fonterra's terminology) and delinked ('dry' shares). The linked share trading is not without challenges, but these are easier to deal with. In general I am not in favor de-linked trading systems because it creates a wedge between farmer-producer interests and (internal or external) investor interests. There are several dozens of examples in the agri-food industries, but I'll focus on two. Pre-merger Friesland Foods (in the Netherlands) had its de-linked certificates of B shares traded at an internal market. There was liquidity in that market. Wet shareholders became increasingly dissatisfied, however, with the system because too much of the dividends ended up being paid out to dry shareholders. It was quite costly to buy out the owners of B certificates, but they succeeded. FrieslandCampina now has an internal market for de-linked permanent member bonds, which are traded at nominal value and generating a modest return, which is pegged to the Euribor interest rate. To my surprise, I must add, demand for these bonds has exceeded supply. So even with this unattractive form of capital, compared to the shares of Fonterra, the market works for the current 15,000 members of FrieslandCampina. The price farmers pay to contribute equity to this cooperative and the price they receive upon exit, is certainly lower than it could be but people are happy with it. Because they look at their cooperative primarily to add value to their milk and not as an investment opportunity. The rest they find is subordinate.

xvii. **Balancing producer and investor roles.** There is a balance between producer and investor interests that is very fundamental for the sustainability and growth of any cooperative. As the capital intensity increases, the investor role becomes relatively more important. But it must always remain subordinate to the primary producer interest of the member, which is why the cooperative was created in the first place. The Ministry's emphasis on 'freedom of exit' interpreted in the narrow sense of "fair value" back in 2001 hasn't been helpful for Fonterra to keep this balance. A few years since, it seems in the minds of Fonterra's leadership the investor role has started to dominate. The moment members are wanting to cash, that's inevitably the end of the the cooperative. That moment is being brought another step closer with the TAF proposal. The solution to Fonterra's problem, as I look at it, lies in restoring the balance between the members' producer and investor roles. This implies preservation of the milk-investment linkage and more moderately priced equity. It seems though that this is not the mindset of Fonterra's decision makers, nor apparently that of the Minister. The complex proposals that have been submitted during the past five years have all looked at the 'problem' from that investor/speculator angle. Which is why is has become so complex and has taken so long. The true farmers' perspective isn't that complex.

xviii. **Down the slide.** I fear not without reason that the consequence of the current proposal will be that a number of years down the road farmer ownership of Fonterra will be watered down. Gradually. That is the point: gradually. Just as it did in Kerry Group in Ireland, for example. 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. A wonderful business where a lot of value was created, but nothing much to do with dairy. 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. I would fear the same would happen to Fonterra, in its own unique way. The question is: is that really what the Minister wants? Do you want a New Zealand owned cooperative champion sustainably driving cash back to NZ rural communities or do you prefer to set up Fonterra as a target for overseas investors, milking NZ farmers and therefore the NZ economy?

Specific answers to the discussion paper questions

1. Do you agree with the problem definition "to identify a regulatory regime that both provides for both the freedom of farmers to enter and exit Fonterra and allows the opportunity for the TAF proposal to be implemented"?

I have never been a proponent of the TAF proposal, as I have outlined in articles published in RuralNews (20Apr10) and DairyNews (27Apr10), which you'll find attached to this submission. In #42 you write that the TAF proposal improves the efficiency of dairy markets in New Zealand. I disagree that any and all of the reasons a) to e) required the TAF proposal. I believe they could have been solved within the existing structure of share redemption by Fonterra. Perhaps it would require a more rigorous application of the current milk pricing scheme though.

2. Do you agree that efficient milk pricing and deep, liquid, transparent, well-informed and fungible share and fund markets are necessary and sufficient elements for ensuring the freedom of farmers to enter and exit Fonterra?

No, I believer there is a better alternative. The share and fund markets may be sufficient (while I argue that even this is debatable), but I am quite certain that they are not necessary.

3. In the context of Fonterra's TAF proposal, what additional or alternative key elements do you consider to be necessary for ensuring the freedom of entry and exit for farmers?

I would be happy to share alternative solutions to Fonterra's capital structure problem, i.e. outside the context of the TAF proposal, with Fonterra and the Ministry directly, should they be interested.

4. MAF has proposed that a pre-condition on the minimum size of the fund is set at a value of between NZ$500 million and NZ$900 million. What value do you consider would be the most appropriate for a pre-condition on the minimum size of the fund?

That really depends on your assumptions on the numbers of kg's of milksolids you fear might leave Fonterra. Since you provided no basis for these figures, it is very difficult to comment. If you expect milksolids not to drop at all, a zero Fund would be quite sufficient. If you expect a 50% drop, NZD 900 is likely to be quite inadequate. But at this stage the issue isn't that of liquidity anymore. Nor do I believe the current discussion really is about liquidity. It seems to be rather on cashing value that is locked up in Fonterra so long as the redemption problem isn't solved.

5. Do you consider that once the pre-condition on the minimum size of the fund is met, there would be sufficiently liquidity in the share and fund markets to ensure the freedom of farmers to enter and exit Fonterra at the outset?

No specific comments.

6. Do you consider that regulation of milk price governance and disclosure would be necessary to strengthen confidence in the milk price setting process, and, therefore, support the liquidity of the share and fund markets?

No, I believe this could very well be addressed at Fonterra internally. But given that there is a public interest, it would be good to ensure that sufficient neutrality is incorporated in the system. From what I know, this is already addressed. To add more and more regulations doesn't serve the healthy development of Fonterra, I would think.

7. Do you consider that it would be necessary for the Trustee of the fund or an independent body to nominate candidates to be the independent members of the Milk Price Panel?

If you really decide to go ahead with this, then I think this would make sense. I am not sure if the Trustee might truly be expected to be neutral in this though. The lower the milk price, the better the trading. No doubt about that.

8. Do you consider that regulation of ongoing liquidity requirements would be necessary to strengthen Fonterra's commercial incentives to ensure that the share and fund markets remain sufficiently liquid over time?

No. I believe that, in principle, over 10,000 dairy farmers of a NZ quality are quite capable of keeping Fonterra's executives on top of the commercial side of the business. Given that I am not a proponent of the TAF proposal, it may be deduced that I am not convinced about the performance of the cooperative's leadership in all of the other aspects. But that is not intrinsic to the system. Nor would governmental regulation necessarily improve that.

9. What form or forms of ongoing liquidity requirements do you consider would be most appropriate for ensuring the ongoing liquidity of the share and fund markets?

I believe a much more conservative system of book making would be sufficient and that the Fund as currently foreseen will not be necessary.

10. What do you consider would be an appropriate monitoring, enforcement and remedy regime for the potential regulatory tools, including milk price governance and disclosure and the three forms of ongoing liquidity requirements?

This is more specific than I wish to comment on at this stage.

11. Do you consider that option one – maintaining the status quo – would achieve the objectives of ensuring the freedom of farmers to enter and exit Fonterra and allowing the opportunity for the TAF proposal to be implemented?

I believe the status quo is better than the implementation of the TAF (because it allows a better alternative, which is too late once TAF is implemented). But the TAF would seem to be in contradiction with maintaining the status quo.

12. Do you consider that option two – pre-condition, rules regarding milk price governance and disclosure and some ongoing liquidity requirements – would achieve the objectives of ensuring the freedom of farmers to enter and exit Fonterra and allowing the opportunity for the TAF proposal to be implemented?

No comments.

13. Do you consider that option three – pre-condition and rules regarding milk price governance and disclosure – would achieve the objectives of ensuring the freedom of farmers to enter and exit Fonterra and allowing the opportunity for the TAF proposal to be implemented?

No comments.

14. Do you consider that option four – pre-condition and ongoing liquidity requirements – would achieve the objectives of ensuring the freedom of farmers to enter and exit Fonterra and allowing the opportunity for the TAF proposal to be implemented?

No comments.

15. Do you consider that option five – pre-condition only – would achieve the objectives of ensuring the freedom of farmers to enter and exit Fonterra and allowing the opportunity for the TAF proposal to be implemented?

No comments.

16. Do you agree with the potential benefits and costs that are outlined under options one to five?

No, I do not.

- Missing benefit under Option One is the possibility to consider a better alternative than TAF that would keep Fonterra's development aligned with the long-term producer interests of current and future generations of dairy farmers in New Zealand.
- Consequently, I would classify #139 as a benefit rather than a cost.
- #140. I am not entirely convinced whether the current generation of farmers has fully understood the long-term implications of the decision they have made, in part because these might not have been sufficiently communicated and explored during the debate.
- Missing cost under Option One is five years of time and energy that would have been lost considering alternatives that didn't materialize, in case this Option is chosen.
- I am surprised that under costs of Options Two to Five no consideration is given to the risk of (further) loss of farmer ownership and control. Options Two to Five may well not prove stable outcomes in terms of ownership and the structuring of the Fund. This should be acknowledged. The consequence would be that of increased likelihood that (foreign) investors walk away with the dividends earned from NZ milk production and the dairy marketing system built for it during the past hundred years.

17. Which, if any, regulatory tools and regulatory options do you consider would be necessary to provide sufficient assurance that the TAF proposal would provide for the freedom of farmers to enter and exit Fonterra, and that this would be maintained over time?

I wish you well.

18. In the context of the TAF proposal, what additional or alternative regulatory tools do you consider would be necessary to support the freedom of farmers to enter and exit Fonterra?

I am quite prepared to serve the Minister should he be open to consider alternative regulatory tools *outside* the context of the TAF proposal in its present form.

Yours sincerely,

CO-OP Champions
Dr. Onno F. van Bekkum
Cooperative Strategist & CEO
Van Herlaerstraat 1
5324 EA Ammerzoden
The Netherlands

‘Short-term’ plan panned

PHIL WHYTE

COOPERATIVE share trading systems – such as the one included in Step Three of Fonterra’s proposed restructure – are notable for their short lives, and tend to last one generation at most.

So says Onno van Bekkum, owner of the Dutch Co-op Champions research and advisory service, citing other international examples

In the case of the Kerry Group (Ireland), after less than 25 years it is currently reviewing reducing a spin-out of shares to individual members, reducing the co-op’s share from 23.7% down to possibly 9%, van Bekkum told *Rural News*.

He says the short lives of this and other companies is due to the difficulty of reconciling different drivers.

In Fonterra’s case “the crucial difference between the two is the linkage of investments to milk supplies. There is a trade-off between the two: the one will go at the cost of the other. The proposed new system is a step away from supplier interests”.

Both the Fonterra Shareholders Council and Federated Farmers are backing Step Three.

“It seems clear to me they… overlook the longer term collective interests of milk suppliers as decisions are made at different moments, in different settings, because of the partial de-linkage of investments from milk that’s being proposed now.

Onno van Bekkum

“Farmers may each individually decide, very slowly, one after the other, or in large numbers following a major drought or disease, to apply to the shareholder fund. Non-supplier ownership would then become a reality without a conscious, collective vote.”

He says this seems to be a typical issue once the dynamics of investor interests start playing a distinct role: it’s sliding a downward slope, very difficult to stop and extremely costly to reverse.

“My fear of what might happen with Fonterra if farmers go ahead with the trading proposal, beyond ‘the foreseeable future’, is a cascade of small steps the effect of which would be the eventual loss of farmer ownership and control,” van Bekkum says (see article below).

In the meantime, the company’s orientation would move away from paying high milk prices to paying high dividends (to build up a good track record for future emissions), and investing in business activities focused on high returns (to capital, not necessarily milk), the beneficiaries of which would be occasional investors rather than milk supplying members.

Van Bekkum says all these would occur because it will be recognised that both shares and investment units trade at a discount, and the company will be under severe pressure from the investor community to make further changes.

“If these cascading changes are a factual impossibility, I applaud the proposal drafters. If truly ‘the fund would be designed so that the units would never be able to be converted to Fonterra shares’: well done.

“But I’m not yet convinced. There is always the possibility that 75% of shareholders would vote in favor of a second best solution. If these are not factually impossible, their combined effect is that collective ownership of member-suppliers will gradually erode.

“If trading is what farmers really want, I think they should accept this possibility from the outset.”

Fonterra’s proposed share trading will not solve the co-ops woes, according to an industry expert.

Slippery slide to loss of control

- **The sharing up limit, already expanded from 120% to 200% under the proposal, would be increased even further;**
- **The 20% ceiling on aggregate dry shares would be raised;**
- **The 5% cap on individual dry share holdings would be lifted;**
- **The period of three years buying in and share sale would be extended;**
- **The percentage of shares that could be linked to the shareholders fund would be raised;**
- **New share issues would be readily agreed by farmers, but funded increasingly through the shareholder fund, effectively strengthening non-supplier ownership of underlying shares;**
- **The ownership and trading rights of external investors in the fund’s investment units would be broadened to reflect the reality of its underlying share ownership;**
- **Somewhere down the road the milk price bonus for share-backed milk solids would come under question;**
- **The principle of distributing dividends on a milksolids basis would be compromised;**
- **A takeover bid would be launched for a minority holding in Fonterra;**
- **Instead some sort of restricted, public listing of shares would be sought, and restrictions would gradually be lifted.**

‘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.

“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.”

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


Onno van Bekkum

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 co-operative 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.

• Onno van Bekkum is cooperative expert and owner of “CO-OP Champions” research & advisory, based in the Netherlands. Contact: vanbekkum@coopchampions.com