

## Warnings of curdled co-operative

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With less than a week until Fonterra farmers vote on the watershed Trading Among Farmers (TAF) capital restructure, the war of words continues with a new report commissioned opponents claiming TAF "privatises" the co-operative.

But former Dairy Board and New Zealand Dairy Group chairman John Storey believes some shareholders are focusing on TAF's "problems rather than the advantages".

At a recent TAF meeting between directors and farmers in his home farming district of Te Awamutu, Storey said there had been "a lot of concentration on little details, and not a lot of questions around the big picture" of the upcoming vote.

"It's a no-brainer. There's no damage to the co-operative ... [unit] investors not happy will sell their units. This puts the heat on management to perform."

As the clock ticks down to Monday's special shareholders vote meeting in Hamilton, Fonterra chairman Sir Henry van der Heyden has re-stated that TAF is not about raising capital, which will still come from farmer-suppliers, he said.

"Cash invested in buying units in the Fonterra Shareholders Fund will go to farmers selling the economic rights to their shares – not to Fonterra," van der Heyden said.

But Netherlands co-operative expert Dr Onno van Bekkum, in a report commissioned by the "Our Co-op" group of shareholders opposed to TAF, said the proposal "strikes an axe in the co-operative roots of Fonterra".

"From the privatisation of the Dairy Board, Fonterra inherited a deficient share structure. But instead of replacing that with genuinely co-operative share, TAF actually privatises the co-operative itself," he said.

"TAF would transfer the total outstanding redemption claim, currently valued at \$6 billion, to the body of members.

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

Van Bekkum said TAF would convert Fonterra "into what we call a farmer-owned business".

"Less than that even: up to 20 per cent financial ownership of the shares will be with external investors. A co-operative encouraging its members to sell shares so external investors may have their bit of the cake – that is unprecedented and a co-operative."

Van der Heyden has issued a statement rejecting talk at the recent round of farmer meetings on TAF that its purpose is to raise capital.

TAF's purpose was to remove "redemption risk" from the balance sheet of New Zealand's biggest company, he said.

Under TAF units, linked to the performance of the Fonterra share price, will be offered to sharemarket investors. They will NZX-listed and dividend-carrying, but holders will not be able to vote them.

This opportunity for outside investment, and its possible impact on milk price vs dividend and Fonterra's share price, has spooked many farmers who fear it sets the co-operative on the path to a full sharemarket listing.

Van der Heyden said the company was currently obliged to cash up or redeem the shares of suppliers who wanted to exit reduce milk supply.

Removing this risk by enabling TAF would also create permanent capital, he said. "But it's not new capital and certainly not

new capital is coming from outside investors."

That van der Heyden is still having to push this message at the 11th hour suggests the trading among farmers concept, even after two drawn-out years of development and discussion, is not as well understood as it could be.

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

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

"TAF allows farmers to 'share up' 100 per cent or sell down 33 per cent of their 'wet' shares, creating a 3:1 distribution ratio in individual ownership.

"This disruption of the share-to-milk linkage fuels free-riding behaviour and leads to member solidarity breakdown."

Van Bekkum also claimed this "flexibility" also created disincentives for farmers, in their primary role as milk suppliers, to invest in Fonterra.

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