News Release

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Open Country Dairy advises farmers to keep their right to choose

The country's second largest dairy company, Open Country Dairy, says dairy farmers should regard their right to join and leave Fonterra as non-negotiable.

Chairman Laurie Margrain says that principle would almost certainly be lost if the proposed stage 3 of the Fonterra restructuring proposal goes ahead.

Stage 3 proposed to introduce a system of share trading amongst farmers.

If Fonterra is no longer required to accept supply when it is requested or to redeem the shares of farmers who wish to exit, farmers will become economically locked in to the cooperative.

Mr Margrain says that any proposal to introduce trading amongst farmers would inevitably reduce the share price and limit the ability of farmers to get an economic return for their shares if they wished to sell.

"This is demonstrated in Fonterra's own independent share valuations," said Mr Margrain. "The current independent mid-point valuation for a fair value share is $5.10 while the mid-point valuation in a restricted market where farmers trade shares amongst themselves is $3.83."

He said that demonstrates the economic effect that trading among farmers would have and that it would restrict the ability of farmers to exit Fonterra if they chose to do so.

"The effect on competition in the industry would be disastrous," he says.

"Five hundred dairy farmers have made the choice to redeem their Fonterra shares and supply our company over the past five years," Mr Margrain said. "Other farmers have chosen to do the same and supply other independent companies."

One of the major advantages for farmers who supply independent companies is that they can increase production and business returns year by year without worrying about the financial burden of having to buy more shares to cover that increase.

"Our suppliers have a strong incentive to use their money to increase productivity and efficiency. The more milk they supply, the more they are paid which they can choose to reinvest in their businesses rather than paying it back to the company for more shares.

If these economic reasons for choosing to supply an independent company are lost then there will be no competition – and it is that competition which is the lifeblood of the industry."

Mr Margrain said he was concerned about an apparent willingness by the Government to support Fonterra's stage 3 share trading scheme amongst farmers.

The scheme is likely to require a change to the Dairy Industry Restructuring Act 2001 which would remove the farmers' right to entry and exit of Fonterra.

"We are totally supportive of Fonterra and we fully recognise its importance to the New Zealand economy now and into the future.

However, its importance should not be allowed to result in protection through legislation," he said.

"That flies in the face of all international trends in freeing up global trade and would certainly be met with concern in our industry's global markets.

Competition is what will drive the industry forward, keep Fonterra on its toes, improve productivity and the dairy industry's overall contribution into our country's financial future."

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