

News Release

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Government Faces Trade Dangers with Fonterra Capital Restructure

The Government will have to weigh up New Zealand's international trading position and reputation when it comes to consider Stage 3 of Fonterra's capital restructuring proposal.

Open Country Dairy Chairman, Laurie Margrain, said that if Stage 3 means the elimination of the requirement for Fonterra to redeem shares at full value for those suppliers wishing to switch processors, then it will pose serious threats to the establishment of a competitive domestic milk market and hence New Zealand's ongoing trade negotiations.

The Dairy Industry Restructuring Act requires Fonterra to allow open entry , open exit for dairy farmers but this part of the act will need to be reviewed if Fonterra announces the elimination of "redemption" in its Stage 3 restructuring proposal expected later this year.

Mr Margrain said that some of our key trading partners, including United States and Europe, have expressed major concerns about the structure of our dairy industry.

"Just last week 30 US Senators openly criticized New Zealand for what they perceive as anti – competitive practices in international dairy trade which already reflects the powerful opposition we face," Mr Margrain said. "It is imperative that we act in the best interests of our dairy industry and the national economy as a whole".

He said that if a restricted market for trading Fonterra shares amongst farmers went ahead for those wishing to exercise "open exit", then that would create a "sticky exit" with a reduced share value likely to be a significant deterrent to switching processors.

"This would reduce competition not enhance it with negative impacts on productivity, efficiency and trade perceptions," he said.

"If the Government removes Fonterra's requirement to redeem the shares of farmers who wish to leave, that effectively removes the ability of farmers to freely leave the company without the likelihood of a significant financial penalty. This needs strong consideration by the dairy industry in New Zealand."

This could totally eliminate the development of a competitive market for milk supply in New Zealand Mr Margrain said.

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