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'Fonterra lashed by impatient farmers'

By ANDREW JANES

Fonterra's farmer shareholders have delivered stinging criticism of the huge dairy cooperative's lacklustre performance in a fiery annual report and warn that some farmers may leave the organisation.

The Fonterra Shareholders Council, which represents the interests of Fonterra's farmer shareholders, delivered a stern warning to the dairy cooperative, calling it "slow and reactive".

In an unprecedented step, the council refused to endorse the Fonterra board's statement of intentions for the 2005-06 year for the first time in the cooperative's five-year existence.

"We acknowledge the immense amount of work involved in putting the cooperative together," Fonterra Shareholders Council president John Monaghan said.

"But five years down the track, payout is variable and value-add returns contributed less to payout this season than they did in Fonterra's first year in operation," Mr Monaghan said.

The report said Fonterra's total shareholder returns for the 2005-06 season ranked in the bottom half for similar benchmark companies around the world. The final payout of \$4.10 a kilogram of milk solids was the second-lowest performance in Fonterra's history.

The report also said the contribution of value-add returns to payout - 25 cents a kilogram in 2005-06 - remained a "serious concern" given it had risen little since Fonterra's formation. It took Fonterra to task for "failing to deliver" in the value-add part of the business.

Fonterra's strategy is to build its consumer brands division internationally.

It aims to sell processed dairy products to consumers in a way that will smooth out the ups and downs of volatile commodity prices.

"There is an air of frustration around the 2005-06 season," Mr Monaghan said.

"Heading into its fifth year of operation and with solid foundations, we saw no evidence (during the 2005-06 season) of a significant lift in the cooperative's performance against the previous season and no indication that the assets of the business were being adequately utilised. Fonterra must deliver returns that outweigh alternatives to ensure it is the first choice for New Zealand dairy farmers."

With regard to Fonterra's statement of intentions for the 2006-07 year, Mr Monaghan said the council was encouraged by the rigour being applied to the 2006-07 budgets and had decided to give it preliminary endorsement.

Fonterra chairman Henry van der Heyden declined to be interviewed, saying in a statement that the board was confident that management had appropriate strategies in place to counter the issues raised in the council's report.

"These strategies, which include a significant step-up in the returns from Fonterra's value-add businesses, are currently being implemented by management.

"The board shares the view that the year ahead is an important period in Fonterra's development," Mr van der Heyden said.

"Farmers are making it very clear that they expect Fonterra to pick up the pace on performance and lift its returns to farmers year on year," he said.

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