Student 6: High Not Achieved
NZQA Intended for teacher use only

Fonterra collects milk from farmers who are part of the cooperative and processes it into various products for overseas markets. Quality assurance is developing new products like vitamin health drinks, baby food, maternal nutrition. They develop synthetic food, produce cheese and whey production. They find new markets in India, Africa and China for low cost products powdered milk with high nutritional value.

Fonterra is a co-operative in that the farmers who provide the milk own the company which includes all the plant such as stainless-steel tanks. The milk is collected from the farms by tankers which pick up milk every day and take it to processing plants, where it is turned into butter, whey, cheese and health products as well as milk and cream. 80% is exported to China, India and Europe where prices are higher. Being a co-operative meets the strategic needs of Fonterra because the farmers who provide the milk own the company and the Board who make strategic business decisions are also farmer owners. The co-operative wants to make a profit of course and return a profit share to the farmers, but profit is not the main reason the co-operative exists. The co-operative structure is best for making sure Fonterra's strategic needs can be met. 1 2

If Fonterra became a limited liability company (LLC) it could float shares on the stock market and gain more capital to build additional plant and expand Fonterra bigger than the co-operative can afford to do now. However, under this structure control of the company could pass to outsiders (non-farmers). Apart from that, there are many things about a company that are exactly the same as for a co-operative. Owners in both structures are called shareholders who get a share of profit. 1

Fonterra is worried that being compelled to accept all milk from new farms will lead to accepting massive costs.

The Dairy Industry Restructuring Act (DIRA) was passed in 2001 to deregulate Fonterra, but the industry has changed significantly with new products coming onto the market. Today with emergency processing competition it collects 82% of the NZ markets, although next month this is predicted to decline as farmers choose other dairy companies controlled by other overseas LLC boards.

Fonterra would probably prefer to deliver health food products, especially in the baby food and nutrition markets and not be limited to butter, cheese and whey as there is already an oversupply in Europe and America.

Having to accept 'open entry' which means having to accept all milk from new suppliers is critical part of the review because it limits Fonterra's farmer shareholders and the ability to maximize value for New Zealand. "It distorts investments decision and risk for competition who 'cherry pick' their suppliers.

If DIRA requires Fonterra to sell milk to its competitions it would severely affect the future structure of the industry. The environmental regulations imposed on dairy farmers would lead to huge additional cost in the fencing of waterways and central of pollution, because the Fonterra milk pricing processes and their impact on land use and land values would be controlled.

Incentives for the processing sector to invest in innovation would be limited by the DIRA which is due for review soon and it may be forced to change its structure.