KEY POINTS RELATING TO 'CRITICAL MASS'

- Critical mass was a key claim used to promote the mega merger. Supports argued that the merger would enable the NZ dairy industry to take on the world's big players. As Promar International noted in their 2001 report for MAF, *"much is made of how big [Fonterra] will be".* Promar then set out a rankings table, which shows that Fonterra is less than half the size if Nestle's dairy foods business.

- Promar concludes by noting that the minimum efficient scale of production for global food companies, whose core activity includes the production of milk and dairy products, is a total asset base in excess of $66.7 billion, with 180,000 employees and revenues of $111.1 billion.

- Fonterra has a turnover of about $10b.

- Fonterra is still medium-sized by world dairying standards. Nestlé's dairy business alone is 2.5 times larger. Dean/Suiza in the USA is twice as big. Fonterra's key competitors can also continue to grow using outside share capital. As a traditional dairy co-operative with a highly constrained equity based, Fonterra's funding base is limited.

- Fonterra did not significantly increase the NZ industry's asset or revenue base. Fonterra has a larger balance sheet than the Dairy Board (by bringing on the assets of Kiwi and NZ Dairy), so it can borrow more. However, it *does not* have access to much needed additional share capital – except from NZ dairy farmers. This is a *very* small base compared to our overseas competitors, which can grow with a prudent balance-sheet drawing on other sources of share capital.

- Fonterra is likely to stay a relatively *small* in world terms unless it takes on large levels of debt, enters into substantial joint-venture risks or retains funds that would otherwise be paid out to NZ farmers.

- NZ manages accounts for about 2% of total world dairy production. Sure, we have 30% of traded dairy products but only 8% of dairy products are traded. Most countries make their own.

- On the issue of critical mass:

  - the merger to form Fonterra doesn't create it; and

  - merging two NZ co-ops was not the best route in business terms. Kiwi and NZDG could have each merged separately with Aus and other overseas businesses;

  - Fonterra likely to run into problems sooner with the Australian equivalent of the NZ Commerce Commission because it will have dominance in Australia sooner than would have been the case if NZDG and Kiwi each went their own way.

In other words, to achieve its goals and become a leading dairy foods multinational, it needs significantly more equity than is available from NZ dairy farmers.

Tony Baldwin
Leader
Producer Board Project Team 1999

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