
New Major Sponsor for Association.

The Association is pleased to announce that the **Department of Agriculture Fisheries and Forestry – Australia** has become a new Gold level corporate sponsor.

In a letter confirming the new sponsorship relationship, Acting AFFA Secretary Geoff Gorrie said that he was looking forward to furthering the already positive relationship with the Association and was particularly supportive of the upcoming Congress and Forum in Sydney over November 12 and 13.

New Congress Venue

The dates for the 2002 Congress and Forum stay the same, but the venue is to change, after the failure of negotiations between the Association and the University of Sydney over a longer term relationship

Agribusiness Association President Geoffrey James (Ernst & Young) felt that as the University was unwilling to share the Association's vision for a cooperative relationship, it was inappropriate for the Congress to be held at the University.

Watch for a Congress program update and notification of the new venue very soon.

ANZAC Dairy Industry now a reality – Comment.

This correspondent has spoken and written over that last few years about the inherent wisdom in the creation of an 'ANZAC' dairy industry, where there was integration between the industries in both countries. With the recent move by NZ dairy giant Fonterra to merge with Australian company Bonlac Foods, it seems that the ANZAC prediction is coming to pass. (See following article).

Bonlac is a perfect fit for Fonterra. Both companies have a focus on the manufacture of export oriented products, into what is a booming global dairy market, they operate in similar markets and have a similar product portfolio.

The new company will be able to rationalise its manufacturing, increasing opportunities for maximising economies of scale by shifting the manufacture of some products between New Zealand and Australia, taking advantage of the less seasonal nature of milk production in Australia. This will lead to savings on inventory, a factor that significantly squeezes margins

Dairy giants whip up a \$2bn deal

AAP July 1st, 2002

http://finance.news.com.au/common/story_page/0,4057,4612617%255E462,00.html

AUSTRALIA'S Bonlac Foods and New Zealand's Fonterra Co-operative Group have agreed to merge their operations in Australia and NZ, creating a powerful new Australasian consumer dairy products company.

The consolidation brings together the Bonland Dairies and Peters & Brownes businesses in Australia and the Mainland Products and Tip top businesses in New Zealand. It will create a merged company known as Australasian Food Holdings (Australia) Pty Ltd (AFHL). Bonlac holds an 11.4 per cent shareholding in the merged group, which is expected to generate annual sales in excess of \$2.0 billion.

Fonterra is the major shareholder in AFHL with Aorangi Laboratories Ltd and Calpa Pty Ltd the other minority shareholders. The merged group, which will employ about 4000 people, will market leading brands like Mainland, Tip Top Ice Cream, Meadowfresh, Ferndale, Huttons, Bodalla, Western Star and Cadbury Ice Cream in Australia, New Zealand and Oceania. Its brand portfolio will cover milk, ice cream, cheese, butter, yoghurt, processed meats and convenience foods.

Bonlac chairman Noel Campbell said the advantage of the transaction was that it crystallises the value of Bonlac's investment in the consumer products business, significantly strengthening the company's balance sheet and increasing its options for the future.

"We have also negotiated an option with Fonterra which gives Bonlac the ability to sell its shares in AFHL and capitalise on the investment, if it so desires in the future," Mr Campbell said. Bonland Dairies will now operate as a division of AFHL, which is an Australian registered company with its executive team on both sides of the Tasman.

Fonterra chief executive officer Craig Norgate said the merger created a strong platform for future growth in Australasia. "This is a very significant move that contributes to our objective to create the greatest value for Fonterra's shareholders," Mr Norgate said. "The merged operation will be able to achieve further marketing and distribution strength that will benefit the organisation immediately. Most importantly for Fonterra, the merger is a significant step in delivering on our aspirations for our home market of Australia and New Zealand."

Comment

While the dust settles over the Fonterra – Bonlac tie up, speculation continues over further rationalisation in the sector. The following article discusses the future of National Foods.

The article discusses the possibility of a further takeover of National Foods (NF) by the new company Australasian Food Holdings (AFHL).

The major flaw in the rationale behind this argument is that the core business of AFHL differs from National Foods, in that the former is focused on export, and the latter is heavily into domestic market (white) milk and dairy products.

While the raw material of the 2 enterprises may be the same (milk) the businesses are quite different.

The article alludes to the lack of pricing power of the 2 main whole milk protagonists (Dairy Farmers and National Foods) and the hold that the dominant retailers, Coles and Woolworths, have over them.

Supply of whole (white) milk into the retail sector has rapidly become a fiercely competitive ultra low margin commodity business, fraught with all sorts of supply problems, which are well noted in the article.

A key question has not been posed.

What would a value adding, high margin export specialist like the new Australasian Food Holdings have to gain from paying \$2 billion to enter the Australian retail milk market?

On the evidence of the information cited below and the recent performance of Dairy Farmers, the potential return on a purchase of National Foods looks questionable, particularly as the pricing power lies not with the suppliers, but with retailers.

A more likely scenario is that Dairy Farmers or Parmalat will seek to merge with National Foods. If it were able to get past the ACCC, a merger between Dairy Farmers and National Foods would make most sense, as it would remove the intense rivalry between the companies that has forced returns for the milk processors and producers down in recent times, bring with it a solution to many of the processing and supply problems recently faced Dairy Farmers and now have to be faced by National Foods.

High stakes in dairy shake

By Mark Westfield, 02 July 2002

http://finance.news.com.au/common/story_page/0,4057,4618034%255E521,00.html

THE news yesterday that New Zealand's Fonterra and Victorian dairy processor Bonlac were putting their branded consumer foods into a joint venture surprised no one, but the market will have to be patient while it waits for movement in potentially the biggest development looming in the industry. That is the dismemberment or take-out of Australia's only listed processor National Foods in the long-awaited rationalisation of this troubled industry.

While there are three major players, the processors are vulnerable to continued price pressure from retail chains Coles and Woolworths. The new joint venture is expected to have turnover of about \$2 billion, or about double National Foods' sales, but most of the activity is in New Zealand. It includes branded products from Fonterra and Bonlac such as ice cream, yoghurts, butter and cheeses. It won't be a competitor to the three Australian processors, National Foods, Dairy Farmers and the Parmalat-owned Pauls.

National Foods' winning tender last month for the Woolworths house brand milk business has been generally hailed by the market, but might not be such a money earner as analysts appear to believe. Woolworths ripped the guts out of the whole dairy industry with their first national tender two years ago when Dairy Farmers won. It slashed the processor's profit in the 2001 year by about 90 per cent.

Dairy Farmers attempted to seek a small price increase this time around, but Roger Corbett at Woolies wouldn't have any of that and gave it to National Foods which seems to pitched its offer only slightly above the tender winning, rock-bottom Dairy Farmers 2000 bid.

National Foods must now find another 100 million litres of milk on top of its own supplies and will have to buy most of it from rival processors. It is unlikely to be able to sign up enough farmers to fill an order this size. It also faces costly transport problems in Queensland, which National Foods wrested away from Dairy Farmers.

Apart from having to rely on Dairy Farmers and Pauls to supply it with milk, it has only one processing plant – Crestmead, on the Gold Coast – from which it must transport the milk some enormous distances. To truck milk from south-east Queensland to Cairns, for instance, will cost about 25c a litre.

Perhaps the three shareholders are waiting for the impact of this tender on National Foods earnings, and the subsequent share price fall, to make their move.

The alternative is that they may get together to carve up National Foods, but an adviser to one of the players regarded it as being unlikely the three could agree, given their diverging requirements.

It looks as though the poker game could go on for a while yet. But if the National Foods' share were to fall on some bad news or a realisation it won't be making as much money out of Woolies as the market thinks, then one of the three might make a bolt for it.
