How do Dairy Co-operatives Grow for Farmers' Benefit?

Report prepared for
The New Zealand Nuffield Farming Scholarship Trust

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Executive Summary

This Nuffield Report seeks to answer the question "How do Dairy Co-operatives Grow for Farmers' benefit?" It is set in the context of New Zealand's need to increase its earning capability to match Australia. As New Zealand's largest company, and second largest industry, Fonterra's future plays an important role in our economy. The question is explored from an ownership and governance perspective. This report is a record of the findings of this study.

The study spanned 15 months of preparation, travel, research and reflection, including six months overseas studying dairy co-operatives and companies around the world. Dairy businesses researched include Kerry Group Plc, DairyGold Co-operative Society, The Irish Dairy Board Co-operative, Dairy Farmers of Britain, Royal FrieslandCampina, Dairy Farmers of America and Land o' Lakes, amongst others. The study is exploratory and the findings should be read in that context.

A co-operative is essentially a large equity partnership. It is between individuals with businesses in the same sector of the value chain, who wish to invest for mutual advantage up or down the chain. The collective investment is legally viewed as an extension of an individual's core business. Socialism is not a defining characteristic of co-operatives.

The Report discusses that co-operatives are purely a form of business often used where there is inherent market inefficiency. Dairy is an inherently inefficient market. The perishable nature of milk means that farmers have severely reduced power to negotiate a price reflective of the level of risk taken compared with downstream players. Collective ownership corrects the market inefficiency, apportioning more of the consumer dollar to the farmer.

The Report suggests that removing collective farmer ownership of dairy processing assets impedes a co-operative's ability to correct market inefficiency. This could consequently reduce income to the farmer and to the processor. If the experience of the United Kingdom dairy industry was replicated in New Zealand, such a path could potentially reduce the annual net cash income to New Zealand by as much as two billion dollars. Given that the dairy industry has a velocity of money per annum of six to seven, such a scenario would have serious implications for the national economy.

Four broad themes emerged as a result of the study:

Theme 1: Ownership Provides Purpose

For a co-operative to grow for the farmer, the farmer must own the co-operative. Business serves capital. The purposes of public investors and farmer investors are conflicted and will result in lowered returns for farmers.

Theme 2: Purpose Drives Strategy

For a co-operative to grow it must understand its purpose. Purpose is the destination. Strategy is a pathway. Structure is just a vehicle. The core purpose of a dairy co-operative is to maximise the price of milk. Farmers should ask their leaders how the strategy maximises their Milk Price.

Sometimes co-operatives are faced with opportunities to grow outside of their core value chain, and access to public investment would be highly beneficial. In these situations the core processing assets should be ring fenced. It is suggested that these new high growth opportunities outside of the core processing assets for New Zealand milk could be structured to incorporate public investment away from the core. This could include spinning off the high growth opportunity.

Theme 3: People Create Results

For a co-operative to grow, farmers must invest in and develop their future governors. A large pool of future governors should be identified in their 20s, nurtured and developed to provide the future leaders. It is critical that high quality farmer governors are developed as farmers must dominate the Board by at least 70 percent.

Politics must be rejected in dairy co-operatives, and a meritocracy grown. Farmers should maintain their understanding of the co-operative, and must exercise their vote. Executives must understand the purpose of the co-operative, and must be incentivised towards that goal.

Theme 4: Feed Your Golden Goose

For a co-operative to grow for the farmer, the farmer must own and invest in the business. Investment may be made via purchasing new shares, retentions, and deferring milk payments. In conjunction with this, farmers must involve themselves and continue to question the performance of the business.

The report is supported by an appendix detailing research on a selection of dairy companies and industries. The report also includes exploratory research comparing the wealth creation of Kerry Group farmers and DairyGold Co-operative Society farmers over the past 20 years. The findings are indicative only, and suggest little difference between the wealth amassed by the two groups of farmers.

Acknowledgements

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CHAPTER 1:
Introduction

1.1 New Zealand Must Grow

New Zealand must grow. We lag Australia in Gross Domestic Product (GDP) by around $64,000 per family, slipping from near the top of the developed world in 1970 to near the bottom in 2010[1].

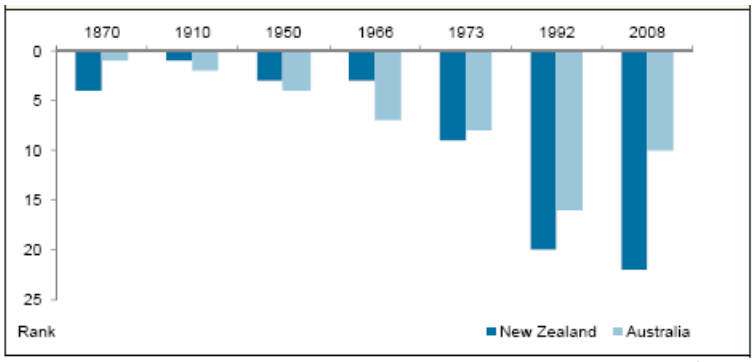

Figure 1: New Zealand GDP Per Capita Ranking Compared To Australia[1]

The solution to this problem must deliver real cash into New Zealanders pockets. Gross income is the key as total cash oils the wheels of economic enterprise. Individual New Zealanders must succeed.

1.2 Dairying Must Grow

The rest of the world has a negative correlation between agricultural earnings and GDP[2]. Agriculture makes only a small proportion of GDP in the world's richest nations. New Zealand is different. In contrast to the rest of the developed world, our largest earner is agriculture, and a significant portion of that is dairying.

To grow as a nation, our largest company must help lead the way. Dairying is an example of private enterprise working well. Ten thousand farmers represent more than seven percent of New Zealand's GDP and 25 percent of the country's exports through their collective ownership of Fonterra Co-operative Group. They create $16 billion of revenues, putting real cash into our communities, to circulate. For every extra dollar earned by dairy farmers, $270 is generated for the economy[3] and the dairy industry has a velocity of money per annum of six to seven.

In an agricultural export nation, the foundation of our collective success is dependent upon farmers' ability to generate gross income, and then spend that gross income in our local communities. The bulk of money farmers earn is spent in New Zealand, and is reused again and again.

The position we find ourselves in sparks a number of questions. Is co-operative farmer ownership holding back our largest company, and our nation? Would opening this privately owned business to all New Zealanders deliver more or less gross income into New Zealand farmers' hands, and thus New Zealanders? Or, is the success enjoyed by dairying an example for other industries to follow?

1.3 Study Question

This Nuffield study seeks to answer the question:

How do Dairy Co-operatives Grow for Farmers' Benefit?

This question is approached from an ownership and governance perspective, rather than the perspective of executive. That is not to say that management are not critical for growth; they are. However, this Report concentrates on the elements that owners and government can influence.

Further, the question is seated in the context of the New Zealand economy and the country's goal to maximise the total cash income to the nation. In this context it is important that we understand how co-operatives maximise the fortunes of private individuals before we tinker with the golden goose... lest we lose the golden eggs. We must grow without putting the cash we currently have at risk. This foundation is too important to the nation and to our local communities.

I was granted six months study travel to answer this question. In all, this study has taken the best part of 15 months of preparation, travel, research and reflection. I visited Ireland, England, the Netherlands, the United States, Canada, China, Australia, Argentina and the Philippines. The study is exploratory, and thus inductive in nature. The findings should be read in that context.

I researched dairy businesses around the world, from all angles – from the company executives, directors, member councillors, to the farmers on the ground, and middle-tier employees, to members of parliament, industry commentators and analysts, totalling the best part of a thousand double-sided A4 pages of notes.

I have analysed more than 80 dairy company annual reports and have read widely. I have also drawn lessons from a number of businesses outside of dairy, as the opportunities arose during my Nuffield travel.

Dairy businesses that were studied include: Kerry Group Plc, DairyGold Co-operative Society, The Irish Dairy Board Co-operative, Dairy Farmers of Britain, Royal FrieslandCampina, Dairy Farmers of America and Land o' Lakes, amongst others. Case studies of these dairy businesses are found in the back of this report.

In researching the question, "How do Dairy Co-operatives Grow for Farmers' Benefit?" four common themes emerged:

Theme 1: Ownership Provides Purpose
For a co-operative to grow for the farmer, the farmer must own the co-operative.

Theme 2: Purpose Drives Strategy
For a co-operative to grow it must understand its purpose. Purpose is the destination. Strategy is a pathway. Structure is just a vehicle.

Theme 3: People Create Results
For a co-operative to grow farmers must invest in and develop their future governors.

Theme 4: Feed Your Golden Goose
For a co-operative to grow for the farmer, the farmer must own and invest in the business.

These lessons are explored in the following chapters. First however, we explore the definition of a co-operative, establishing the foundation upon which this Report's findings rest.

[1] Brash, D. (2009). Answering the $64,000 question. First report of the 2025 taskforce. New Zealand Government
[2] Ward, K. (2011). The world in 2050: Quantifying the shift in the global economy. HSBC
[3] Schilling,C., Zuccollo, J. and Nixon C. (2010). Dairy's role in sustaining New Zealand. NZIER

CHAPTER 2:
Foundations

Key Insights:

- **Co-operatives are large equity partnerships**
- **Co-operatives are often created when markets are inefficient**
- **Co-operatives maximise cash into farmer hands**
- **Maximising cash into farmer hands maximises cash into the New Zealand economy**

2.1 Introduction

This chapter creates the foundation upon which this research is based. It defines what a co-operative is and explores the circumstances in which co-operative structures are commonly used.

2.2 What is a Co-operative?

Essentially a co-operative is an equity partnership between individuals with businesses in the same sector of the value chain who wish to invest for mutual advantage up or down the supply chain.

Figure 2: Basic Supply Chain

These equity partnerships are an extension of an individual's core business, and are recognised as such in law.[1] Co-operatives are pure businesses and exist to capture the economic benefits for its owner-members. Further, experts argue that investor-owned firms are really a sub-set of co-operatives[2] – opposite to layman wisdom.

Socialist characteristics are often attributed to co-operatives, but this is baseless[3]. Socialism is not a distinguishing feature of co-operatives, though it may develop in some, as is true of any business form.

Co-operatives are commonly formed in farming industries to overcome market inefficiencies. Farmers use co-operatives to create collective strength to overcome the market inefficiency. An example of such market inefficiency might be very high farm input costs, as was

common in New Zealand in the 1960s. During that time farmers invested together upstream to create buying groups for their key farm inputs, and businesses such as Combined Rural Traders (CRT) were formed.

Another example of market inefficiency is where the price for farm produce is suppressed by stronger players within the value chain. It is recognised where the percentage of the consumer dollar that reaches the farmer does not match the risk and investment placed in that portion of the supply chain. Dairy farming is an excellent example of this market inefficiency.

2.3 Co-operatives Correct Inefficient Markets

Dairying is an inherently inefficient value chain[4]. Raw milk only has a shelf life of approximately three days. This is the length of time a farmer has to negotiate for their portion of the consumer dollar. Both the retailer and the processor know this, and use this natural imbalance of power to suppress the price of milk to a point that does not reflect the risk taken to produce the milk. The following diagram highlights the capital deployed per unit of milk along the supply chain in New Zealand, and is indicative of capital investment in other countries.

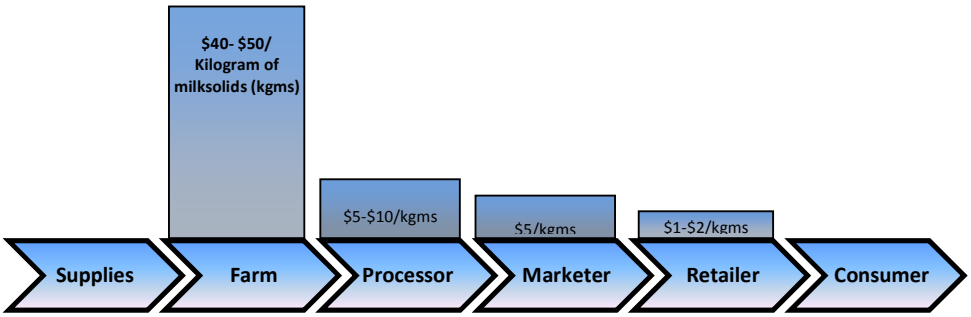

Figure 3: Capital deployed along the value chain per unit of milk

The capital requirement at farm level is high, with land, cows, milking machines and buildings. The value of the dairy farm unit is about five to ten times more capital intensive than the assets required to process the milk, and many times more capital intensive than the resources required to retail the milk to the consumer. Farmers invest together in downstream assets to move the negotiation point from when their product is perishable, to a point where they have more power. This is often at the processor level. Co-operatives capture a farmer's fair share of cash in the value chain.

The United Kingdom Example

The dairy industry in the United Kingdom provides an excellent example of the inherent inefficiency of the dairy value chain.

The past decade deregulation has seen ownership of the United Kingdom dairy processing assets removed from farmer co-operatives' hands and entrusted in dispersed public hands. The United Kingdom value chain was previously integrated through the Milk Marketing Board to the processor level. It was believed that deregulation would lower prices and benefit the consumer. As a result government broke up the processing assets and placed them directly into public hands. Farmers were able to market their raw milk together for a period through a body called Milk Marque. However this ability to even collectively market milk was also broken by parliamentary intervention in 2001.

The public have not enjoyed lower prices, despite the belief that breaking collective farmer ownership and milk pooling would lower prices to the consumer. Rather, the margin moved from the farmers, and has been captured by the retailers who are the strongest price negotiators in the value chain. This movement is depicted in Figure 4.

Figure 4: Declining Milk Margins for UK Farmers[5]

During the time period from 1999 to 2010 the retailer has increased their nominal income by almost 300 percent and their share of the value chain by a massive 14½ percentage points. The impact of co-operative ownership upon the allocation of margin is highlighted even further by the startling fact that in 2010, New Zealand farmers were paid more for their milk than farmers in the United Kingdom[6]. This, despite selling less valuable products than that available to the farmer supplying the fresh milk market, and further, having to transport their commodity milk halfway around the world to find a market.

2.4 Co-operatives Maximise Cash into Farmer Hands and the Economy

The United Kingdom example highlights the lack of power farmers have without co-operative ownership or marketing milk pools at scale. These two key factors are the foundation of success that Fonterra dairy farmers enjoy in New Zealand. Without the collective strength of co-operative ownership the return to the farmer is squeezed. In the United Kingdom the collective strength of farmers was taken away by removing both ownership of processing assets, and the ability to market their product to the processors together at scale. Without ownership farmers no longer have representation at the negotiation table between the processor and the retailer, and cannot expect their interests to be served.

The removal of collective ownership and marketing encourages farmers to act individually. They are economically led to make short-term decisions for themselves, rather than for the whole industry and for the long-term. This individualist behaviour restores the inherent inefficiency in the dairy value chain, and results in a poorer financial return in the medium term. This decision of individualism versus a macro-view is similar to the proposition of contract milk in Fonterra. In the short-term contract milk is economically attractive for the individual. Supplying milk on contract can be more profitable because the capital investment in processing assets is not required. However, if all Fonterra farmers acted individually and supplied under contract, farmers would no longer own Fonterra. As demonstrated by the experience in the United Kingdom, the focus of the processor would likely shift, and maximising Milk Price would no longer be an objective.

Inefficient dairy markets are prevalent the world over. About 80 percent of the world's milk is marketed through co-operatives. Farmers invest together up the value chain to process their milk into a stable form. Once in a stable form the power imbalance is corrected, and farmers are able to capture a fair share of the consumer dollar to reflect the risk they take.

It is interesting to note that processor margins are also squeezed under different ownership structures. However, the consumer has not benefited from lower prices at the supermarket. What this means is that the margin shifts from the farmer and the processor to the marketer and the retailer.

In countries with a large domestic market this has little impact upon the GDP/per person as the entire value chain co-exists in the same economy. However, in New Zealand this phenomenon would have disastrous consequences. In our value chain the marketer and retailers reside abroad, the loss of margin for both farmers and

processors would have a devastating impact upon our national economy.

Figure 5 shows the line where the value chain for New Zealand milk moves offshore. This is different from the United Kingdom where the entire value chain is within the domestic market.

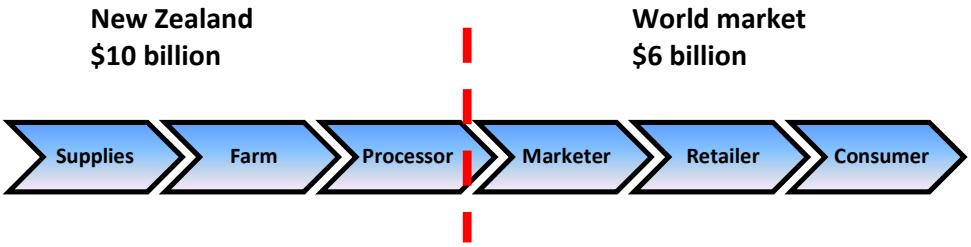

Figure 5: Current Cash in NZ Dairy Value Chain

Figure 5 shows that of the $16 billion of annual revenues generated by the New Zealand dairy industry, currently $10 billion enter the New Zealand economy for re-circulation through our local communities. Figure 6 demonstrates the effect upon New Zealand if the co-operative ownership of its dairy industry was transferred into corporate ownership.

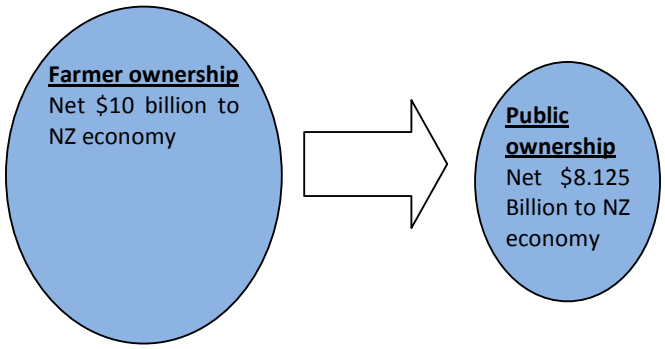

Figure 6: Potential Loss of NZ Net Income

If the trend displayed in the United Kingdom was observed in New Zealand the $10 billion of net cash that dairying actually draws into the nation would be reduced by almost $2 billion to just $8.125 billion. As demonstrated by the United Kingdom experience, the balance of almost $2 billion is absorbed by the marketer and the retailer. For New Zealand milk these players reside off-shore, so the value they capture would be at the detriment of the New Zealand economy. Remembering that for every extra dollar dairy farmers earn $270 is created for the economy[7] the multiplier effect of such a reduction in

our communities would be devastating. What it demonstrates is that contrary to popular assumption, introducing public equity into our core New Zealand dairy processing assets would actually substantially decrease the size of the pie, rather than grow the pie for Fonterra, Fonterra farmers and New Zealand.

Recovering $2 billion of lost revenue to New Zealand under a publicly-listed structure would take more than $20 billion of international assets and 100% New Zealand ownership. This is assuming a 10 percent Return on Asset (RoA) with no debt funding. Leverage would further increase the total asset base required. For example 50 percent debt funding would require $40 billion of international assets at a 10 percent RoA to produce $2 billion for circulation in the New Zealand economy.

2.5 Conclusion

Co-operatives are simply large equity partnerships. They are often born where there is market inefficiency. Dairy is an inherently inefficient market because of the perishable nature of milk on the farm. Ownership in downstream assets is critical for dairy farmers to minimise the market inefficiency, so they gain a share of the consumer dollar that reflects the capital risk they take. Without co-operative ownership collective strength is removed. Dairy farmer margins are squeezed, and the cash is moved elsewhere in the value chain. If the experience of the United Kingdom were replicated in New Zealand this could mean a lower income for the nation of nearly $2 billion over time. Combined with the multiplier effect of that cash into local communities, this would be disastrous for the New Zealand economy.

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[1] E.g. New Zealand Co-operative Companies Act 1996; United States of America, Capper-Volstead Act 1922; United Kingdom, Co-operative and Community Benefit Societies and Credit Unions Act 2010.

[2] Hansmann, H. (2000). The ownership of enterprise. Harvard University Press: Cambridge, MA

[3] Sexton, R. & Iskow, J. () Factors critical to the success or failure of emerging agricultural cooperatives. USDA

[4] Zwanenburg, A. (2001). Will Global DairyCo be a true co-operative? Special report commissioned by Global DairyCo (aka Fonterra)

[5] DairyCo. (2010). Dairy Supply Chain Margins 2009/10. DairyCo: United Kingdom

[6] Herdman, D, Master, M. (2011, Jan 5) DairyCrest Direct targets sustainable Milk Price for the New Year. DairyCrest Direct Limited: Gloucestershire, UK

[7] Schilling,C., Zuccollo, J. and Nixon C. (2010). Dairy's role in sustaining New Zealand. NZIER

CHAPTER 3:
Ownership Provides Purpose

Key Insights:

- **The owners of the business provide the purpose for the business**
- **If a co-operative is to grow farmers' benefit, farmers must own and continue to invest in the co-operative.**
- **Conflicting business purposes destroys value for farmers**

3.1 Introduction

This chapter discusses how the ownership influences the purpose of a business and how this behaves in a co-operative. It then discusses the impact public investment in a co-operative has upon the purpose.

3.2 Businesses Serve the Providers of Equity

The United Kingdom example from the previous chapter highlighted that changing the ownership of the processor margin changed the processor's focus away from farmers to its own small segment of the value chain. The processor stopped working to protect the farmers' margin, and unwittingly impacted upon their own portion of the value chain.

What this suggests is that ownership provides the company's raison d'être; its reason for being. Its purpose. Under co-operative farmer ownership the processor's role was to maximise the price back to the farmers. Now that the farmers do not own the United Kingdom processors, the processors have no interest in maximising returns to farmers. Their focus is simply on the profit line.

Businesses work for those who own the business. The person who owns the business is the person who provides the equity. The phenomenon demonstrated by United Kingdom processors is also replicated by the publicly listed processors in Ireland.

3.3 The Irish Model – Mixing Co-operatives and Public Equity

The Irish dairy industry underwent a revolution in the 1980's with a good number of dairy co-operatives incorporating public equity into their businesses. Most that have taken this pathway have languished, or failed, and have subsequently been acquired by other players. Two of the largest that remain are Kerry Group and Glanbia.

Kerry in particular has enjoyed spectacular success. Under the leadership of business visionary, Denis Brosnan, Kerry Group has grown at 15 percent compounding per annum since publicly listing in 1986[1]. It is now a global company with world leading competencies in the food ingredients market. Kerry has revenues of more than €4½ billion and assets totalling nearly the same. Its size is comparable to Fonterra, from a farming base the size of Taranaki.

Kerry farmers are rightly very proud of the success of their home grown company. Kerry is exceptional. Denis Brosnan is exceptional. However, Kerry Group is the exception, not the rule. Their stellar success is not replicated by the other co-operatives that trod the same path. Golden Vale was taken over by Kerry. DairyGold has hastily backtracked, saved by its strong co-operative balance sheet. Waterford was taken over by Avonmore, to form Glanbia, and at the end of 2009 had just 21 percent equity.

Despite their significant accomplishment, Kerry farmers, like Glanbia farmers are commonly paid in the bottom third of Irish dairy farmers. It is effectively the farmer-owned co-operatives that maintain the Milk Price for the farmers supplying the publicly listed creameries. Kerry farmers do have the compelling bonus of being able to purchase one highly valuable co-operative share per thousand litres supplied at the nominal value; however this right ceases in the near future.

One long-serving Kerry executive described the tension created in the business as:

"Riding two horses with one arse." - *Anonymous interviewee*

His graphical description highlights that it is extremely difficult to serve both farmer and investor interests. The tension is slowly growing, as throughout 2010 Kerry made noises in the media of further reducing farmer ownership in the company from its current 24 percent to maybe 10 percent. This is driven by the divide between supplying owners and investors, not just in Kerry Group, but in its farmer parent. Just under a quarter of Kerry Group is owned by Kerry Co-operative Creameries (KCC) which unites farmer ownership. However, less than half of the shareholders in KCC still supply milk, and each €1.25 nominal share in KCC is back by approximately €183 of Kerry Group shares and trades within the restricted farmer market at just €55-€65.

Despite Kerry's spectacular business success, it would seem today's generation of Kerry farmers are financially no better off than the farmers supplying DairyGold Co-operative. While only exploratory and by no means statistically proven, my Nuffield study compared the

wealth creation achieved by farmers over a 20 year period. The indicative findings suggest that there was little discernable difference between the total wealth generated by either Kerry or DairyGold farmers during the past 20 years. This includes valuing the KCC shares at their full €183 value. However the findings do not take into consideration significant factors such as quality of land, and should only be read as a flag raiser.

In Glanbia the tension between investor and farmer goals has also amplified. Recognising this conflict, Glanbia farmers sought to take back control of their company in May 2010. They voted on returning Glanbia back to a 100 percent farmer-owned co-operative, achieving 73 percent support; just short of the 75% needed. It would not be surprising to see a vote re-put in the future.

The inclusion of public equity into a processor drastically changes the focus of the business, and it is common for intense tension to form between the farmers and the new public investors[2]. The goal of maximising Milk Price is replaced with the goal of maximising profit. The quickest way to increase profit is to *minimise* the Milk Price.

3.4 Outside Ownership Creates Intolerable Tension for Friesland

Friesland's experience with public investment is another example of public ownership working against the farmer. Before its merger with Campina, Friesland had allowed retired farmers to remain invested in the co-operative. The non-milking investors applied great pressure to increase the dividend at the expense of the Milk Price. This created such intolerable tension that Friesland farmers demanded the removal of public investment.

> **"You cannot be half pregnant. You either are a co-operative, or you are not. Your purpose is either to maximise Milk Price, or it is to maximise profit. It cannot be both**." *- Anonymous interviewee*

3.5 Ownership Dictates the Purpose of the Business

Public investment changes the focus of the business from capturing a greater share of the consumer dollar for the farmer to simply maximising profit.

Consider this example. A dairy processor can increase the profit by $0.50c / share of the business by optimising milk flow through plant. This would enable the stainless steel to be utilised all year round at 95% of capacity. The plan would require dairy farmers to provide milk all year round at a constant level, and would increase farm working expenses by $1.50 per kilogram of milksolids (kgms).

- Which answer is in the best interest of the company when the business incorporates public investors?
- Which answer is in the best interest of the company when the business is 100% owned by supplying farmers?
- Which answer increases the profitability for the industry as a whole? (Assuming share capital relates to milksolids at one share per kgms)

This example demonstrates the change in decision making with the advent of investor ownership. Public investment into a dairy co-operative conflicts the business, as depicted in the figure below.

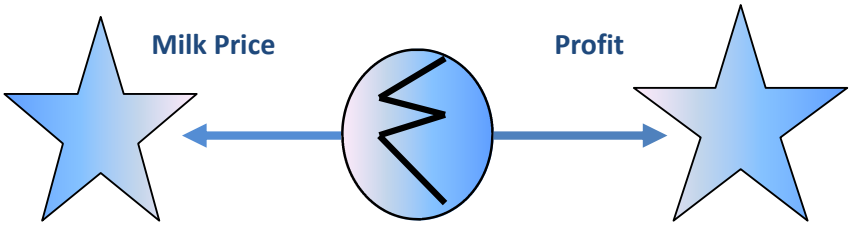

Figure 7: Opposing Purposes Conflict the Business

3.6 Conclusion

The ownership of a business provides the purpose for a business. It is farmers' ownership of their dairy co-operative that creates the business purpose to maximise Milk Price for farmers. The experience of Kerry Group, Glanbia and Friesland suggest that the integration of public investment into co-operatives changes the focus from Milk Price to profit. Their experience has shown that diluting farmer ownership lowers the Milk Price paid to farmers over time. The margin shifts from the farmer to the secondary processor and retailer, with very little being captured by the processor.

This lesson is important for the economic health of New Zealand. If this phenomenon is repeated in New Zealand then our nation will be significantly worse off. We may lose a significant portion of farmers' seven percent of GDP in our quest to grow GDP. We need to find a way of taking advantage of the opportunities facing the dairy industry, without putting the golden goose at risk.

[1] Kennelly, J. (2001). The Kerry Way. Oaktree Press: Ireland

2 Bijman, J. & van Bekkum, O. (2005). Co-operatives going public: motives, ownership and performance. International conference on Economics and Management of Networks, Budapest, 15-17 September 2005

CHAPTER 4:
Purpose Drives Strategy

"One day Alice came to a fork in the road and saw a Cheshire cat in a tree.
"Which road do I take?" she asked the cat.
"Where do you want to go?" was his response.
"I don't know," Alice answered.
"Then," said the cat, "it doesn't matter."
- Lewis Carroll in Alice in Wonderland, 1865

Key insights:

- **Purpose → Strategy → Structure** *Purpose is the destination. Strategy is a pathway. Structure is just a vehicle.*
- ***Know what you want to grow***
- ***Beware of the word "strategic."*** *Just because something is termed "strategic" does not make it strategic.*
- ***Ask "how does this increase my milk price?"*** *The answer should be simple.*
- ***In dairy co-operatives public investors do not have the same goals as farmer investor. Farmers invest to grow Milk Price. Public invest to Grow Profit***

4.1 Introduction

This chapter defines what strategy is and how it is set. It discusses the difference between strategic and non-strategic growth. It explores how growth outside of member's milk can be taken advantage of, and then discusses how co-operatives can grow Milk Price.

4.2 Strategy is a Pathway

In 1962 classical management theorist Alfred Chandler coined the saying, "Structure follows strategy"[1]. His simple insight into the deployment of strategy has shaped organisations throughout the world. Like an army at war, an organisation must determine its end-goal, select the best strategy to achieve that goal, and deploy its troops in a structure that enacts the strategy.

However, Chandler's clarity has been lost in time. We have come to use his adage to justify strategy, and this was never Chandler's intent. We have forgotten that strategy is not an end in itself. Strategy is a pathway that takes an organisation to a chosen destination – much like a roadmap. A map to Auckland will take you a very different place than a map to Invercargill. Without determining an organisation's purpose the Cheshire cat's message to Alice (above) rings true. If you

don't know where you are going, any road will take you there. Together, Chandler and the Cheshire cat have a combined message:

Structure follows strategy and strategy follows purpose**.**

Purpose → Strategy → Structure

Dr. James Lockhart depicts the relationship clearly in this model below:

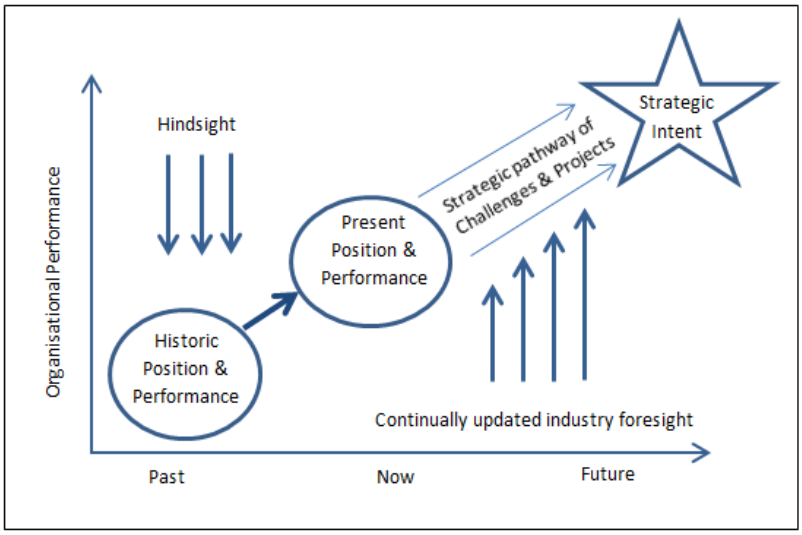

Figure 8: Strategic Intent Creates the Strategic Pathway [2]

Purpose is the destination. Strategy is the pathway. Structure is a vehicle.

One of the themes repeated across the interviews was that too often things are labelled "strategic". The word is over used, calling things strategic that are not remotely strategic. It is too easy to say the words. And it is too easy to accept the words, but farmers need to probe deeper as owners of our co-operatives.

Ask,

"How is it strategic?"

The answer should be simple.

Ask,

"How does it maximise my Milk Price"

Strategy is simple. The answer should be simple, easy to understand and relate directly to the purpose. If the answer is complicated it is unlikely to be "strategic".

It is easy to be dazzled and sidelined by growth... especially when the words "strategic growth" and "strategic assets" are used. Take the often touted rhetoric: "If you aren't growing then you are going backwards". However, if growth is not strategically aligned to the purpose then the business will be conflicted.

4.3 Non Strategic Growth: The Example of DairyGold

An example of non-strategic growth is that of DairyGold in Ireland. In 2003 they hired charismatic leader Jerry Henchy from Kerry Group as their new Chief Executive. Henchy reorganised and rationalised the business, cutting staff numbers and closing plants, determined to bring efficiency to the co-operative. He was successful, driving cash back into the Milk Price.

Next, the Celtic tiger was roaring. The world was awash with opportunity. Henchy wanted to replicate the success of Kerry Group, and given his early results, the farmers followed him, afraid to miss out on the fortune to be made.

DairyGold held some of the most valuable brands in Ireland, and had significant landholding. In 2006 DairyGold divested their major assets into another company named Reox Holdings. This included their brands and land, including the land their factories sat upon. Shares in Reox were issued to famers and management, and Reox was listed onto the stock exchange. Milk Price became secondary; DairyGold farmers were investors now, and they were going to make their fortunes at selling home building supplies and become property tycoons.

When the bubble burst the lack of strategic foundation was evident. DairyGold's growth had not been in pursuit of its core purpose. Nor had they built upon the company's competencies. The stock value of Reox crashed and farmers removed Henchy from leadership.

DairyGold survived, thanks to a very strong balance sheet. However, there was a price. DairyGold had to sell their brand and their name, "DairyGold" to Kerry Group. This is shown in Figure 9 below.

Figure 9: DairyGold Butter Brand, Owned by Kerry Group

Today DairyGold is in the process of purchasing back the factory land from Reox; though it is doubtful that Kerry will give them back their name.

The lesson for farmers is to be wary of the words "growth" and "strategic". Instead, ask: "How does it maximise my Milk Price?"

When a company is successful it is very easy to see the myriad of opportunities available. There are a million and one opportunities that will grow the pure size of the business. However, in any business it is strategic growth, growth which delivers the company's purpose that should be pursued. Remember, strategy is just a pathway.

Sometimes, however, there are real opportunities that exist for a co-operative that are outside of the core purpose, but complementary to the business. Growth that takes advantage of core competencies can create real wealth. Are these opportunities to be forgone?

4.4 Can Co-operatives Grow Outside Member's Milk?

Growth beyond members' milk is a source of conflict in co-operatives. Professor Michael Cook from Missouri University researched this issue with Fonterra dairy farmers in New Zealand. He found the most tension between farmers that were growing versus farmers that were not growing.

The farmers that were growing wanted a simple co-operative that stayed inside the bounds of processing and marketing their milk. These farmers could often generate a higher return for their capital than the co-operative.

On the other hand, farmers that were not growing were keen to see their co-operative investment deepen, taking advantage of the opportunities open to the co-operative. They saw the co-operative as an investment co-operative.

The tension creates an issue. If there are real opportunities to the business, but some farmers do not wish to invest any further than core processing, then the co-operative and the investment focused farmers are stymied if there is a capital constraint. As previously discussed, introducing outside public investment into the co-operative would put the farmers' farms at risk.

Two interviewees, Professor Cook, and Dairy Farmers of America's Jay Waldvogel gave an answer to this question. Co-operatives can take advantage of discretionary opportunities that build upon core-competencies by ring fencing the core business, and growing the non-core high growth opportunities separately. Professor Cook termed the process "spawning"[3].

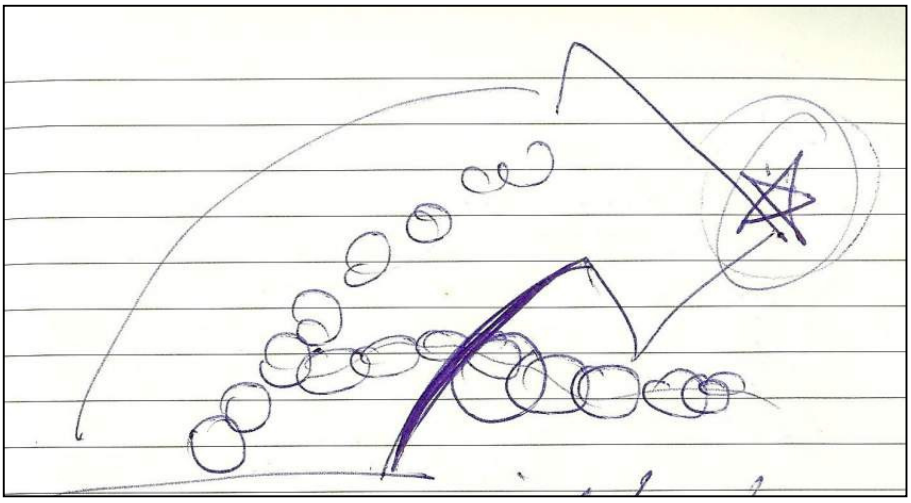

Figure 10: Spinning off non-core opportunities by Jay Waldvogel

The figure above demonstrates this process. Once a discretionary opportunity is of such size that it requires additional investment then it can be spun-off outside of the core business, and offered for public investment. This possible strategy takes advantage of opportunities that build upon core competence while protecting the core profitability of the farmer. However, the opportunity can be less attractive to management, as it can effectively reduce the size of the business they are leading.

4.5 Growing Milk Price

Strategic thought leader Michael Porter tells us there are essentially two strategies: price leadership (commodity) or differentiation[4]. All that lies between is the valley of death, meaning if a business does not choose one or the other the business is destined to fail.

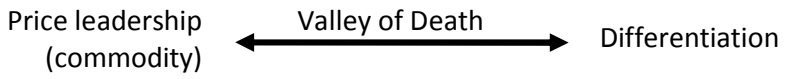

Figure 11: Porter's Two Strategies

An example of a co-operative pursuing a strategy of differentiation is Tatua of New Zealand, or another is Parmagiano Reggiano of Italy (known as Parmesan when produced elsewhere). Farmers in this region of Italy gain a substantial premium for crafting this famous cheese from its historical home. Growth is up the value chain, and to keep the product differentiated and niche, farmer membership is restricted.

A commodity strategy is like that of Murray Goulburn Co-operative of Australia who exports milk powder to the world market. A commodity strategy is based on volume. Strength comes from widening the member base to:

(1) Match the negotiating power of the large multi-nationals that purchase from this market, and,

(2) Gain economies of scale in processing.

In New Zealand we have largely pursued a commodity strategy, and have achieved this strength by rationalising smaller co-operatives over several generations. This ultimately formed one major co-operative, Fonterra Co-operative Group, to deliver strength in negotiation and economies of scale.

Both Arla and FrieslandCampina provide example where co-operatives have continued to grow their member base beyond country borders, and thus increasing their bargaining influence with increased scale. FrieslandCampina has members in the Netherlands, Germany and Belgium. Arla has members in Sweden and Denmark. Arla has a separate semi-partnership with farmers in the United Kingdom, but generally appear to act more like a corporate in this market.

Porter's two core strategies of commodity or differentiation do not have defined places along the value chain. For example, it can be assumed that milk powder must take a price/commodity strategy. However, high quality, safe milk powder from free-range cows, living in the pristine environs of New Zealand can a differentiated product for which infant milk companies could potentially pay a premium.

A key lesson learned throughout the study is that you must know what you have. Our clean, green, pristine image and proven health benefits of grass-fed milk are two attributes we have potential to capitalise on as farmers, and provide real value to through our actions on farm. New Zealand Inc has value. We must protect it and harness what we have at our back door step.

Another management guru, Peter Drucker[5] reminds his students that the customer must come first. The customer is king. It is often hard for us to remember that on farm, but the way our product is produced is meaning more and more to the consumer. We can add value by bearing this in mind when we produce our milk.

4.6 Conclusion

Strategy is simply a pathway to a destination set by its owners. The core purpose of a dairy co-operative is to maximise Milk Price. The strategy to achieve this should be easily explained and relate directly to this purpose.

This chapter has discussed the differences in purpose between dairy farmers and public investors. The immense challenges in making these differing purposes co-exist are very difficult to overcome, even in the best examples.

Co-operatives can pursue opportunities outside of their core purpose if the core is protected, and ring fenced from outside investment.

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[1] Chandler, A. (1962). Strategy and structure: Chapters in the history of American industrial enterprise. MIT Press: Cambridge, MA

[2] Lockhart , J. Head of the Graduate School of Business, Massey University.

[3] Burress, M. & Cook, M. Lessons from community entrepreneurship: The concept of spawning. University of Missouri, Agricultural Economics Department Working Paper.

[4] Porter, M. (1980) Competitive strategy: Techniques for analysing industries and competitors. Simon & Schuster.

[5] Drucker, P. (2001). The essential Drucker. HarperCollins: New York

CHAPTER 5:
People Create Results

Key insights:

- **Farmer directors must control the boardroom with a substantive majority**
- **If a leader conveys to you they are the messiah – they probably are not.**
- **Co-operatives must invest in a large pool of future farmer leaders to develop their directors 10 or 20 years ahead.**
- **Executive must know and be incentivised towards the farmers' purpose for investing in the co-operative**

5.1 Introduction

This chapter discusses how people are the key drivers of success in business. It discusses the critical role farmer directors play in governing the business, and highlights the importance that quality farmer governors must dominate the boardroom in numbers. It discusses how governance acumen must be developed in the shareholder base to ensure the success of the co-operative, and that politics must be rejected within the co-operative culture in selecting Board directors.

5.2 People Grow Businesses not Structures

Denis Brosnan grew Kerry Group from scratch into a multi-billion euro global food ingredients business inside 25 years. His mantra was 15 percent compounded growth per annum; meaning the business doubled in size every 4.8 years under his stewardship. Commonly commentators attribute Kerry's success to incorporating public equity. However, Irish dairies GoldenVale, Waterford and Avonmore similarly structured themselves, and in the same environment failed to enjoy the same results as Kerry Group. Kerry's success was driven by Brosnan and his team. Structure had very little to do with the success, it was the quality of the Kerry people that was key.

Denis Brosnan captured the hearts and minds of his people. He grew his people. His people drove results. A key element of Kerry's success is its ability to develop people. Kerry grows its leadership from within and even today, all bar one of the international heads of each Kerry business unit are Irish, and have been brought up through the grassroots of the business.

People grow businesses, not structures. This fact is well known, and documented in business literature. See Jim Collin's work *Good to Great*[1] for one popular example. Performance or ***growth*** comes from people who intimately understand and drive a business. Despite this, structure remains an expensive fascination in our co-operatives.

There are elements of structure that may be beneficial to our businesses, but structure alone can never deliver the success we invest for. Mostly, structure is a costly diversion to our valuable time. Success in business is 100 percent dependent upon the people who are driving the business. Skilled people can create success in a clumsy structure and a poor leader can drive a business to failure in a world class business structure.

How then do we ensure we have the right people in our businesses? From an ownership perspective, the culture to grow the right people must come from us through the boardroom.

5.3 Performance in the Boardroom

The quality of farmer directors is often questioned, with commentators challenging their lack of big-business experience[2]. Indeed, there have been some terrible failures and scandals in some co-operatives. The word "co-operative" in the United Kingdom for many means failure, due to politics and poor governance.

However, business failures and scandals are not peculiar to co-operatives. Serious failures such as Enron occurred even while complying with the structural requirements of widely accepted good governance standards and being led by some of the world's great businessmen. Enron demonstrates that governance failures occur without the help of farmer directors. In fact, the example of Dairy Farmers of Britain would strongly suggest that domination and the poor governance standards set by the high-profile *professional independent* directors led to the downfall of the co-operative[3].

Jim Collins puts forward that the best leaders are those that come up through the ranks of a business[1] as with Kerry. Home-grown leaders demonstrate a fundamental understanding and long-term commitment to the business which is rarely found amongst high profile charismatic leaders. While Collins was referring to senior executives, the same characteristic is likely to be true in the boardroom.

Farmers can make excellent directors and should dominate the boardroom. However, to be an excellent director, a farmer must be

well trained, experienced and committed to the purpose of the business.

5.4 Develop a Large Pool of Potential Leaders

FrieslandCampina is an excellent example of developing high quality directors. They develop their farmer directors intensively and extensively using their "Potential Programme" which was inherited from Friesland. Young farmers are identified often in their early 20s, and then rigorously developed over time for senior governorship decades later. The result is a sharply focused, broadly experienced governor, fully prepared for the role while innately understanding the purpose of the co-operative.

The beauty of developing a large pool of potential governors is that even if an individual is never actually called to serve on the Board, the investment in them raises the standard of knowledge and quality of debate throughout the whole shareholder base.

The higher Boards or Councils used in FreislandCampina, Arla and Fonterra are an excellent and important breeding ground for directors where future Board directors can increase their knowledge, and test their skills alongside experienced governors.

5.5 Limit the number of Professional Directors

Good governance standards suggest that diverse and independent directors are important. Professional directors bring a healthy dynamic to the boardroom, offering another perspective. They are used to provide specialist knowledge and fill skill gaps.

However, farmers should dominate by a substantial margin, because they are critically aligned to the interests of the shareholders, whom the business serves[4]. Warren Buffet ensures he has a seat on the Board of companies he deems worthy of his cash[5]. Professional directors can bring big egos, especially to very large co-operatives. These egos can create a situation like the Dairy Farmers of Britain-styled Board. There, with a theoretically perfectly structured business, the motivations of the boardroom were poorly aligned to the needs of the farmers. In fact, Dairy Farmers of Britain was so poorly aligned to the member-owners that farmers were referred to as "natives" within the company. It is suggested that a ratio of at least 70 percent farmers to independent professionals would maintain farmer domination, and thus direction of the Board and co-operative.

5.6 Beware of the Charismatic Leader

Ego can be a problem in any business. It is easy for the charismatic leader to dominate, as their confidence is very attractive. There are plenty of leaders who believe they are the next Brosnan, as shown in the DairyGold example. There are a few out there of the calibre of Dennis Brosnan who built Kerry Group. The fact is that great singular leaders are rare. In their absence, the egotistical and self-absorbed that present themselves to be the next messiah can do serious damage to a business. If a leader tells you they are that special leader – they probably are not.

5.7 Removing Politics

Politics is a common and dangerous part of dairy co-operative governance, and can lead to failure. Politics discourages diversity of thought and can encourage a culture of rubber stamping.

Politics can be identified when:

(1) Parish politics," where farmers win seats on favours or patrimony, or,

(2) New governors are only elevated if asked by the domineering incumbent, and other candidates are portrayed to be poor choices regardless of their skill and experience, or,

(3) Discussion about the direction of the company is closed down with allegations of politics, or the commentator is labelled a "crack pot"

Farmer owners must root out politics from their co-operatives, and promote a meritocracy – or a culture of performance.

> **"Bullshit flourishes in the absence of clear measurement, clear policy and clear thinking."** - *Mike Murphy, Ireland*

A culture of performance is driven by rigorous measurement, and this is what discourages political behaviour. A lack of clear direction and lack of a performance culture creates a vacuum in which politics flourish. Farmers must actively:

(1) Vote and elect directors on merit, and

(2) Demand rigorous discussion and debate about the direction and performance of the business between governors and farmers.

5.8 Agency Cost: Incentivise Executive on Milk Price

It is important to incentivise management to ensure their drivers match those of farmer owners. This is the classical governance problem, stemming from the separation of ownership and control[6]. Adding to normal agency issues dairy co-operative success is measured by Milk Price, rather than simply profit.

It can be remarkably easy for management to forget this key reason for farmer investment, as I found first hand. During a co-operative leadership programme I attended abroad participants were broken out into industry groups. I was put into a group consisting of executive from three significant dairy co-operatives. We were asked to identify the core purpose farmers had established the co-operatives we represented. There was significant debate to even list "maximise the price of milk for the farmer" as a core purpose. This was at a time where dairy farmers in that country were experiencing extreme financial hardship. During my farmer visits, Milk Price had been the first thing on every farmer's lips.

This experience demonstrates how easy it is for management to forget the key purpose of the co-operative. Agency theory says that the interests of the farmer owners and management must to be aligned. The simplest and most effective way of doing this is to incentivise management on total Milk Price.

It can be argued that is not fair for management, as sometimes they may work very hard and Milk Price stays low. However, Milk Price is also low in that scenario for farmers. It would be odd to reward management when supplying shareholders are struggling. Further, other measures do not align owners and management, and can be manipulated. Consider the distorted behaviour that would emerge if you incentivise on profit for example.

Incentivising on Milk Price can be dismissed by rhetoric which says a co-operative has no influence on Milk Price. This is contrary to the whole purpose of farmers establishing and investing in their dairy co-operative. Unchallenged the rhetoric is dangerous. It becomes a self-fulfilling prophesy. It is like a student who believes they will fail the math test, and refuses to waste time studying, and consequently fails the math test. If management believe they have no influence on Milk Price they will not attempt to influence negotiations and capture the farmers' share. The rhetoric of "no influence on Milk Price" must be challenged by farmer directors. It is vital to the success of the business that the interests of the farmer owners and management are aligned via matched incentives.

5.9 Conclusion

Success is driven by people. Co-operatives must develop depth in their shareholder base so that they have strong farmer directors to lead the business. Co-operatives should seek to identify potential governors as young as possible, and rigorously develop the skills for leadership decades later. Quality farmer directors are critical to co-operative success as they intimately understand the purpose of the business: to maximise Milk Price. Because of this farmer directors should dominate the boardroom in numbers. It is suggested that this margin should be by at least 70 percent. Professional directors are important, but should only be used to fill any skill gaps. It is important to be wary of charismatic leaders. It is vital that politics are rejected within a co-operative, and a meritocracy promoted through open debate and questioning. Farmers must exercise their will by voting. Agency cost should be minimised incentivising management on Milk Price.

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[1] Collins, J. (2001) Good to great. Random House: London

[2] Fulton, M. & Hueth, B. (2009). Cooperative conversions, failures and restructurings. University of Saskatchewan: Saskatoon, Canada

[3] EFRAC (2010) Dairy Farmers of Britain: Fifth Report of Session 2009-10. United Kingdom House of Commons: London, UK

[4] Zwanenburg, A. (2001). Will Global DairyCo be a true co-operative? Special report commissioned by Global DairyCo (aka Fonterra)

[5] Schroeder, A. (2008). The Snowball: Warren Buffett and the business of life. Bloomsbury: London

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CHAPTER 6:
Feed Your Golden Goose

A man and his wife had the good fortune to possess a goose which laid a golden egg every day. Lucky though they were, they soon began to think they were not getting rich fast enough, and, imagining the bird must be made of gold inside, they decided to kill it. Then, they thought, they could obtain the whole store of precious metal at once; however, upon cutting the goose open, they found its innards to be like that of any other goose.

-Aesop, 6th Century A.D.

Key Insights:

- **If a co-operative is to grow for farmers, farmers must be prepared to invest and feed the co-operative**
- **Corollary is that farmers must be prepared to question and challenge the performance of the co-operative**

6.1 Introduction

This chapter discusses the importance of properly financing our dairy co-operatives and the ways farmers can make financial contributions. It briefly discusses the way capital can be structured, and discusses the appropriate level of equity a co-operative should maintain.

6.2 Caring For Our Critical Asset

For our co-operative to grow for us as supplying shareholders we must care for it. We must invest in it. If we don't invest the business will need outside investors. As previously discussed that will mean the business will stop growing for us. Our investment in the core co-operative may not return the same as we can achieve on farm. We may be able to buy another farm with that investment. However, if we do not invest in our downstream assets then our farms will stop returning proper margins. It is our ownership in the processing assets that protects our margins on farm.

6.3 Financial Structure

There are a million and one ways of structuring the capital of a co-operative. It must provide a stable base. Beyond that, the financial structure of the business is a side issue. There is no reason for farmer ownership to inhibit growth. The candy giant Mars is three times the size of Fonterra and remains 100 percent family owned.

Playing with structure takes away valuable time from growing the business, and diverts our attention from the numbers that really matter: the efficiency of the business.

Whether it is a fair value share, a market driven price, or a nominal share, it ultimately is of little consequence. 10 * $1 shares per unit, or 1* $10 share. These are debates which divert attention from the big issues. The appendices outline a range of different structures used throughout the dairy world.

6.4 How Much Equity? How Much Debt?

Many major dairy co-operatives sit around 30 to 40 percent equity as a ratio to total assets. This includes Fonterra who sat around 35 percent equity at July 2009.

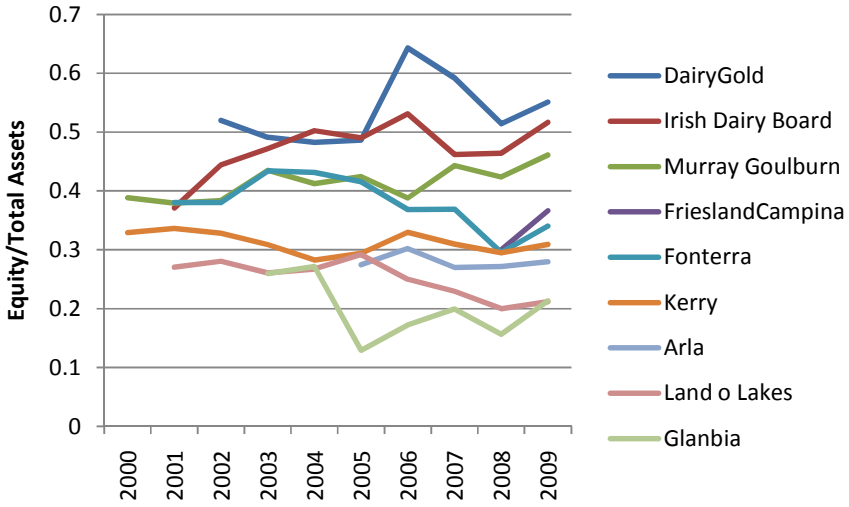


Figure 12: Equity Ratios of Selected Dairy Companies

Co-operatives are able to gear more highly because effectively their operations are guaranteed by the farmers, via their outstanding milk cheques. This is known as subordination and means that should the co-operative be unable to pay its obligations as they fall due, farmers' milk payments will be diverted to creditors. Subordination allows co-operatives to gain higher international credit ratings, and either take on more debt, or pay less for debt at higher equity levels.

The question remains, is it prudent for a co-operative to leverage itself beyond levels generally accepted in conventional businesses? The New Zealand Institute of Directors offers the guideline that 50 percent equity is desirable in most businesses.

6.5 Ways of Feeding the Business

We, as supplying owners, have an obligation to feed our business through capital contribution. This may be through share capital up front, or through retentions. This obligation does not negate, however, our other duty as owners: to monitor and question our leaders as to their effective use of our money.

The other way we can feed our business is through deferred Milk Price payments. Most dairy farmers in the world are paid the full price for their milk the month following supply. Fonterra farmers are one of the few where our average time to be paid in full for our milk extends between 75 and 90 days. The first milk of the season takes a total of 446 days to be paid for in full in New Zealand, compared to a maximum of 51 days in many other dairy nations. This is a gift New Zealand farmers provide the co-operative. However, in providing this feed to our co-operative we must be vigilant as owners. This is not equity we are providing, it is lending. It costs us as farmers.

The longer any executive has spare capital, regardless of the business form, the more they view it as the company's capital, and start to dream different homes for it.

6.7 Conclusion

To continue to enjoy the fruits of our collective business we must be disciplined in re-investing into that business. We re-invest through the purchase of shares, through retentions, and by providing favourable payment terms for our milk. Our obligation to invest however goes hand-in-hand with our obligation to challenge. It is every farmer's duty to understand our collective business, and to question its performance. Every farmer has a duty as an owner to read their full co-operative annual report and all of the financial notes every year.

CHAPTER 7:
Conclusion & Recommendations

7.1 Introduction

This exploratory study sought to find how co-operatives grow for the farmers' benefit. The question is important to farmers and to the nation, as the fortunes of all New Zealanders go hand-in-hand with the fortunes of farmers.

The study explored the definition of a co-operative, and the situations where this structure is used. Co-operatives are a large equity partnership, where individuals with similar businesses invest up or down the value chain. They are often used where there is market inefficiency, such as is inherent in dairying.

This study has found that co-operatives grow for the benefit of the farmer through four themes: (1) Ownership Provides Purpose, (2) Purpose Drives Strategy, (3) People Create Results, and (4) Feed Your Golden Goose.

7.2 Ownership Provides Purpose

The owners of a business determine the purpose of a business. If a co-operative is to grow for the farmer, the farmers must own the co-operative. If farmers do not own the core processing assets the focus of the business changes from growing the Milk Price for farmers, to maximising profit. This would be damaging for the country, as the margin would flow to other players on the value chain outside of the country. If the experience of the United Kingdom was replicated in New Zealand it could potentially cost this country significant income.

7.3 Purpose Drives Strategy

For a co-operative to grow it must understand its purpose. Purpose is the destination. Strategy is a pathway. Structure is just a vehicle. The core purpose of a dairy co-operative is to maximise the price of milk. Farmers should ask their leaders how the strategy maximises their Milk Price.

Sometimes co-operatives are faced with opportunities to grow outside of their core value chain and access to public investment would be highly beneficial. In these situations the core processing assets should be ring fenced. These new high growth opportunities outside of New Zealand milk could incorporate public investment.

7.4 People Create Results

For a co-operative to grow farmers must invest in and develop their future governors. A large pool of future governors should be identified in their 20s, nurtured and developed to provide the future leaders. It is critical that high quality farmer governors are developed and must dominate the Board by at least 70 percent. Politics must be rejected in dairy co-operatives, and a meritocracy grown. Farmer owners have a duty to exercise their control through their vote. Executive must understand the purpose of the co-operative, and must be incentivised towards that goal.

7.5 Feed Your Golden Goose

Farmers must continue to invest in their co-operatives for them to grow. This investment may be through purchasing share capital, through retentions, and via deferred payment for their milk. The obligation to invest requires that farmers rigorously question the Board and understand the performance of the business.

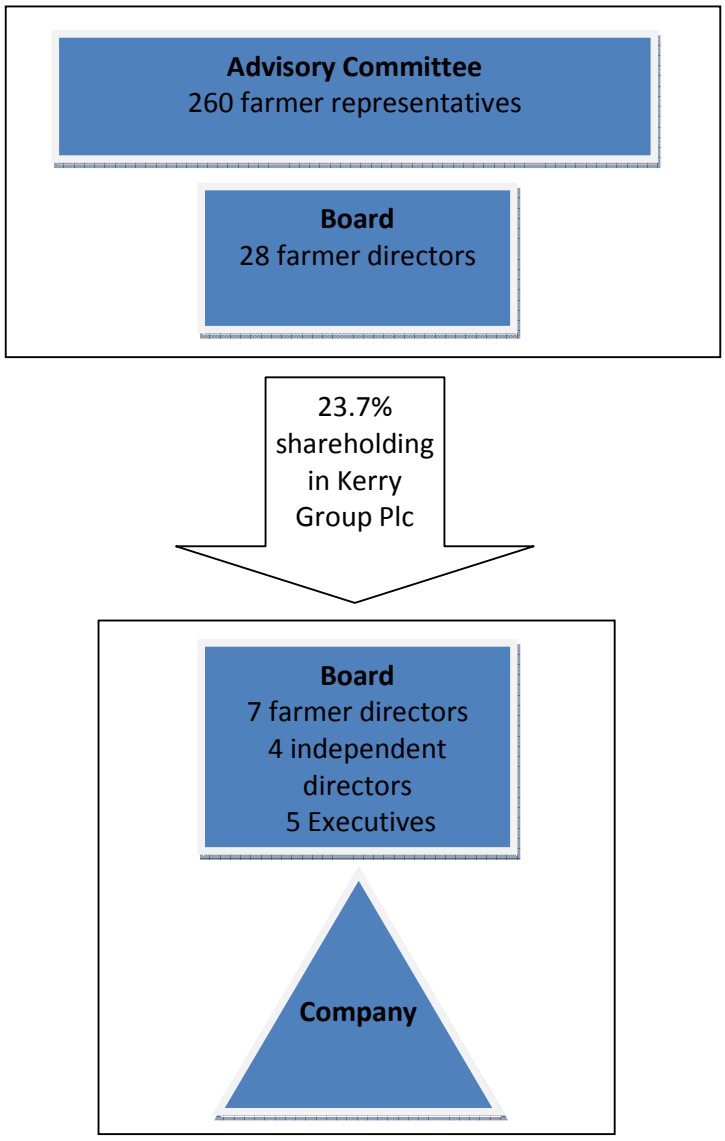
Appendices

Appendix 1: Kerry Group Plc

A1.1 Key Facts

Kerry Group was formed in 1972, and publicly listed in 1986.

A1.2 Governance Structure



Kerry Co-operative Creameries

Kerry Co-operative Creameries Advisory Committee

The Advisory Committee consists of 260 farmer representatives. They are selected on a regional basis from the ten electoral areas. These areas are: Ardkreem, Clare, Dairies, Dicksgrove, East Kerry, East Limerick, Feale, Iveragh, West Kerry, West Limerick.

Kerry Co-operative Creameries Board
Farmers elect directors to the Board of Kerry Co-operative Creameries.

Kerry Group Plc Board
Seven members of the Kerry Co-operative Creameries Board go forward to the Kerry Group Board. The farmers are joined by five executive and four professional directors.

A1.3 Milk Price

Milk Price is set by management.

A1.4 Capital

Kerry Co-operative Creameries

Farmers own shares in Kerry Co-operative Creameries (KCC). There are three classes of shareholders in KCC:

(a) wet shareholders with full voting rights
(b) dry shareholders who have previously supplied milk, with full voting rights
(c) dry shareholders who have inherited or bought the shares, with no voting rights

Less than half of the shares on issue are wet shareholders.

Shares have a nominal value of €1.25 each. These shares trade for approximately €55-€60, and traders must be approved by the KCC board. Producers of milk have the option to purchase one co-operative share per thousand litres supplied at the nominal value of €1.25 annually, based on the volume of milk they have supplied that year. This right will expire in the near future.

Each co-operative share is back by approximately seven plc shares, making the market value of the share if transferred into plc shares worth €183 at 15th January 2011.

KCC own 23.7 percent of the shares of Kerry Group. At the original listing in 1986 there was a floor set of 50 percent.

In 1996 Kerry Co-operative Creameries was granted the option to purchase back the Agribusiness portion of Kerry Plc. This option expires in 2020.

A1.5 Financials

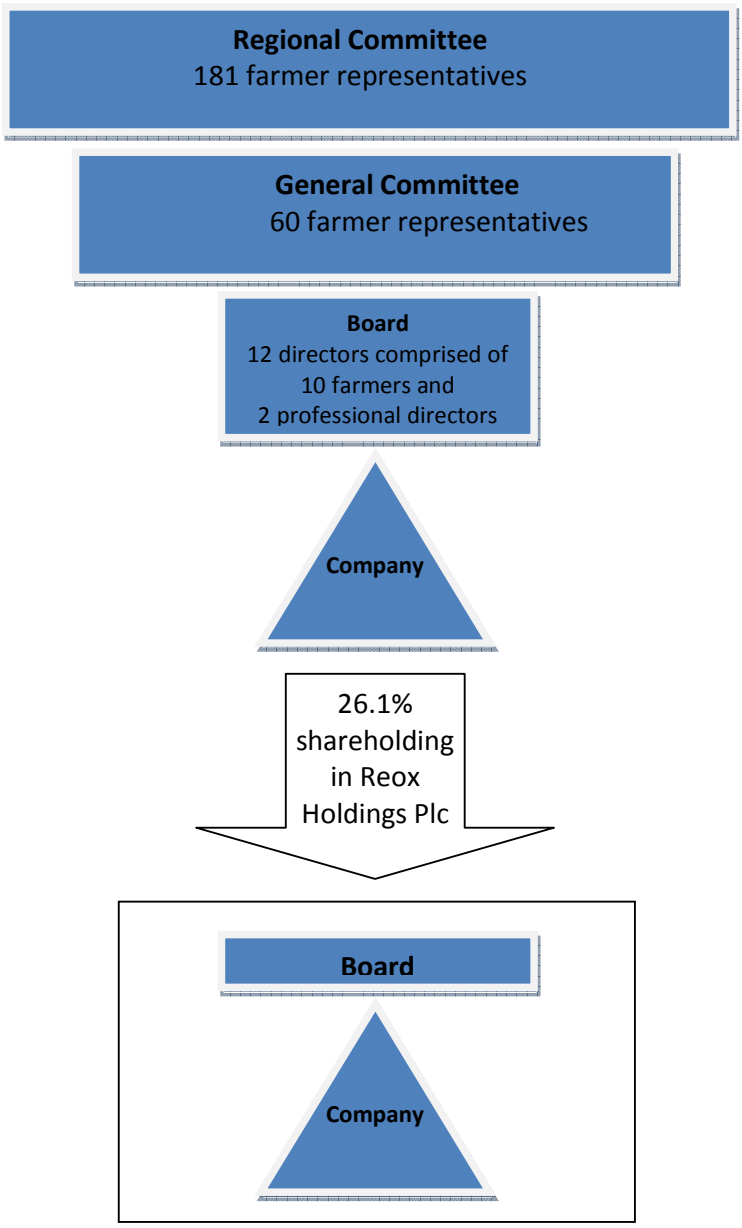
EURO (000,000s)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Revenue	2,622	3,003	3,755	3,693	4,129	4,430	4,646	4,788	4,791	4,521
Total Expenses	2,489	2,859	3,651	3,533	3,952	4,207	4,427	4,626	4,614	4,320
Profit (Loss)	**132.5**	**143.4**	**103.9**	**160.9**	**177.0**	**223.1**	**219.0**	**162.0**	**177.0**	**201.2**
Noted movements to P&L									**-225.6**	**-23.8**
Final Profit (loss)	**132.5**	**143.4**	**103.9**	**160.9**	**177.0**	**223.1**	**219.0**	**162.0**	**-48.6**	**177.4**
Dividend			21.4	23.6	24.5	27.1	30.8	33.8	36.3	40.8
Profits (Losses) retained in business	116.9	124.9	82.5	137.3	152.5	196.0	189.5	129.9	-86.5	137.3
Shares issued / bought back					9.9	4.0	-44.0	-223.8	0.9	3.0
One-off adoption IFRS standards						9.6				
Closing Total Assets	1,607	2,469	2,547	2,606	3,423	4,004	4,014	3,970	3,877	4,149
Closing Total Liabilities	1,078	1,638	1,711	1,801	2,455	2,827	2,691	2,740	2,734	2,865
Equity	**529**	**830**	**836**	**805**	**968**	**1,178**	**1,323**	**1,229**	**1,144**	**1,284**
Equity ratio *(Equity/Assets)*	**33%**	**34%**	**33%**	**31%**	**28%**	**29%**	**33%**	**31%**	**29%**	**31%**

Appendix 2: Dairy Gold Co-operative Society

A2.1 Key Facts

DairyGold Co-Operative Society Ltd was established in 1990. It was formed via a merger of Ballyclough Co-operative Creamery Limited and Mitchelstown Co-operative Agricultural Society Limited.

A2.2 Governance Structure



Regional Committee
The Regional Committee consists of 181 farmer representatives

General Committee
The General Committee consists of 60 farmer representatives elected from seven regions. These farmer representatives elect the directors from within their body.

Board
The Board is comprised of 13 farmer directors and the Chief Executive.

Reox Holdings
In 2006 DairyGold spun out a number of subsidiaries to a new company, Reox Holdings. Reox Holdings was then publicly listed. This subsidiaries spun out included the consumer foods business, Breeo, building supplies business, 4Home, and property business, Alchemy Properties. The shares of Reox Holdings were entrusted directly with farmers, and DairyGold retained a 25 percent shareholding.

Reox Holdings has not performed well since its formation, and shares are currently not trading. DairyGold are in the process of purchasing back their assets.

A2.3 Milk Price

Milk Price is set by management. In regards to Milk Price DairyGold state: "[it is] our duty and responsibility as a Co-Operative Society to deliver the best prices possible to our Member suppliers".

A2.4 Capital

Capital in DairyGold is structured as a nominal one euro share

A2.5 Financials

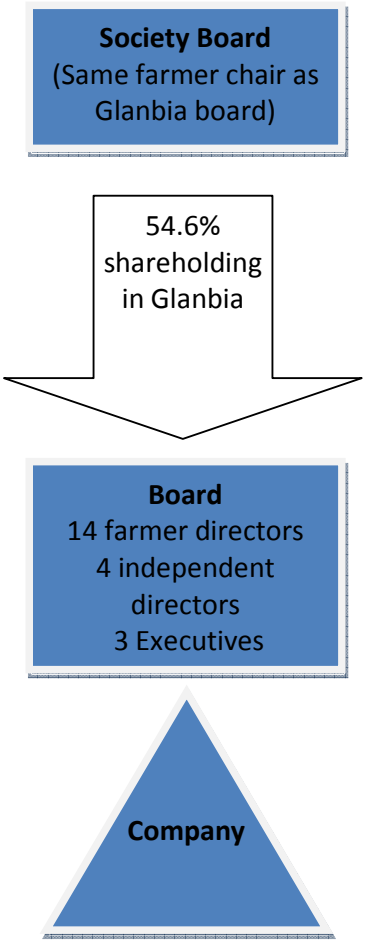
EURO (000,000s)	2002	2003	2004	2005	2006	2007	2008	2009
Total Revenue	989	964	876	841	543	625	688	555
Total Expenses	987	1,002	854	787	486	613	118	99
Total paid to Farmers *(Milk Price)*							571	447
Profit (Loss)	2	- 38	22	53	57	12	- 1	9
Noted movements to Profit & Loss in annual accounts	- 1	- 3	- 63	- 34	- 41	4	- 39	8
Final Profit (loss)	**2**	**- 41**	**- 41**	**19**	**16**	**16**	**- 40**	**18**
Share Interest (Dividend)	1	1	1	2	4	2	2	1
Profits (Losses) retained in business	0	- 42	- 43	17	12	14	- 42	16
Shares issued / bought back	- 0	- 0	- 0	1	- 30	0	- 1	- 1
One-off - Reox					9.3			
One-off IFRS			14.9					
Capital converted to loans			-0.2	0.0				
Closing Total Assets *(000's)*	571	518	468	501	365	420	400	401
Closing Total Liabilities	274	263	242	257	130	171	194	180
Total Equity (including minority interests)	**297**	**254**	**226**	**244**	**235**	**249**	**206**	**221**
Equity ratio *(Equity/Assets)*	**52%**	**49%**	**48%**	**49%**	**64%**	**59%**	**51%**	**55%**
Nominal Share price per kgms	€ 1.00	€ 1.00	€ 1.00	€ 1.00	€ 1.00	€ 1.00	€ 1.00	€ 1.00
Underlying equity per share	€ 5.41	€ 4.48	€ 2.60	€ 2.71	€ 3.84	€ 3.93	€ 2.08	€ 2.24
Shares on Issue at close	54,829,000	56,722,000	86,709,000	90,034,000	61,177,000	63,209,000	98,997,000	98,617,000

Appendix 3: Glanbia Plc

A3.1 Key Facts

Glanbia was formed in 1997 through the merger of Avonmore Plc and Waterford. Avonmore and Waterford were both formed in the 1960's as farmer owned co-operatives; Waterford in 1964 and Avonmore in 1966. In 1988 both co-operatives publicly listed on the Dublin and London stock exchanges.

A3.2 Governance Structure



Glanbia Co-operative Society

Glanbia Co-operative Society is owned by supplying farmers. The Society's asset base is shares in Glanbia plc. The Society holds 54.6% of Glanbia Plc stock on issue.

The Society Board elects the farmer directors who serve on the Glanbia Plc Board. The Chair of the Society is also the Chair of Glanbia Plc.

Glanbia Plc Board

The Board is comprised of 14 farmer directors, 4 professional independent directors and 3 executive.

A3.3 Milk Price

Milk Price is set by management

A3.4 Financials

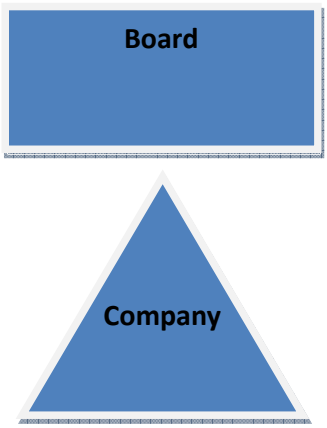
EURO (000,000s)	2003	2004	2005	2006	2007	2008	2009
Total Revenue	2,041	1,754	1,830	1,853	2,207	2,232.2	1,830.3
Total Expenses *(other than payments for milk)*	2,076	1,682	1,768	1,787	2,146	2,153	1,717
Reported Profit (Loss)	**-34.9**	**71.9**	**61.6**	**66.3**	**60.2**	**79.4**	**113.2**
Noted movements to Profit & Loss in annual accounts		**-46.0**	**-42.2**	**26.5**	**-9.5**	**- 67.1**	**- 22.4**
Final Profit (loss)	**-34.9**	**26.0**	**19.5**	**92.8**	**50.7**	**12.2**	**90.8**
Dividend	14.5	24.5	15.6	16.5	17.3	18.5	21.5
Profits (Losses) retained in business		1.5	3.9	76.3	33.4	-6.3	69.3
Shares issued / bought back		0.9	2.5	0.5	0.7	-0.5	0.2
One-off adoption IFRS standards			-113.0				
Closing Total Assets	877	849	958	1,163	1,176	1,455.0	1,395.9
Closing Total Liabilities	577	618	835	962	942	1,227.1	1,098.5
Equity	227.9	230.3	123.7	200.5	234.6	227.92	297.4
Equity ratio *(Equity/Assets)*	26%	27%	13%	17%	20%	16%	21%
Dividend *per share*		€ 0.051	€ 0.054		€ 0.061	€ 0.063	€ 0.067
Shares on Issue at close	290,617,359	291,469,902	293,116,000	293,239,000	293,347,000	293,018,610	292,985,630
Underlying equity per share	€ 0.78	€ 0.79	€ 0.42	€ 0.68	€ 0.80	€ 0.78	€ 1.02

Appendix 4: Irish Dairy Board

A4.1 Key Facts

The Irish Dairy Board was established in 1961, and is owned by the processing dairy businesses throughout Ireland.

A4.2 Governance Structure



Board

The Board consists of representation from three electoral areas, and Glanbia Co-operative Society, DairyGold Co-operative Society, Irish Creamery Milk Suppliers Association, Irish Co-operative Organisations Society (ICOS), Connacht Gold Co-operative, Lakeland Dairies Co-operative Society, Irish Farmers Association, Carberry Milk Products Ltd, Tipperary Co-operative Society, Arrabawn Co-operative Society.

A4.3 Capital

The Irish Dairy Board's capital is divided into six different classes, A, B, C, D, Bonus shares and Deferred Ordinary Shares. All shares have a nominal value of €1.00.

A and B shares are entitled to bonus shares and convertible loan stock and have voting rights. Bonus shares have the same rights as A and B shares.

C and D shares are no additional entitlements and are non-voting, though may attend the annual meeting.

Deferred Ordinary shares may not attend the annual meeting and may not vote.

A4.4 Financials

Euro (000,000s)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Revenue	1,867	1,894	1,791	1,894	1,976	2,074	2,104	2,090	1,823
Total Expenses	1,851	1,866	1,763	1,863	1,939	2,036	2,078	2,077	1,798
Profit (Loss)	**15.7**	**27.9**	**28.5**	**31.0**	**36.8**	**37.8**	**26.2**	**13.3**	**25.2**
Closing Total Assets	724	650	653	654	750	741	850	811	744
Closing Total Liabilities	456	361	345	326	382	347	457	435	360
Equity	269	289	308	329	367	394	393	376	384
Equity ratio *(Equity/Assets)*	37%	44%	47%	50%	49%	53%	46%	46%	52%
Nominal Share price per kgms	**€ 1.00**	**€ 1.00**	**€ 1.00**	**€ 1.00**	**€ 1.00**	**€ 1.00**	**€ 1.00**	**€ 1.00**	**€ 1.00**
Underlying equity per share	**€ 14.26**	**€ 15.31**	**€ 16.29**	**€ 17.31**	**€ 19.26**	**€ 20.56**	**€ 20.44**	**€ 19.57**	**€ 19.86**
Total Shares on Issue	18,838,961	18,845,961	18,919,961	18,995,961	19,074,961	19,154,961	19,232,058	19,232,058	19,357,058
A shares							13,589	13,589	13,589
B Shares							3,429	3,429	3,429
C Shares							267	267	267
D shares							156	156	156
Bonus shares							1,297,656	1,297,656	1,422,656
Deferred Ordinary shares	17,916,961	17,916,961	17,916,961	17,916,961	17,916,961	17,916,961	17,916,961	17,916,961	17,916,961
Ordinary shares	922,000	929,000	1,003,000	1,079,000	1,158,000	1,238,000			

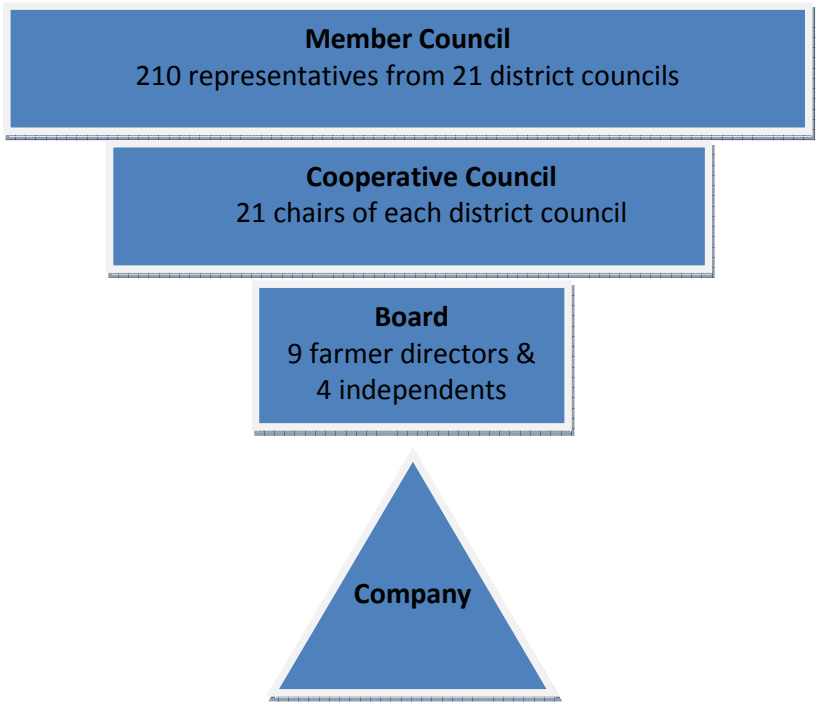
Appendix 5: Royal FrieslandCampina N.V.

A5.1 Key Facts

FrieslandCampina was formed via a merger between Royal Friesland Foods and Campina in 2008. The co-operative has a history that dates back to 1870.

FrieslandCampina controls 80 percent of the milk supply in the Netherlands.

A5.2 Governance structure



Member Council

The Member Council is the highest tier of governance within FrieslandCampina and is constituted of 210 representatives are elected from 21 districts. Each district elects a Chair. The Member Council can remove any Board director at any time. The Member Council must approve any merger, acquisition or sale.

Cooperative Council

The Chairs of each District Council go forward to the Cooperative Council. The Cooperative Council has specific duties, including identifying, assessing and determining director candidates. The Cooperative Council makes a binding recommendation to the Member Council for the preferred director candidates. The Cooperative

Council director recommendation is ratified by voting member base. The Cooperative Council can suspend any director at any time.

Board

The Board is comprised of 9 farmer directors and 4 independents. Directors have a maximum tenure of 12 years.

A5.3 Milk Price

FrieslandCampina's Milk Price is made up of two components: the Guaranteed Milk Price, and the Performance Payment.

The Guaranteed Milk Price is set using a model which amalgamates the average raw Milk Prices paid and expected across a range of countries and companies. These include Germany, Denmark, Belgium, and other competitors in the Netherlands. The amalgam is weighted by volume in each country.

The expected price is published on the first Monday of each month, and the difference between the expected and final realised price is paid the following month.

After the guaranteed Milk Price is deducted the remainder is termed the "performance payment". The performance payment is equivalent to profit. The performance payment is paid upon the volume of milk supplied in the year. 25 percent of the profit is paid in cash to members. 75 percent is retained in the business – 60 percent into general reserves, and 15 percent into a reserve attached to the farmer shareholders' name.

	2011		2010		2009	
	This month	Cumu-lative average	This month	Cumu-lative average	This month	Cumu-lative average
January	35.65	35.65	30	30	28.75	28.75
February			28.5	29.25	27.5	28.13
March			28	28.83	25.25	27.17
April			29.25	28.94	25.25	26.69
May			31.5	29.45	25.25	26.4
June			34.25	30.25	24.25	26.04
July			33,75	30,75	23.5	25.68
August			33.75	31.13	23.5	25.41
September			33.75	31.42	24.5	25.31
October			34.65	31.74	26.5	25.43
November			35.65	32.1	29.75	25.82
December			35.65	32.39	32.75	26.4

A5.4 Capital

The Board determine a set value for shares required. This may be varied at the Board's discretion. The current capital requirement is €4 per 100kg of milk (or €0.52 per kilogram of milksolid).

A share has a nominal value of €100/share.

If an owner of shares stops supplying milk then they must either find a supplying farmer to sell their shares to, or sell to the approved market liquidity provider, which is Rabobank.

A5.5 Financials

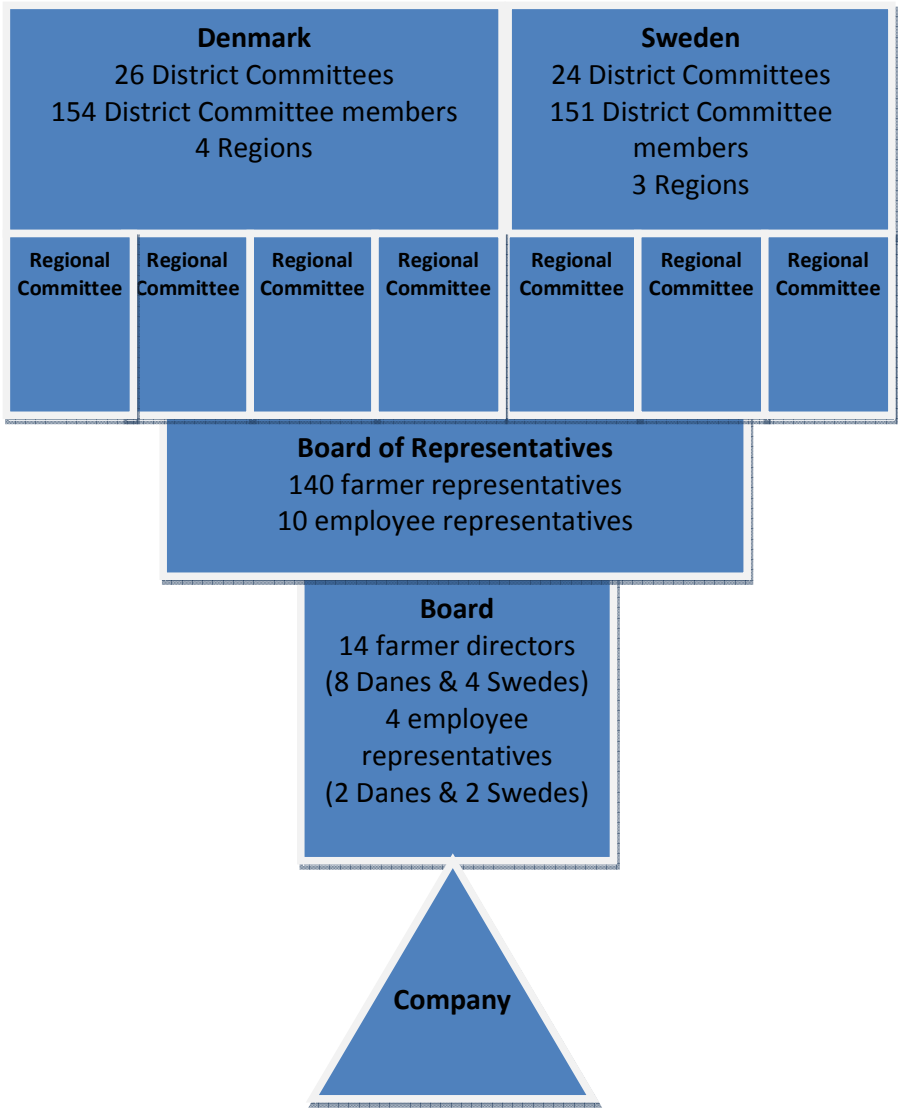
EURO (000,000s)	2008	2009
Total Revenue	9,481	8,187
Total Expenses *(other than milk)*	6,078	5,528
Total paid to Farmers *(Milk Price)*	3,149	2,380
Interest	104	59
Tax	15	38
Profit (Loss)	**135**	**182**
Profits (Losses) retained in business		
Closing Total Assets *(000,000's)*	4,930	4,770
Closing Total Liabilities	3,450	3,021
Equity	1,480	1,749
Equity ratio *(Equity/Assets)*	30%	37%
Nominal Share price per kgms	**€ 100**	**€ 100**
Underlying equity per share	**€ 165**	**€ 257**
Shares on issues	3,702,777	3,702,777
Member bonds (000,000s)	€ 868	€ 799

Appendix 6: Arla Foods

A6.1 Key Facts

Arla Foods was formed in Sweden in 1881. The co-operative has supplying farmer owners in both Denmark and Sweden.

A6.2 Governance structure



District Committees

District Committee members are elected on a representational ratio of 1 per 25 co-operative members.

The districts meet annually with district members.

Regional Committees

The Districts fall into one of 7 regions (3 in Sweden, 4 in Denmark).
The Chairmen of the 4 Danish Regional Committees are reserved seats on the Board of Directors
The Regional Committees pursue work issued by the Board of Representatives.

Board of Representatives

The Board of Representatives is Arla's top decision making body and meets at least three times annually. Its responsibility include considering strategic direction, and the annual allocation of profits to members. The Board of Representatives is made up 140 farmer representatives, 58 Swedes and 82 Danes. The Board of Representatives directly selects 10 directors for the Board of Directors out of 14 seats farmer seats, and 18 total seats.

Board

The Board is comprised of 14 farmer representatives and 4 employee representatives.

Board seats are allocated by country. In Denmark four farmer seats are allocated to the Chairs of the four Danish Regional Committees. The remaining four Danish farmer seats are elected by the Board of Representatives. Two Danish employee seats are voted for by staff.

In Sweden an election committee recommends candidates, and the six Swedish seats are elected by the Board of Representatives.

A6.3 Milk Price

Milk Price is set internally. Arla's stated aim is "to pay the highest possible Milk Price to our owners".

A6.4 Capital

Capital in Arla Foods is divided into four significant areas:

(1) Capital account
(2) Deliver-based ownership certificates
(3) Strategy fund
(4) Reserve fund B

The capital account holds the undistributed company equity.

Delivery-based ownership certificates hold undistributed equity which has been allocated against individual farmer's capital accounts. In 2009 32 percent of profit was allocated to farmers, with 3 percent being paid in cash. Farmers can release this capital allocated to their name when they cease supply.

The Strategy fund is available to be used at the Board of Representatives discretion to offset "negative liquidity effects arising on acquisition of integration of large companies or strategic structural measures."

Reserve fund B "comprises the reserves set aside on the incorporation of the company and, following a proposal by the Board of Directors, the Board of Representatives can decide to use the fund to cover extraordinary losses or write-downs, but solely in respect of such activities of businesses that are not primarily based on the milk volumes sourced from co-operative members and only if such losses are not covered by other reserves under the equity".

A6.5 Financials

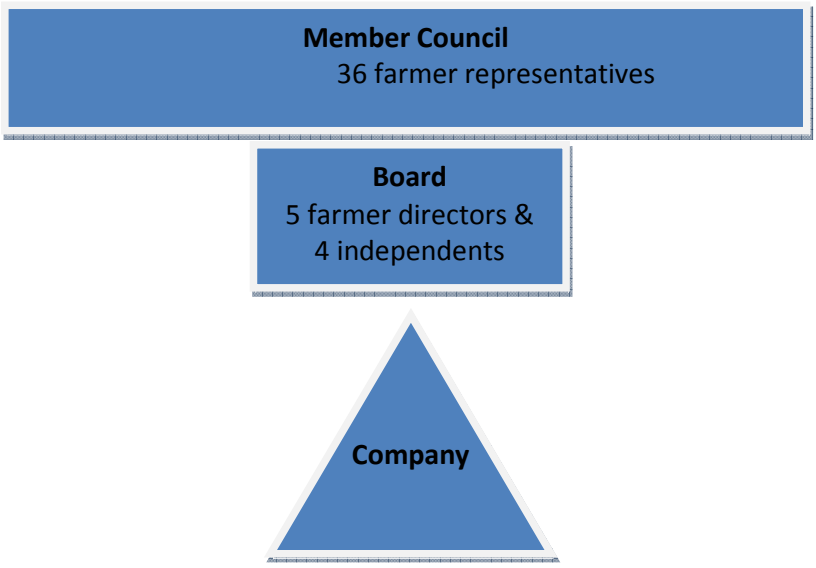
DKK (000.000s)	2006	2007	2008	2009
Total Revenue	45,491	47,742	49,469	46,230
Total Expenses	44,139	46,242	48,018	44,798
Interest	409	562	862	232
Tax	4	1	34	229
Profit (Loss)	**939.0**	**937.0**	**555.0**	**971.0**
Closing Total Assets *(000,000's)*	26,611	30,725	29,280	30,094
Closing Total Liabilities (incl. provisions)	18,578	22,433	21,339	21,685
Equity	8,033	8,292	7,941	8,409
Equity ratio *(Equity/Assets)*	**30%**	**27%**	**27%**	**28%**

Appendix 7: Dairy Farmers of Britain

A7.1 Key facts

Formed in 2002 from a merger of the Milk Group and Zenith. Dairy Farmers of Britain was put into receivership on the 3rd June 2009. At formation it encompassed 15 percent of milk supply in the United Kingdom making it the country's third largest milk pool.

A7.2 Governance structure



Member Council

The 36 farmer representatives were elected bi-annually from the member base. The Member Council had responsibilities of approving acquisitions over £100m, and approving resolutions to go to the member base.

Board

The Board comprised of five farmer directors and four independents, including a Professional Independent Chair.

A7.3 Milk Price

Milk Price was set internally by management and approved monthly by the Board. Dairy Farmers of Britain was consistently at the bottom of the United Kingdom Milk Price league table.

A7.4 Capital

Capital was contributed via deductions from the milk cheque and was classed as member loans. If a member ceased supply the co-operative had ten years to repay the loan.

A7.5 Financials

GBP (000,000s)	2003	2004	2005	2006	2007	2008
Total Revenue	392.9	436.3	594.1	608.7	557.8	562.0
Total Expenses	388.6	425.5	578.2	590.8	564.0	565.5
Profit (Loss)	4.3	10.8	15.9	17.9	-6.2	-3.5
Total Assets	25.5	34.1	93.1	97.8	85.5	87.3
Total Liabilities	12.4	12.0	57.0	42.9	39.2	47.3
Member Loans - former members	2.6	3.3	5.6	13.1	18.0	20.6
Equity*	**10.6**	**18.9**	**30.4**	**41.8**	**28.3**	**19.4**
Member Loans - supplying members	9.3	19.3	32.5	46.0	48.6	52.2
Equity allocated to general reserves	1.3	-0.4	-2.0	-4.2	-20.3	-32.9
Equity/Assets	41.4%	55.3%	32.7%	42.7%	33.1%	22.2%

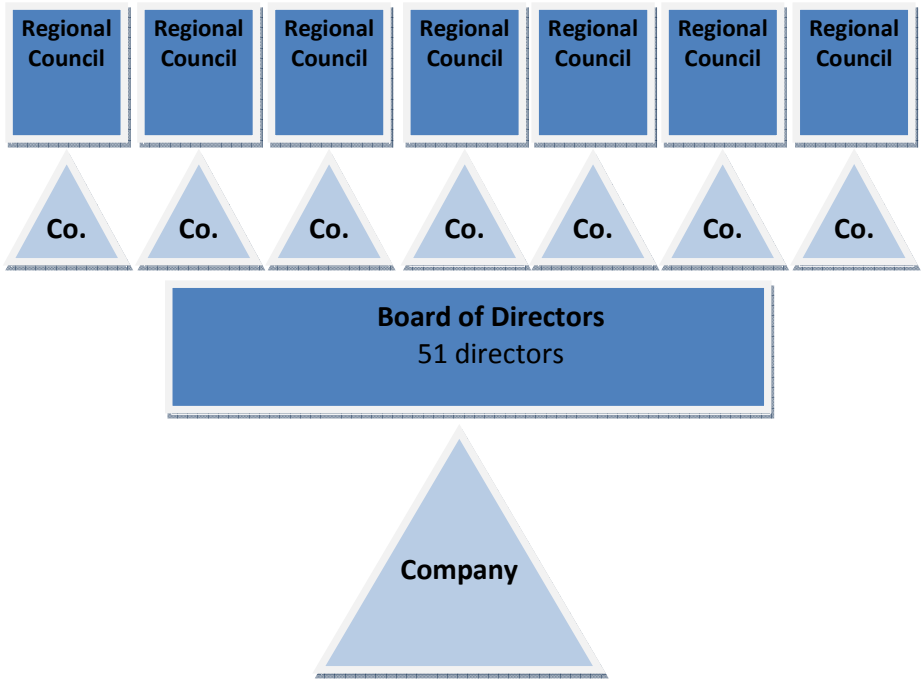
*Assuming adoption of IFRS standard that supplying member capital is classed as equity rather than debt

Appendix 8: Dairy Farmers of America

A8.1 Key Facts

Dairy Farmers of America was formed in 1998 and has a presence across the entire of the United States of America.

A8.2 Governance Structure



Regional Council

Dairy Farmers of America has seven Member Councils: Western, Mountain, Southwest, Central, Southeast, Mideast, and Northeast. Each Member Council has a Board of Directors, and staff, including their own Chief Executive. The Regional Councils set the Milk Price for their region and can make investments into assets at their own discretion.

In addition some Council's have other milk co-operatives as direct members. These again have their own Board of directors and executive. For example, large milk co-op DairyLea is a member of the Northeast Council.

Board of Directors

The Board consists of 51 directors elected regionally.

A8.3 Milk Price

The minimum price for milk is set at federal level in the United States. The price is calculated using the commodity price on the Chicago Mercantile Exchange. There are four classes of prices, depending upon the end use of the product. These classes include the highest price class which is fluid milk, to the lower price ranges of cheese and milk powder.

Dairy Farmers America apportions the milk income to each Regional Council based upon the end use of the member's milk in each region.

The Regional Councils determine the milk payment to members.

A6.5 Financials

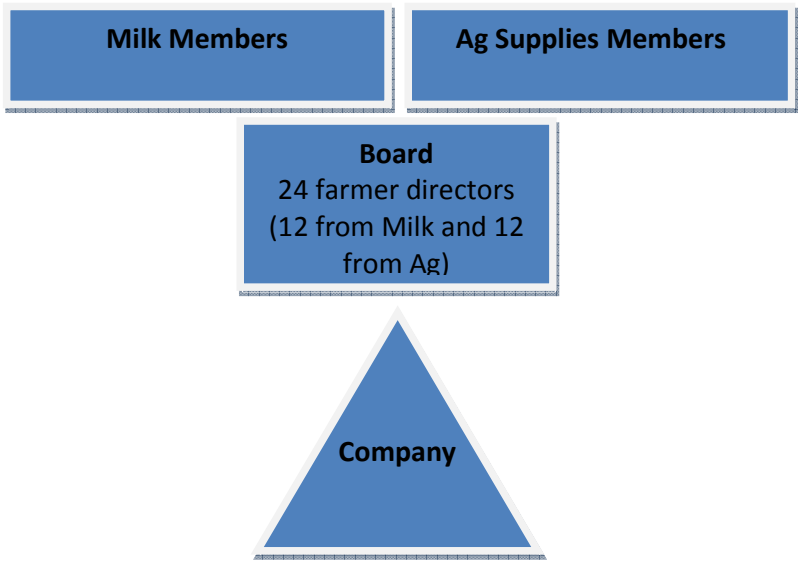
Year	Total revenue USD 000,000s
2000	6,586
2001	7,902
2002	6,448
2003	6,933
2004	8,954
2005	8,909
2006	7,899
2007	11,100
2008	11,700
2009	8,100

Appendix 9: Land o' Lakes

A9.1 Key Facts

Land o' Lakes was formed in 1921. It is both a dairy processing co-operative and a farming supply co-operative.

A9.2 Governance Structure



Board

The Board consists of 24 farmer directors. 12 are elected by milk members and 12 by Ag Supply members. The term is 4 years. The directors are elected on a regional basis. Voting is based on volume rather than one member one vote.

A9.3 Milk Price

The minimum price for milk is set at federal level in the United States. The price is calculated using the commodity price on the Chicago Mercantile Exchange. There are four classes of prices, depending upon the end use of the product. These classes include the highest price class which is fluid milk, to the lower price ranges of cheese and milk powder.

A9.4 Financials

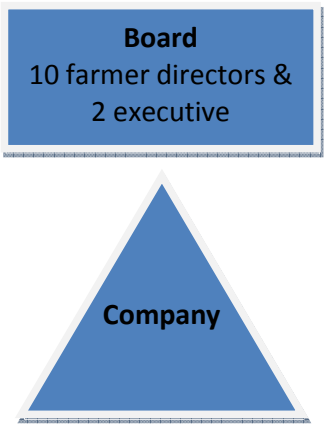
USD (000,000s)	2000	2001 *SEC2005*	2002 *LoL 2002*	2003 *SEC2005*	2004 *SEC2005*	2005 *SEC2005*	2006 *LoL Ar2006*	2007 *LoL Ar2008*	2008 *LoL AR2009*	2009 *LoL AR2009*
Total Revenue	5,756	5,973	5,847	6,320	7,657	7,557	7,275	8,925	12,039	10,409
Total Expenses *(other than payments for milk)*	5,653	5,305	5,274	5,672	7,063	6,972		4,865	7,957	7,256
Total paid to Farmers *(Milk Price)*								3,899	3,923	2,943
Profit (Loss)	**103**	**71**	**99**	**84**	**21**	**129**	**89**	**161**	**160**	**209**
Noted movements to Profit & Loss in annual accounts								**68**	**- 73**	**- 34**
Final Profit (loss)	**103**	**71**	**99**	**84**	**21**	**129**	**89**	**229**	**87**	**175**
Patronage refunds paid		47	38	24	35	69		67	107	120
Net Profits (Losses) retained in business	103	25	61	59	- 13	60	89	162	- 21	55
Shares issued / bought back		- 0						- 0	- 3	- 9
One-off IFRS								62.4	0.7	0.0
Closing Total Assets		3,091	3,246	3,373	3,200	3,095		4,419	4,981	4,924
Closing Total Liabilities		2,255	2,335	2,494	2,345	2,192		3,405	3,986	3,882
Total Equity (including minority interests)	**805**	**837**	**912**	**879**	**855**	**904**	**918**	**1,014**	**996**	**1,042**
Equity ratio *(Equity/Assets)*		**27%**	**28%**	**26%**	**27%**	**29%**		**23%**	**20%**	**21%**

Appendix 10: Murray Goulburn Co-operative Company

A10.1 Key Facts

Murray Goulburn Co-operative Company was formed in 1950. It is Australia's largest dairy company, processing 35 percent of Australia's milk.

A10.2 Governance structure



A10.3 Milk Price

Milk Price is set internally within Murray Goulburn.

A10.4 Capital

Shares have a nominal value of $1 per share.
There are four classes of shares.

- Ordinary shares. These shares receive dividends and have voting rights. Only suppliers of milk may hold these shares, and upon ceasing supply their shares are converted into one of the other three non-voting share classes.
- A Class 8% Non Cumulative Non-Redeemable Preference Shares. These shares receive a fixed 8% dividend and have no voting rights.
- B Class Non Cumulative Non-Redeemable Preference Shares. These shares receive variable dividends like ordinary shares, and have no voting rights.
- C Class Non Cumulative Non-Redeemable Preference Shares. This class of shares receive a preferred dividend and have no voting rights.

A10.5 Financials

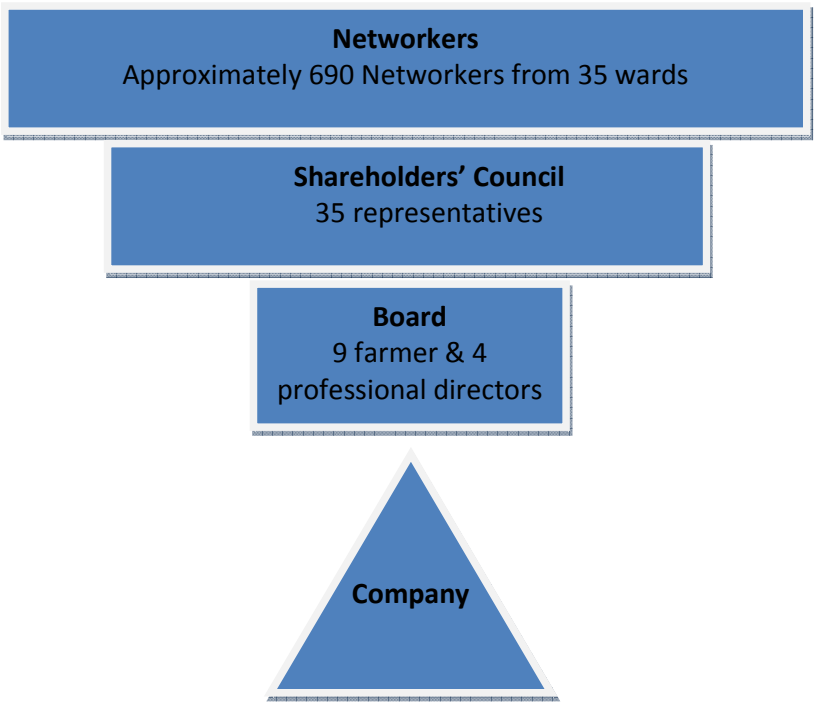
AUD (000,000s)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Revenue	1,420	1,614	2,014	1,694	1,633	1,869	2,029	2,177	2,641	2,455
Total Expenses *(other than payments for milk)*	141	164	224	213	204	225	256	268	299	264
Total paid to Farmers *(Milk Price)*	1,227	1,371	1,704	1,452	1,392	1,563	1,721	1,845	2,222	2,132
Interest	23	29	22	24	24	22	32	38	35	31
Tax	2	5	4	-11	2	2	6	4	-8	26
Profit (Loss)	**27.3**	**45.1**	**59.3**	**16.0**	**11.3**	**58.1**	**14.2**	**21.7**	**93.2**	**1.1**
Dividend	-10.7	-14.1	-12.5	-14.3	-15.5	-23.4	-7.0	-10.5	-27.3	-23.2
Profits (Losses) retained in business	16.7	30.9	46.8	1.7	-4.2	34.8	7.2	11.2	65.8	-22.1
Closing Total Assets	888	1,065	1,303	1,212	1,319	1,429	1,586	1,483	1,790	1,578
Closing Total Liabilities	543	661	802	685	775	823	970	825	1,032	850
Equity	**345**	**404**	**500**	**528**	**544**	**606**	**615**	**657**	**759**	**727**
Equity ratio *(Equity/Assets)*	**39%**	**38%**	**38%**	**44%**	**41%**	**42%**	**39%**	**44%**	**42%**	**46%**
Nominal Share price per kgms	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Underlying equity per share	**$ 4.03**	**$ 3.82**	**$ 3.80**	**$ 3.42**	**$ 3.31**	**$ 3.54**	**$ 3.26**	**$ 3.28**	**$ 3.40**	**$ 3.03**
Total Shares on Issue at close (000)	85,644	105,838	131,643	154,141	164,125	171,040	188,787	200,438	223,240	239,595
Ordinary	18,032	18,122	19,015	19,022	132,681	136,875	150,868	161,413	179,987	193,013
A Class preference shares	16,770	19,111	22,991	24,911	22,703	21,082	19,826	18,820	17,684	17,047
B Class preference shares				2,387	4,914	6,316	6,599	6,675	8,540	11,225
C Class preference shares					3,826	6,768	11,494	13,530	17,028	18,309
D Class & DX Class Ordinary	50,841	68,605	89,638	107,820						

Appendix 11: Fonterra Co-operative Group

A11.1 Key Facts

Fonterra Co-operative Group was formed in 2001 in a merger between New Zealand Dairy Group, Kiwi Dairies and the New Zealand Dairy Board.

A11.2 Governance Structure



Networkers

Networkers are selected by the Shareholders' Councillors in the region. Networkers number between 10 and 30 farmers per region. The Networkers role is to disseminate information and has no governing decision making functions.

Shareholders' Council

Shareholders' Councillors are elected on a regional basis. Their key duties include monitoring the performance of the Board and company, and representing farmer views to the co-operative.

Board

The Board is comprised of nine farmer directors and four independents. The term of appointment is three years. Directors are elected from the shareholder base as a whole.

A11.3 Milk Price

Fonterra's 2010 annual report defines the calculation of Milk Price as follows:

"The Milk Price for the season is calculated in accordance with the principles set out in the Milk Price Manual and is independently audited. The Milk Price broadly represents the maximum sustainable amount a New Zealand based manufacturer of milk powders could afford to pay for milk and still make an adequate return on capital."

A11.4 Capital

Shares are valued at a market rate. Currently an international valuer determines the price range. The co-operative owners have voted to move to a trading platform where farmers will buy and sell between themselves.

A11.5 Financials

NZD (000,000s)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Revenue		13,924	12,474	11,830	12,323	13,001	13,687	19,512	16,035
Total Expenses		13,955	12,190	11,994	11,924	12,989	13,034	19,218	15,602
Profit (Loss)		**- 31**	**284**	**- 164**	**399**	**12**	**653**	**294**	**433**
Profits retained in business		- 31		- 164				283	12
Closing Total Assets	12,130	11,800	10,746	11,112	11,812	13,080	13,494	14,439	14,117
Closing Total Liabilities	7,516	7,315	6,081	6,317	6,901	8,262	8,516	10,170	9,312
Equity	4,614	4,485	4,665	4,795	4,911	4,818	4,978	4,269	4,805
Equity ratio *(Equity/Assets)*	38%	38%	43%	43%	42%	37%	37%	30%	34%
Total NZ Milk solids collected *(000,000 kgms)*		**1,111**	**1,148**	**1,201**	**1,160**	**1,210**	**1,243**	**1,183**	**1,227**
Milk Price		5.45	3.34	3.97	4.37	3.85	3.87	7.59	4.72
Dividend paid		- 0.12	0.29	0.28	0.22	0.25	0.59	0.07	0.48
Total Payout		**5.33**	**3.63**	**4.25**	**4.59**	**4.10**	**4.46**	**7.66**	**5.20**
Fair Value Share price per kgms		**$ 3.85**	**$ 4.38**	**$ 4.69**	**$ 5.80**	**$ 6.24**	**$ 6.79**	**$ 5.57**	**$ 4.52**
Underlying equity per share (excluding peak notes, including supply redemption rights)	**$ 4.26**	**$ 3.96**	**$ 3.90**	**$ 3.87**	**$ 3.98**	**$ 3.80**	**$ 3.89**	**$ 3.56**	**$ 3.84**
Capital on issue (000s)									
Co-operative shares	1,052,375	1,110,154	1,143,611	1,199,859	1,158,434	1,208,085	1,279,675	1,199,913	1,251,291
Peak notes	37,164	39,223	38,804	38,684	37,888	38,307			
Supply redemption rights	30,107	22,483	52,998	38,306	75,842	59,144			

Appendix 12: Kerry/Dairy Gold interview questions

Kerry/Dairygold Milk supplier Questionnaire:

What is the purpose of this questionnaire?

- To find out whether the public model (PLC) has worked for Kerry milk suppliers or if farmer ownership of co-ops is a better governance model going forward.

Why question?

- Ongoing change in milk processing in Ireland and also New Zealand are talking about potentially going down the PLC route. We want to be able to assess what is the best way forward for dairy farmers into the future

How will survey be carried out?

- Kerry suppliers and Dairygold suppliers will be asked a series of questions and some conclusions will be drawn from answers.

When will survey be carried out?

- From week starting Monday 22 March 2010.

Please note: This is a private and confidential questionnaire and no personal details or personal financial details will ever be disclosed to any persons in public or within other farmers in this small project. Summary information from Kerry and Dairygold suppliers will be published but no individual/names will ever be used.

General Farm Details:

- How did you come to inherit/buy the farm?
- How long have you/your family been farming?
- Have you always supplied Kerry (Dairygold)?
- Do you think there is a possibility that your son/daughter will take over the farm? Would you want them to?

What did your farm business look like 20 years ago?

- How many cows?
- How many acres (owned/leased in hectares)?
- What was your total annual milk production and what were your average fat and protein% back then (take three year average either side of 1989 so 1988,89 and 1990)?
- Did you have drystock then?
- How many people did it take to run the farm?

What does your farm business look like today?

- How many cows?
- How many acres (owned/leased in hectares)?
- What was your total annual milk production and what were your average fat and protein% (take three year average so 2007,08 and 09)?
- Do you have drystock now?
- How many people does it take to run the farm now?

Farm development?

- Have you ever had the opportunity to lease or buy more land?
- Do you have any off-farm investments? Shares, Investment property, House in town etc (other than Co-op/PLC shares)
- When will you retire? How will you fund your retirement?

Kerry/Dairygold Performance (1989 to 2009)

- Are you happy with Kerry's (Dairygold) milk price over the last 20 years (1989 to 2009)?
- Has (Dairygold/Kerry) milk price been the sole driver of income into your business?

Capital value

- Where did the PLC/Co-op shares go when you took over the farm?
- Who retains the capital value of the PLC shares?
- Do you receive dividends?
- When did you start retaining PLC shares/Co-op shares?
- When did you start receiving dividends to PLC shares/Co-op shares?
- What shares have you in Co-op/PLC now? Patronage Shares only?

Share return

- Does the farm business today benefit from the PLC share dividend?
- Does the farm business today benefit from the dividend from the Patronage Shares?
- What/Where do PLC/Co-op share dividends go?
- Did you always purchase the shares you were entitled to when PLC was floating etc?

Borrowing capacity

- Has the fact you hold shares in PLC/Co-op helped your borrowing capacity for farm development?
- Have you sold shares to fund farm investment? When?

Appendix 13: Itinerary

Wed 13 Oct '09	Awarded Nuffield Scholarship
Fri 6 Nov '09	Bill Kain, Chairman, AGMARDT (since retired)
Mon 16 Nov '09	Jay Waldvogel, Senior Vice President, Strategy and International Development, Dairy Farmers of America
Tues 24 Nov '09	Sir Henry van der Heyden, Chairman, Fonterra
	Susan Webb, Strategic Advisor, Fonterra Shareholders' Council
Mon 30 Nov '09	Nuffield briefing Conor English, Chief Executive, Federated Farmers
	John Luxton, Chairman, DairyNZ
	Ben O'Brien, Beef and Lamb
	James Parsons, Nuffield Scholar, and Director Beef and Lamb
	Erica van Reneen, NZ Climate Change Policy
	Andrew Hume, NZ Climate Change Policy
	Stuart Wright, Chairman, Nuffield New Zealand
Tues 1 Dec '09	Peter Fraser, MAF
	Conor English, Chief Executive, Federated Farmers
	Ramsey Margolis, NZ Co-op Association
Fri 4 Dec '09	Tim Morris, Coriolis
Sat 5 Dec '09	Marise James, Nuffield Trustee and Director Landcorp
Mon 7 Dec '09	Greg Gent, Director, Fonterra
Tues 8 Dec '09	Professor Neil Gow, Lincoln University
Fri 18 Dec '09	Hon. Bill English Deputy Prime Minister New Zealand
Wed 13 Jan '10	Fly Christchurch NZ – London UK
Thurs 14 Jan '10	Arrive London, United Kingdom Stay Farmers Club, Whitehall, London
	Train to Royal Agricultural College, Cirencester
Sun 17 Jan '10 to Fri 5 Feb '10	**Worshipful Company of Farmers** **59th Business Management Course** **Directed by Professor John Alliston**
	Professor John Wibberley
	John Alvis MBE – 60% of UK organic cheese market
	Brian Barnett Nuffield, Succession planning
	Michael Tucker, Public speaking
	Andrew Dyke, Future of UK Dairy Farming
	Christine Tacon, CBE. CEO, The Co-op, Agri-division Chair, Oxford Farming Conference
	Christine Drummond, MBE, Founder of LEAF (Linking Environment and Farming)
	Dr. James Jones, European Policy Head of Farm Management, Royal Agricultural College
	George Dunn, European Policy
	Duncan Sinclair, Agricultural Manager, Waitrose
	Ann Steele, Programme Manager, Waitrose Supply Partnerships
	Lyndsay Chapman, Communications Manager, Dairy Crest
	Liz Rees, Waitrose lamb supply
	Dr. Richard Baines, Private v Public Governance of UK Food Supply Chains
	Chris Bowerman Chairing meetings
	Sion Roberts, CEO, European Food and Farming Partnerships (EFFP)
	Julian Sayers, former Chair, Oxford Farming Conference
	Richard Butler, National Farmers Union (NFU)
	Dr. Richard Baines, UK policy advisor
	Lord Stafford, Chairman Harper Adams College

	Chris Bowerman, Tripos Consultants (chairmanship)
	Professor David Hughes, Emeritus Professor of Food Marketing, Imperial College
	Andrew Slack, Grant Thornton
	David Barr, CA, Business Structures, Martin & Co
	Lord Lieutenant Sir Henry Elwes
	Philip Wynn, Wynn Business Partnerships
	Robert Cooper, Vice Chairman of the Worshipful Company of Farmers Education Committee
	Professor Allan Buckwell, Chief Economist, CLA
	Geoffrey Clifton-Brown, Member of Parliament, UK
	Stephen Thomas, MBA Programme Director, Royal Agricultural College
	Stephen Watkins, CLA
	Chris Musgrave, Estate Management
	Adrian Ivory, Farmer of the Year 2008
	Jeremy Moody, Policy Advisor to the Central Association of Agricultural Valuers
	Professor Paul Davies, GMO
	Geoff Dodgson, Lobbying and Public Relations
	Professor Chris Gaskell, Principal of the Royal Agricultural College
	Steve Thomas, former Barclays
	Robert Raimes
Sat 6 Feb '10	Train to London Heathrow, Flight Aer Lingus to Dublin, Ireland
	Travel Dublin to Killashee, Longford, Ireland
	Mike Magan, former Chairman of Lakelands Co-op, Ireland
Sun 7 Feb '10	Mike & Mary Magan
Mon 8 Feb '10	Dublin John Turell CEO, Irish Co-operatives Association
	Dr. Sean Brady, Interim CEO, Irish Dairy Board
	Jack Kennedy, Chief Dairy Reporter, Irish Farmers Journal
Tues 9 Feb '10	Kilkenny Adrian van Bysterveldt, New Zealand dairy farm trial
	Adare David and Hazel Fitzgerald. David is a retired, long serving Kerry employee.
Wed 10 Feb '10	Kerry William & Mary Dennehy, 5th generation Kerry dairy farmers
	John O'Sullivan, Kerry farmer
	Nora
	Paddy McMahon, Kerry farmer
	Billy O'Connor, Kerry farmer
	Kerry Group John O'Callahan, Senior Executive
Thurs 11 Feb '10	Killavullen Paddy O'Keeffe, Chairman Irish Farmers Journal
	Fermoy Lawrence Schloo, TEAGASC Una Geary, TEAGASC
	Kevin & Margaret Twomey Chair of group to unite Irish Creameries
Fri 12 Feb '10	Mike & Mary Magan
Sat 13 Feb '10	Mike & Mary Magan
Sun 14 Feb '10	Aer Lingus to Schipol, Netherlands
	Drive to Eindhoven
Mon 15 Feb '10	Dr Justinas Sanders, Former CEO Campina until merger with Friesland
Tues 16 Feb '10	Rabobank Head Office, Utrecht, Netherlands Adrie Zwanenberg Marina Rebello
	Ankie Wijnen, Chair Friesland-Campina Member Council
Wed 17 Feb '10	Drive north to Groningen
	Harm Holman, Director of Friesland at merger and former Friesland-Campina director
Thurs 18 Feb '10	Piet Boer Current Friesland-Campina Director
Fri 19 Feb '10	Aer Lingus Eindhoven to London

Sat 20 Feb '10	Tim & Rachel Needham, Market Rasen, Lincolnshire Tim Needham, Farm Consultant Various visits to Dairy, Beef, Cropping, Diversified Farms Mike Winter, National Champion Holstein breeder David Pridgeon, Waltham Farm Stephen Craven, Lincolnshire
Tues 23 Feb '10	Camgrain, Cambridgeshire John Latham, Chairman Philip Drake, CEO Mark Slater, Financial Controller
Wed 24 Feb '10	Charlie & Kate Reynolds Charlie Reynolds, large scale cropping farmer Kate Reynolds, executive for X
Thurs 25 Feb '10	Ed & Lucy Dale Barry & Val Dale Large scale dairy farmers supplying Robert Wiseman, and previously Dairy Farmers of Britain
Fri 26 Feb '10	Paul & Frances Fox, Cheshire Paul Fox, Principal at Randilow Co-operative Consulting, UK Former executive at Dairy Farmers of Britain Michael Oakes, former Director Dairy Farmers of Britain
Sun 28 Feb '10	Robin & Doreen Bosomworth, Felixkirk, Thirsk Large scale cropping farmer. Former UK dairy farmer. Owner of large scale dairy farm in New Zealand
Mon 1 Mar '10	Matt Gregory & Sarah, Suffolk Twice Farmer of the Year Velcourt
Tues 2 Mar '10	Depart Drive to London Bev & Keith Bell, Twickenham, London
Wed 3 Mar '10	European Food & Farming Partnerships (EFFP) Sion Roberts, Chief Executive Duncan Rawson, Partner
Thurs 4 Mar '10	Flight Virgin Atlantic, London to Washington DC, USA
Fri 5 Mar '10	Day off
Mon 8 Mar '10 **To** **Sat 13 Mar '10**	**Contemporary Scholars Conference Washington D.C. and Gettysburg** Bart Ruth and Hope Pjesky, Overview of Agriculture in the United States of America Tour of Washington D.C. Emeritus Professor Dave Kohl, Virginia Tech Bob Young, Chief Economist, AFB (USA) Global agricultural and trade issues from the USA perspective Robin Twyman, First Secretary Trade Policy, British Embassy Global agricultural and trade issues from the EU perspective Alister Polson Special Agricultural Trade Envoy New Zealand Global agricultural and trade issues, Cairns Group perspective Su Hao (James), East Rock Ltd, China Global agricultural and trade issues from a China perspective Bill Cordingley Head of Food and Agribusiness Research and Advisory, Americas Rabobank Ron Helinski Communications Director New West Technologies Chris Delgado, Strategy & Policy Advisor, World Bank Emeritus Professor John Ikerd Agricultural Economics Ernest C. Shea President, Natural Resources Solutions Reception at the Canadian Embassy in Washington D. C. Tour of Geddesberg Tour of Mason Dixon Farms Dick and Doyle Waybright Dr. Jim Schupp, Dr. Tara Baugher Adams County fruit industry Young Growers Alliance Rice Fruit Company, Gardners PA Hauser Estate Winery

	Hon. Russell C. Redding Secretary Pennsylvanian Dept of Agriculture
	Mario Castillo The Aegis Group
	Judy Schwank Dean of Agriculture & Environment Delaware Valley College
	Brian Snyder PA Association for Sustainable Agriculture
	Keith Eckel Fred W. Eckel Sons
	April Cooper Appealing Holsteins
	J D Dunbar, P A RULE
	Brook Duer PA Department of Agriculture Chief Legal Counsel
	Keith Hite PA State Association of Town Supervisors
	Dr. Jim Shortle Penn. State University
	Don McNutt Lancaster Conservation District
	Anne Swanson Chesapeake Bay Commission
	Official dinner at the Governor's residence
	Sam and Suzie Riehl, Amish dairy farm tour
	Gene Richard American Mushroom Industry
	Penn National Race Course
Sun 14 Mar '10	Fly Washington DC to Columbia, Missouri
	Visit with Professor Michael Cook, Department of Agricultural Economics Co-operative expert
Wed 17 Mar '10	Fly Columbia, Missouri to Syracuse, Upstate New York
Thurs 18 Mar '10	North East Co-operative Council (NECC) Cooperative Leaders Forum
	Dr. Brent Hueth, Director Center for Cooperatives, University of Wisconsin
	Chuck Conner President National Council of Farmer Coooperatives
	Dan Kelley First Vice Chairman of the Board, CoBank
	Marci Rossell Former Chief Economist, CNBC
	Robert Engels President & Chief Executive Officer, CoBank
	Doug Flutie Former NFL quarterback and Heisman Trophy winner
Fri 19 Mar '10	Rest day
Sat 20 Mar '10	Fly New York to Shannon, Ireland
Sun 21 Mar '10	Tralee, Kerry Week of interviews with Kerry farmers (identities anonymous)
Mon 22 Mar '10	Kerry farmer interviews 1, 2, 3, 4, 5
	Interview with Jerom Fleming, previous Kerry director
Tues 23 Mar '10	TEAGASC field day at crossbred dairy, Killavullen. Introducing New Zealand systems into Ireland
	Tommy Roche (brother of DairyNZ scientist John Roche)
Wed 24 Mar '10	Kerry farmer interviews 6, 7, 8, 9
Thurs 25 Mar '10	Kerry farmer interviews 10, 11
Fri 26 Mar '10	Day trip to the Netherlands flying Aer Lingus
	Alfons Beldman Agrocentre, Wageningen
	Dr. Onno van Bekkum Co-operative Expert
	Fly back to Ireland
Sat 27 Mar '10	Bill & Olivia O'Keeffe, Kilkenny, 6th Glanbia dairy farmers
	Matt O'Keeffe, dairy reporter for the Irish Farmers Journal
Sun 28 Mar '10	Niall Casey, Senior Executive, Kerry Group
Mon 29 Mar '10	Week of Dairy Gold farmer interviews (identities anonymous)
	Dairy Gold farmer interviews 1, 2, 3, 4
	Stay with Bill O'Keeffe & Audrey, Cork. Dairy farmers.
Tues 30 Mar '10	Dairy Gold farmer interviews, 5, 6, 7, 8, 9
Wed 31 Mar '10	Dairy Gold farmer interviews 10, 11, 12
	Meeting with Kevin Twomey
Thurs 1 Apr '10	Fly Cork to Manchester

Fri 2 Apr '10	Drive to Lincoln. Visited Lincoln Castle, and Lincoln Cathedral.
	Andrew & Sarah Buckley. Estate Manager. Cropping. Diversification into Tilapia fish farming.
Sat 3 Apr '10	Robin & Doreen Bosomworth, Felixkirk, Thirsk
	Hon. David Dogdale, former MP
	Tour of Yorkshire with Mrs. Bosomworth
Sun 4 Apr '10	Chris Blundell, Mount St John, Director European Food & Farming Partnerships (EFFP) Shareholder Morrison's supermarket
Mon 5 Apr '10	Drive to Warkworth.
Tues 6 Apr '10	Rest, reflection and writing
Wed 7 Apr '10	Rest, reflection and writing
Thurs 8 Apr '10	Drive to Edinburgh
Fri 9 Apr '10	Fly Edinburgh to New York Aer Lingus
Sat 10 Apr '10	Sight seeing in Manhattan Island, including Empire State Building
Sun 11 Apr '10	Drive New York City to Ithaca, Upstate New York, via downtown Manhattan & Pennsylvania
	Stayed Scranton East, Pennsylvania
Mon 12 Apr '10	Drive to Ithaca
Tues 13 Apr '10	Meeting Larry Van de Valk Director, LEAD New York programme
	Jamie Zimmerman, Chief Executive, DairyOne (Dairy Genetics Co-operative)
	Dale, Large scale dairy farmer supplying DFA via DairyLea via a buying group
	George Mueller Director, UpState Niagara Dairy Products
Wed 14 Apr '10	Brian Henehan Co-operative Expert at Cornell Secretary for NECC conference
Thurs 15 Apr '10	Christine & Rick Fesko Chris Fesko, Director First Pioneer Farm Credit Director Dairy Farm owner, Skaneateles
Fri 16 Apr '10	Chris & Rick Fesko
Sat 17 Apr '10	Patty & John Bikowsky, Madison New York. Dairy Farmers Patty Bikowsky,
	Director of Dairy Farmers America North East Council.
Sun 18 Apr '10	Patty & John Bikowsky
Mon 19 Apr '10	Guest at Dairy Farmers America North East Council extended Board meeting
Tues 20 Apr '10	Dairy Farmers America North East Council extended Board meeting
Wed 21 Apr '10	Patty & John Bikowsky
Thurs 22 Apr '10	Flight United Airlines Syracuse to Denver Colorado
	Drive to Fort Collins, Colorado
Fri 23 Apr '10	Meeting with Les Hardesty, Director Corporate Board, Dairy Farmers America
Sat 24 Apr '10	Factory tour of Anheuser-Busch, (Budweiser), Fort Collins
Sun 25 Apr '10	Mary's Lake, Colorado
Mon 26 Apr '10	Drive Fort Collins Colorado to Hobbs, New Mexico via Santa Rosa New Mexico
Tues 27 Apr '10	Buster & Beverly Goff, Hobbs, New Mexico. 8,000 cow dairy farmer
	Buster Goff, Director Corporate Board, Dairy Farmers America
Wed 28 Apr '10	Buster & Beverly Goff
Thurs 29 Apr '10	Drive Hobbs New Mexico to Albuquerque New Mexico
Fri 30 Apr '10	Fly Albuquerque, New Mexico to Houston, Texas
Sat 1 May '10	Houston, Texas – rest day
Sun 2 May '10	Fly Houston, Texas to Buenos Aires, Argentina
Mon 3 May '10	Arrive Buenos Aires Tour of Buenos Aires Drive to Pergamino
Tues 4 May '10	Luis & Maru Peluffo large scale dairy farmer – 9 farms
	Livestock Improvement presentation to local farmers, attended by New Zealand Ambassador to Argentina
	Field day to Peluffo farm using NZ style farming systems
Wed 5 May '10	Drive to Pehuajo Matias & Elisa Peluffo large scale dairy farmer – 4 farms
Thurs 6 May '10	Matias & Elisa Peluffo
Fri 7 May '10	Travel to Buenos Aires

Sat 8 May '10 Sightseeing around Buenos Aires

Fly Buenos Aires, Argentina to Minneapolis, USA

Sun 9 May '10 Arrive Minneapolis, USA

Mon 10 May '10 Rest day

Tues 11 May '10 Land o' Lakes Head Office

Meeting with Dan Knutson,
Chief Financial Officer

Meeting with Gary Weber, Manager Dairy Membership

Check Gary Weber's job title

Wed 12 May '10 Fly to Columbia, Missouri

Thurs 13 May '10 Visit with Professor Michael Cook

Fri 14 May '10 Visit with Professor Michael Cook

Sat 15 May '10 Rest day

Sun 16 May '10 Rest day

Mon 17 May '10 Graduate Institute of Co-operative Leadership (GICL) programme

Participants included:
Dairy Farmers of America
DairyLea Cooperative
ACDI/VOCA
Ag Council of California
Ag Processing Inc
Blue Diamond Growers
CHS
CoBank
Cooperative Council of North Carolina
FCS Financial
Florida's Natural
Fonterra
Growmark
Iowa Institute for Cooperatives
Land o' Lakes
MFA Incorporated
MFA Oil Company
National Cooperative Refinery Assoc.
Plains Cotton Cooperative Association
PYCO Industries
Southern States
United Farmers of Alberta Cooperative
United Producers
West Central Cooperative

Tues 18 May '10 Graduate Institute of Co-operative Leadership (GICL) programme

Wed 19 May '10 Graduate Institute of Co-operative Leadership (GICL) programme

Thurs 20 May '10 Graduate Institute of Co-operative Leadership (GICL) programme

Fly Columbia, Missouri to San Francisco

Fri 21 May '10 Sight-seeing around San Francisco

Sat 22 May '10 Fly San Francisco to Brisbane, Australia

Mon 23 May '10 Arrive Brisbane Australia
Week holiday with Paul

Mon 31 May '10 Fly Brisbane to Canberra

Tues 1 June '10 Arrange Chinese entry visa
Drive Canberra to Cobram, Victoria

Wed 2 June '10 Cobram, Victoria

Thurs 3 June '10 Return to Canberra
Nuffield Global Focus Programme

Nuffield Australia Director: Jim Geltch
Participants:
Ed Cox, Dairy Farmer
Ben Tyley, Lobster Fisherman
Ben Hooper, Bee-keeper
Paul McGill, Cropping farmer
Helen Thomas, Sheep farmer
Brad Stillard, Tomato farmer
Alan Redfern, Cotton farmer
Desiree Reid, Dairy farmer

Tour of Australian Parliament House
Hon. Bruce Scott; Member for Maranoa, former Minister of Defence

Fri 4 June '10 David Brownhill
Chairman Nuffield Australia

Tim Crowe
Manager WTO & Trade Strategy
Dept. of Agriculture, Fisheries & Food

Grant Pettrie
Agricultural Counsellor
USA Embassy Grant Pettrie

John Tuckwell;
Senior Adviser
Trade, Economics & Agriculture
Delegation of the European Union to Australia

Andrew Broad, President
Victorian Farmers Federation

Philip Glyde
Deputy Secretary DAFF and Executive Director ABARE
Department of Agriculture, Fisheries and Forestry (DAFF)

Dr Rohan Rainbow
Manager, Crop Protection
Grains Research and Development Corporation

David Ugalde; Director, Land Management and Special Programs, Adaption and Land Management Division
Department of Climate Change

Margie Thomson; General Manager, National Rural Issues and Established Industries

	Grains Research and Development Corporation
	Dr Gavin Begg; Acting General Manager, Fisheries Bureau of Rural Science
	John Harvey; Executive Manager Rural Industries Research and Development Corporation
	Bruce Bowen; General Manager, Agriculture Branch, ABARE
Sat 5 Jun '10	Mt Ainslie
	National Museum of Australia
	Australian War Memorial Tour of WW1
	National Gallery of Australia
	Fly Canberra to London, UK
Sun 6 June '10	Arrive London Stay Farmers Club Sightseeing
Mon 7 Jun '10	Depart London by train for Lille, France
	Battlefield tour, Passchendaele
	Ode Menin Gate
Tues 8 Jun '10	Brussels James Ede BAB Assistant Director
	Peter Hardwick International Manager AHDB Meat Services
	Anne Berryman Regional Manager Europe Beef & Lamb New Zealand Limited
	Kurt Seifarth Senior Agricultural Attaché U.S. Mission to the European Union
	Betty Lee Agricultural Trade Policy Analysis – DG AGRI
Wed 9 Jun '10	Mark Cropper Agricultural Knowledge Networks
	Alex Page NSch. 2009 A personal view of CAP
	Return to London, transfer to Exeter
Thurs 10 Jun '10	Dairy farm visit and Swannery
Fri 11 Jun '10	Drive to Cambridge Rothamsted Research Jo Paterson and James Peck
Sat 12 June '10	Farm tours around East Anglia
	Punting through Cambridge
Sun 13 June '10	Bus to London Heathrow, Fly to Dublin, Ireland
	Guinness Store House tour
	Peter Bakers – 1997 Nuffield Scholar, Nenagh, Co. Tipperary
Mon 14 June '10	Connolly's Red Mills – feed mill
	Keenan's Factory tour
	Kelly's of Borris, Europe's largest machinery dealership
	Cillin Hill Livestock Mart Complex
	Tour of Kilkenny Castle
	Hot air balloon ride over Kilkenny City and Countryside.
Tues 15 June '10	O'Shea's fruit & veg farm Piltown
	Bulmers Orchards tour (aka Magners)
	Coolmore Stud - guided tour of the world's largest and most successful breeders of winning race horses.
Wed 16 June '10	Moorepark Research Centre Methane work at Moorepark –Matthew Deighton Dairygold Experiment - Deirdre Hennessy Curtin's Farm - Brendan Horan Tour of MFRC facilities – Paul Ross
Thurs 17 Jun 10	Nuffield Conference, Horse and Jockey "Carbon a Cost or Opportunity for Farming"
	Paul Evans Chief Principal Officer Department Of Agriculture
	Owen Ryan Principal Officer – Climate Change Policy Unit Department of the Environment
	Thomas Ryan Environment Executive The Irish Farmers Association
	Garry Lanigan Teagasc Environment Research Centre. The Role Crops and Forestry has to play in Carbon
	Matthew Deighton

	Research Scientist - Greenhouse gas emissions research finding from grassland farming and the role sheep and beef play Dr Laurence Shalloo Senior Research Officer. Mitigation strategies for Lower Carbon Milk
Fri 18 June '10	All Tech Minerals in County Meath Guided tour of Croke Park Travel to Dublin Tour of Jameson Distillery
Sat 19 June '10	Fly Dublin to Washington DC
Sun 20 June '10	Rest day in Washington DC
Mon 21 June '10	Simon Smalley Minister-Counselor (Agriculture) Embassy of Australia Scott Hansen Regional Manager Meat & Livestock Australia 328A Russell Senate Office Building Senate Agriculture, Nutrition & Forestry Committee Staff Members Stephanie Mercier Chief Economist, Trade, Crop Insurance – Majority (Democrat) Staff Brad Karmen Senior Professional Staff, Farm Policy – Majority (D) Staff Damon Wells Senior Professional Staff, Livestock, Conservation – Majority (D) Staff Hayden Milberg Chief Economist, Trade, Biotechnology – Minority (Republican) Staff Anne Hazlett Chief Counsel – Minority (R) Staff Lance Kotschwar General Counsel – Minority (R) Staff Christy Seyfert Senior Professional Staff, Farm Policy – Minority (R) Staff Brandon Beshears Senior Professional Staff, Livestock – Minority (R) Staff U.S. House Agriculture Committee Staff Members Anne Simmons Senior Policy Advisor – Majority (Democrat) Staff Keith Jones Subcommittee Staff Director, Horticulture and Organic Agriculture – Majority (D) Staff Mary Knigge Professional Staff Member handles dairy issues – Majority (D) Staff Dr. Dean Goeldner Subcommittee Staff Director, Livestock, Dairy and Poultry – Majority (D) Staff Aleta Botts Subcommittee Staff Director, General Farm Commodities and Risk Management – Majority (D) Staff Mike Dunlap Professional Staff – Minority (Republican) Staff
Tues 22 June '10	National Association of Wheat Growers Chris Garza Director, Congressional RelationsTrade Policy and Agreements, Sanctions, Remedies and Biotechnology American Farm Bureau Federation Darci Vetter Deputy Under Secretary Farm and Foreign Agriculture Service United States Department of Agriculture Joseph W. Glauber Chief Economist United States Department of Agriculture Gregg Doud Chief Economist National Cattlemen's Beef Association
Wed 23 June '10	Fly Washington DC to Calgary, Canada Host: Steve Larocque B.Sc., CCA Beyond Agronomy Big Rock Brewery tour Jones Hereford Ranches
Thurs 24 June '10	Hutterite tour - Three Hills Colony Ed & Lyle Miller - feedlot, hedging and risk management tools Hilton Farms - Family business structure Hotel: Strathmore
Fri 25 Jun '10	Sunterra Market Calgary, vertically Integrated family business, Ben Wooley Alberta Agriculture - AB farm demographics, key indicators of farm financial health, Mark Muchka Vegetable farm, Innisfail, Rod Bradshaw's

Sat 26 Jun '10	Large scale bee keeper
	Morsan Dairy Farm, Ponoka
	Canmore, Rockie Mountains
Sun 27 June '10	Lake Louise, Rockie Mountains
	Drive to Calgary
Mon 28 Jun '10	Fly Calgary, Canada to Dallas, Texas Drive to Amarillo, Texas
	Host: Don Gohmert – NRCS Host: Jim Mazurkiewicz – Texas TALL Program, overview
	American Quarter Horse Association (AQHA) Museum
	Jim Brett Campbell – AQHA, overview
	Ben Weinheimer Texas Cattle Feeders Association (TCFA)
	Rodney Mosier, Texas Wheat Producers (TWP)
Tues 29 June '10	Tour A2 Cattle Feeding Inc, Dimmitt Mark Adams, General Manager
	Cattle feeding industry challenges and opportunities Ben Weinheimer, Vice President, TCFA
	Best management practices for confined animal feedyard operations Greg Sokora, NRCS Engineer, Panhandle & South Plains region
	Tour Estacado Industries Lamb Feeders, Dimmitt Don Beerwinkle, Owner/Manager
	High Plains Dairy Harry DeWitt, Owner/Manager
	Best Management Practices for Air and Water Quality Greg Sokora, Engineer, Panhandle & South Plains Region NRCS
	Tour White Energy Ethanol Manufacturing, Hereford
	David Gibson, Executive Director, Texas Corn Producers Board
	Tour Palo Duro Canyon with a drive through park on our tour bus
	Dinner in Palo Duro Canyon Hosted by Texas Corn Producers
	TEXAS! Play in Palo Duro Canyon
Wed 30 Jun '10	Dale Swinburn's Farm, Tulia cotton/wheat/drip irrigation
	Greg Sokora, Engineer, Irrigation Efficiency
	Overview of Conservation Practices Jeff Lewter NRCS District Conservationist
	Use of Pollinators Greg Crumholm, Entomologist (pollinators)
	Lunch with Hale Council Soil and Water Conservation District Ricky James, Chairman
	Farm Bill Update and Impacts of Federal Legislation Brice Foster, District 19 Representative Randy Neugebauer, US Congressman Lewis Britt, District 13 Representative, Mac Thornberry, US Congressman
	State Agriculture Policy Issues David Gibson, Executive Director, TCPB
	Tour Excell/Cargill Meat Processing and Packing Plant, Plainview Charles Leftwich
	PYCO Cottonseed Oil Mill, Lubbock Private Tour with Roger Haldenby, Vice President of Operations Plains Cotton Growers
	Dan & Linda Taylor, Cotton growers, Ropesville
	Dinner sponsored by Texas Cotton Growers
	Texas Cotton Industry, Steve Verett, Executive Vice President
Thurs 1 July '10	Bingham Family Vineyard & Organic Farm, Brownfield Cliff & Betty Bingham
	Jimmy Wedel, local organic farmer
	Rhett Kerby, NRCS District Conservationist
	Cotton & grain sorghum crop rotation using drip irrigation Greg Methvin
	GEBO, Brownfield for a visit to an American Farm Store
	BBQ Lunch @ Ag Products Barn, Levelland Hosted by Hockley County SWCD
	Visit with SWCD Board, local farmers
	Methvin Farms; Cotton/grain sorghum rotation using drip irrigation Speaker: Greg Methvin
	American Cotton Growers Denim Mill, Littlefield.

	Llano Estacado Winery, Lubbock Tour and dinner Hosted by Texas Grain Sorghum Producers
Fri 2 Jul '10	6666 Ranch, Guthrie
	Rangers vs. Chicago White Sox game
Sat 3 Jul '10	Cowboys Stadium Tour
	Fort Worth Stockyards Clay Murray, Spur Mercantile, Ag Marketing
	Paul Burroughs with National Ag Credit
	Anne Griffith with Fort Worth Stockyards
	Shanna Weaver with the Fort Worth Stock Show
Sun 4 July '10	Fly Dallas, USA to Beijing, China
Mon 5 July '10	Arrive Beijing Transfer to hotel in Wangfujin district of central Beijing
Tues 6 July '10	Beijing
Wed 7 July '10	Beijing Syngenta review of China agribusiness, chemical usage in China (macro scale) Tiananmen Square The Great Wall of China
Thurs 8 July '10	Beijing Maltster factory tour (using Aus barley imports)
Fri 9 July '10	Xian Inner Mongolia, Hohhot city - native pasture production, lamb/wool production on broad scale
Sat 10 July '10	Xian Inner Mongolia, Hohhot city - dairy farming, dairy processing, farming systems, rural villages
	Yili Dairy Factory
Sun 11 July '10	Guangzhou Meet with foreign business owners
Mon 12 July '10	Guangzhou Chinese farming lifestyle of the South (including rice, vegetable production), markets, tea farms
Tues 13 July '10	Guangzhou Shenzhen flour mill (using Aus. grain imports) and lobster market
Wed 14 July '10	Depart Guangzhou
	Arrive Hong Kong Depart Hong Kong
	Arrive Manila, Philippines
Thurs 15 July '10	Welcome and screening of "Rice Science for a Better World" - an audiovisual presentation on IRRI's global work.
	Ms. Bita Avendaño Head – Events and Visitors Office; Operation and Support Services (OSS)
	Meeting with the Australian Staff at IRRI
	Tour of the Riceworld Museum
	Mr. Paul Hilario, Assistant Manager - Riceworld Museum and Exhibits Office (RMEO)
	Visit the International Rice Genebank
	Visit to the Grain Quality, Nutrition and Postharvest Centre (GQNPC)
	Visit to the Biotechnology Laboratory
	Visit a local farm in Victoria Laguna
Fri 16 July '10	Visits in the local area
Sat 17 July '10	Depart Manila
Sun 18 July '10	Arrive Christchurch, NZ via Sydney Australia

Figure 13: Artwork by Master Pridgeon, Willows Farm, Lincolnshire, UK

About the Author

Desiree Reid (32) is a dairy farmer from Winchester, South Canterbury. She was awarded a 2010 Nuffield Scholarship, one of three awarded in New Zealand for leaders in agriculture.

Desiree, with husband Paul Mercer, owns a 132 hectare dairy farm, at Winchester in South Canterbury (South Island).

Desiree has been actively involved in large scale dairy industry events, regional competitions, agribusiness conferences, and is a member of the NZ Institute of Directors. Desiree and Paul were awarded third prize in the 2008 National Sharemilker of the Year and won the prize for financial management.

She is Business Manager for the Reid-Horne Farming Group, overseeing finances and business interests of seven farming companies, and a director of a number of companies involved in primary production and agribusiness.

Desiree is a member of the Fonterra Shareholders' Council, one of 35 ward representatives protecting farmer interests and monitoring Fonterra's performance. Since her election in 2006 she has contributed in significant roles, is currently a member of the Governance and Ethics Committee charged with monitoring governance standards within Fonterra.

Her academic background includes a Bachelor of Business Studies (First Class Honours) from Massey University, research assistant at Massey University (with Dr James Lockhart) looking at corporate governance, and two years as a law student at Otago University. Desiree is a qualified and experienced diving instructor. Her other interests include tasting wine and reading.

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