

Fonterra – Improving Farmers' Share of Value along the Chain

30 October 2013

Meeting of the OECD Food Chain Analysis Network (FCAN)

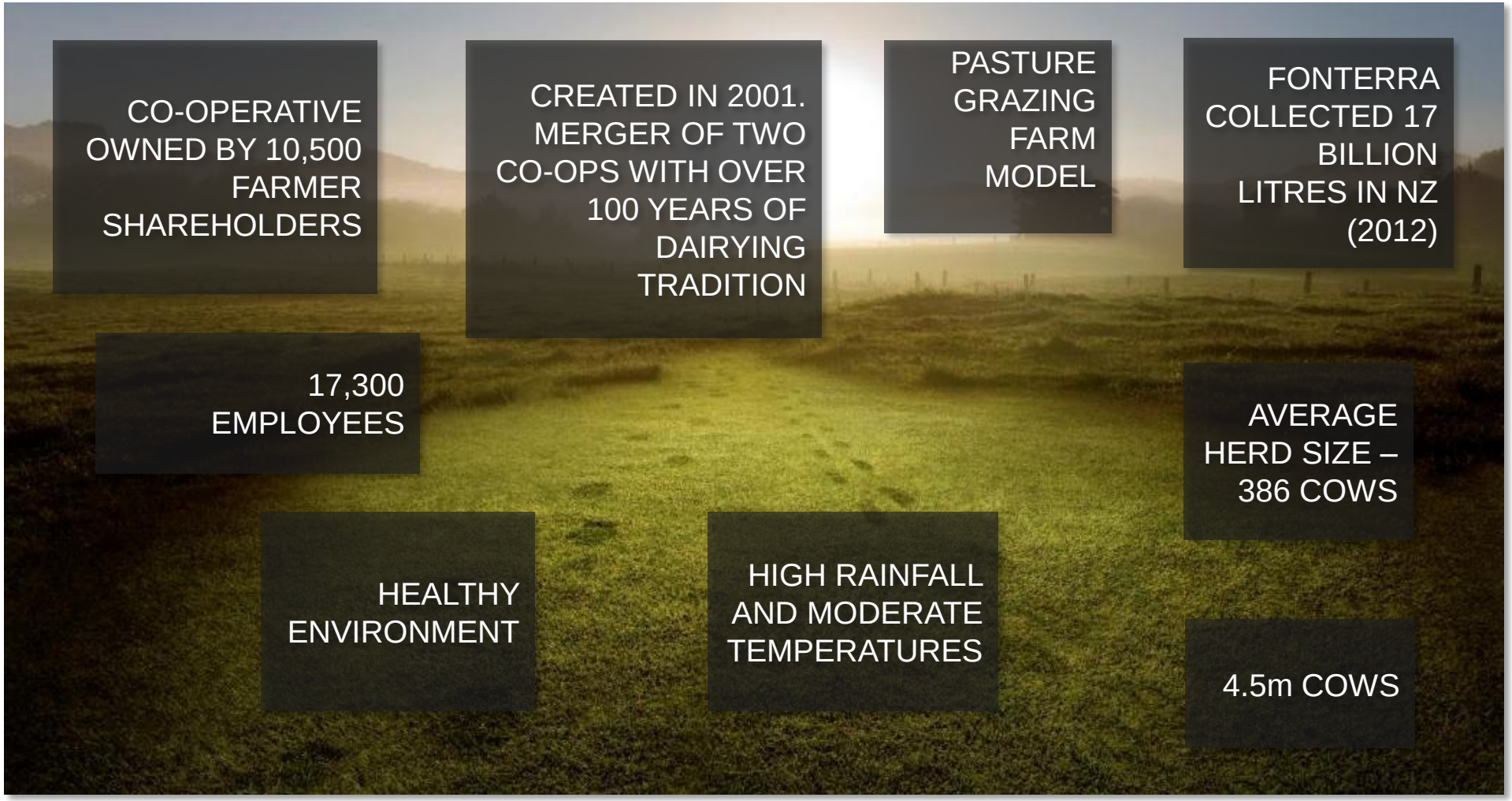
Dr Francis Reid - Policy & Advocacy Manager - Europe, Russia & MEA

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Fonterra

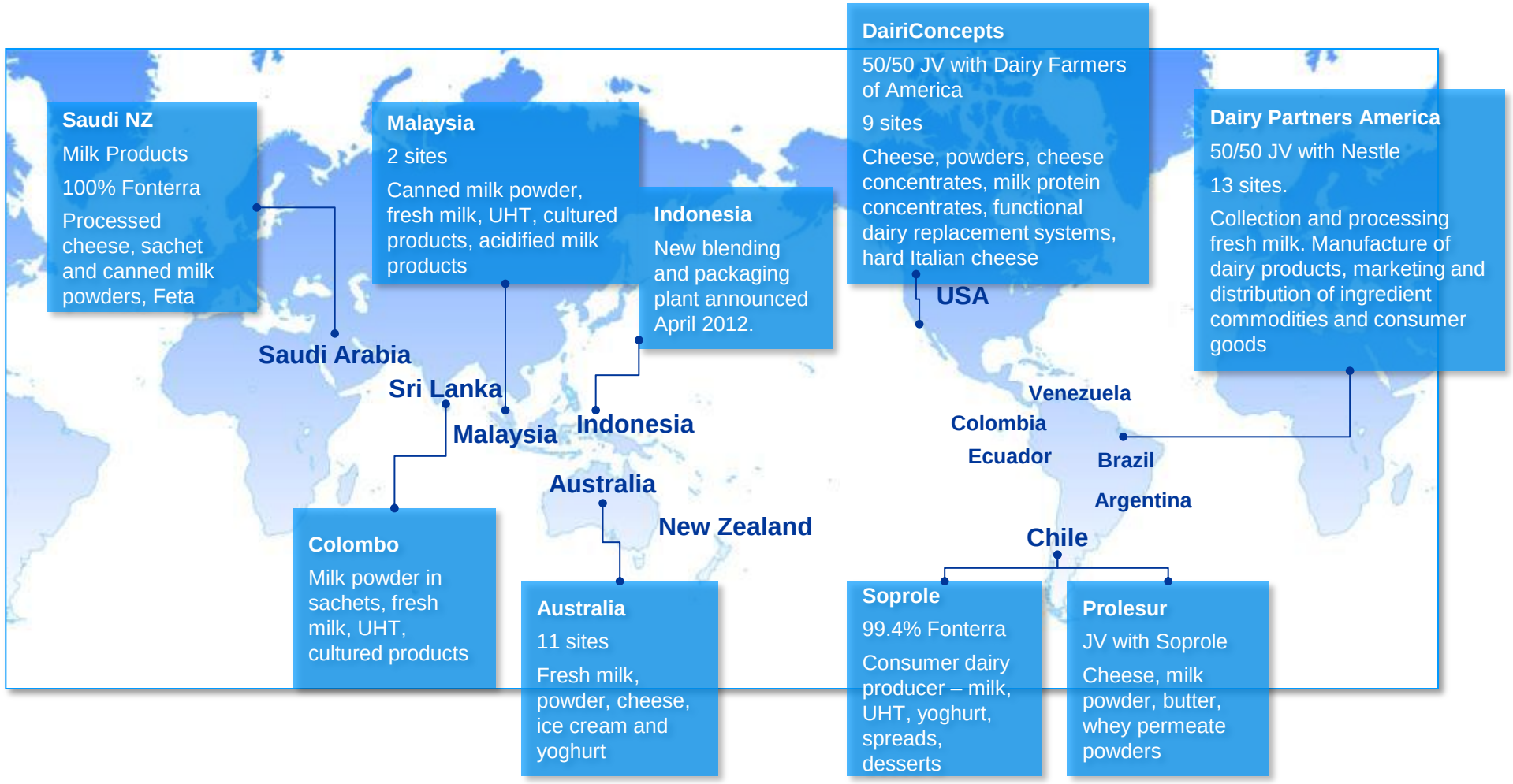
Dairy for life

A farmer co-operative with roots in heartland New Zealand…



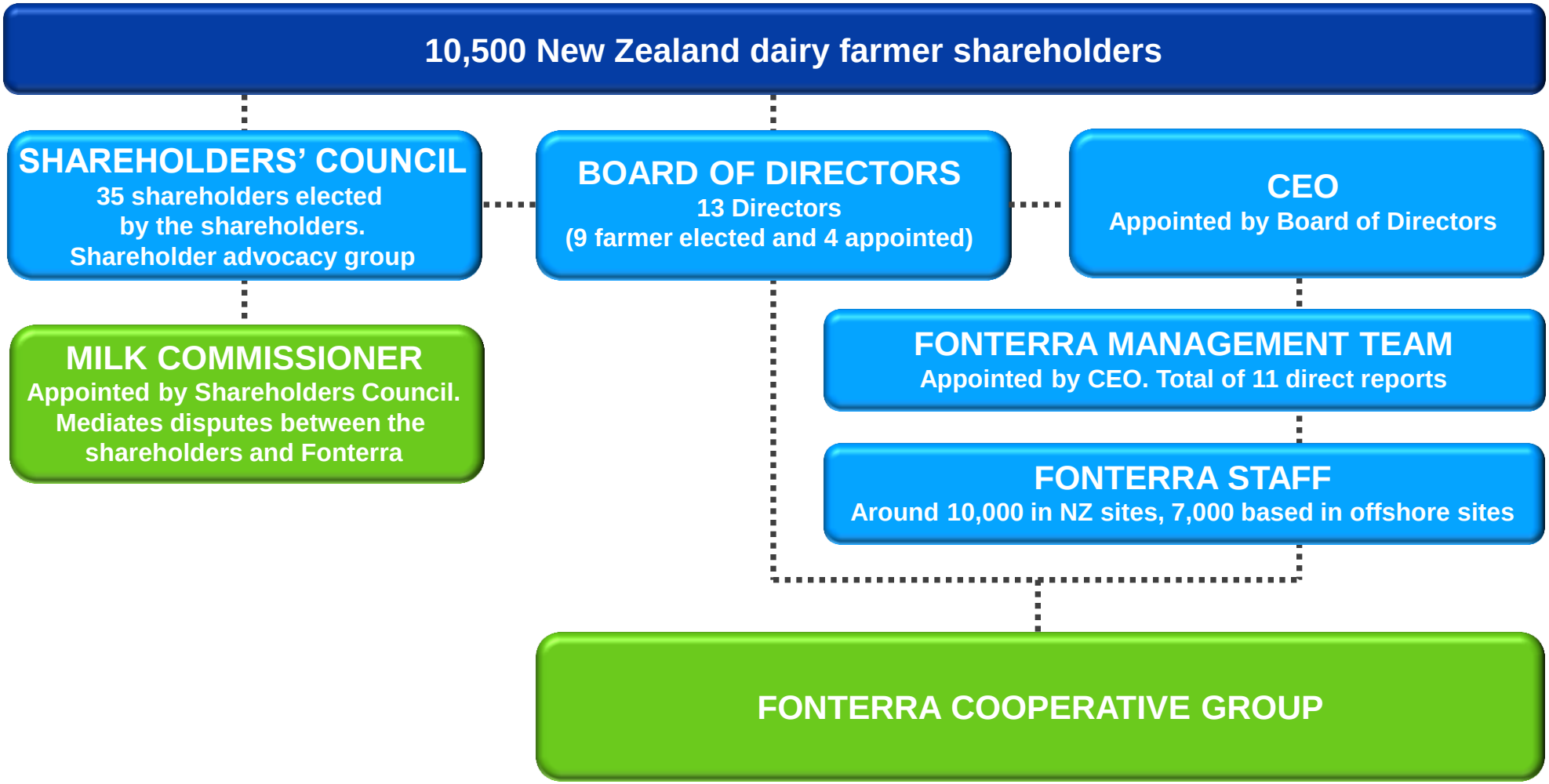
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With a global footprint of processing facilities



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Fonterra's structured - farmer control assured



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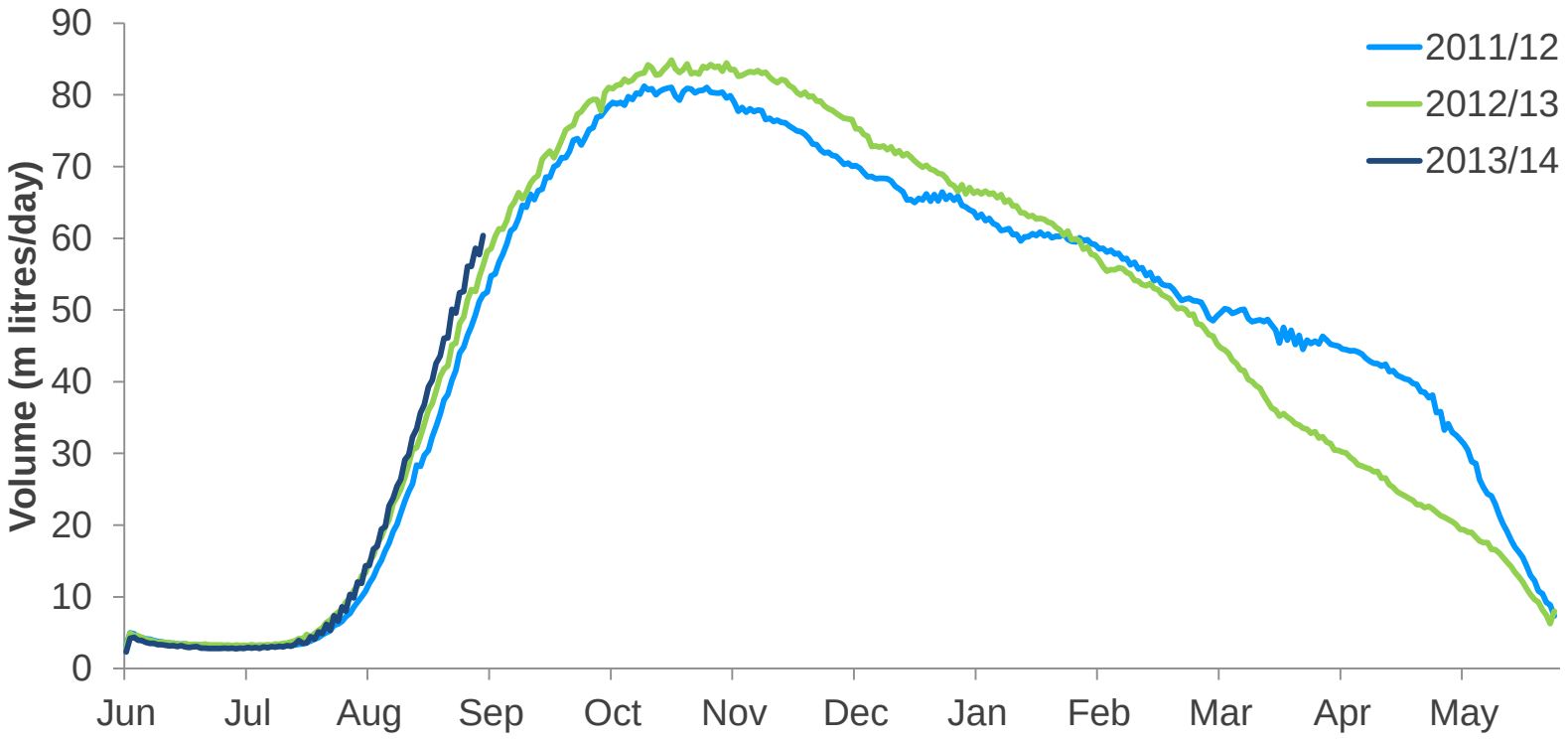
Rabobank Global Top 20 Dairy Companies 2013

Rank	Company	Country of Headquarters	Turnover (USD)
1	Nestle	Switzerland	30.1
2	Danone	France	19.4
3	Lactalis	France	18.0
4	Fonterra	New Zealand	16.0
5	FrieslandCampina	Netherlands	13.5
6	Dairy Farmers of America	US	12.1
7	Arla Foods	Denmark/Sweden	10.8
8	Dean Foods	US	8.8

Source: Rabobank

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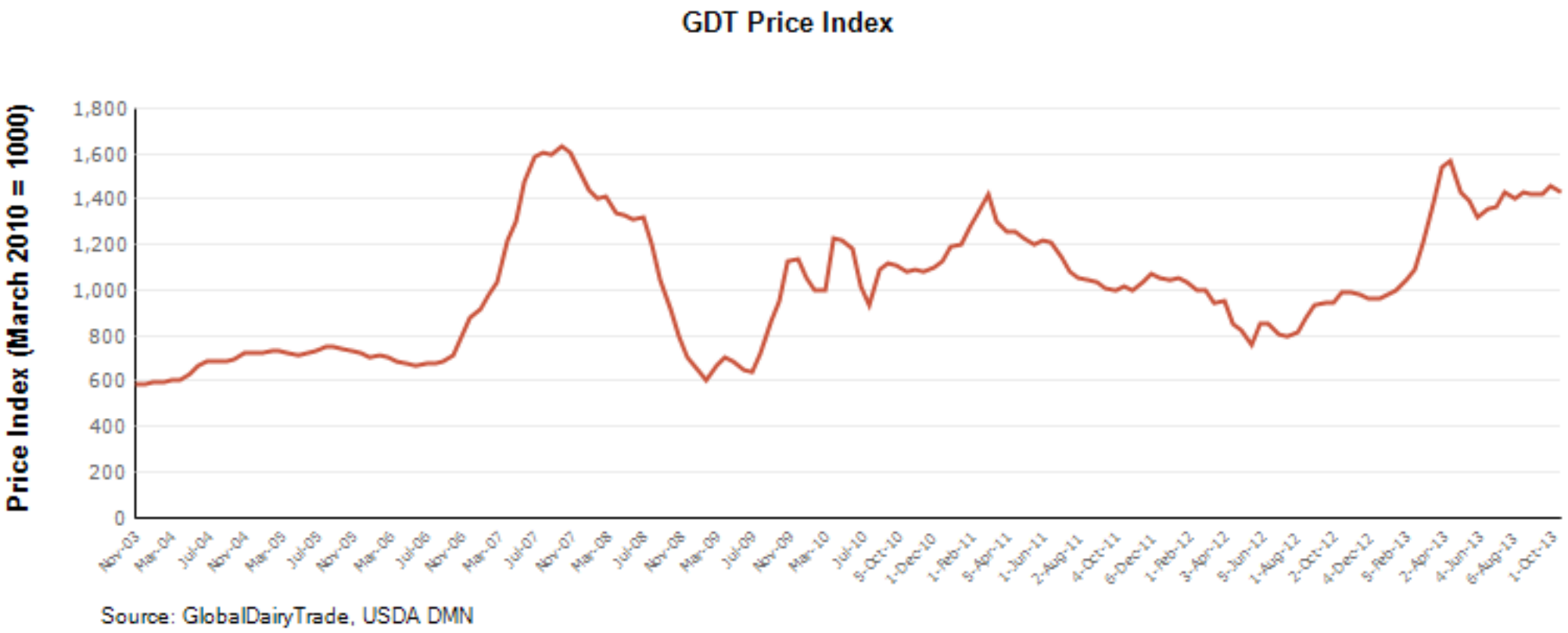
Fonterra's New Zealand season milk volume



Source: Fonterra Internal

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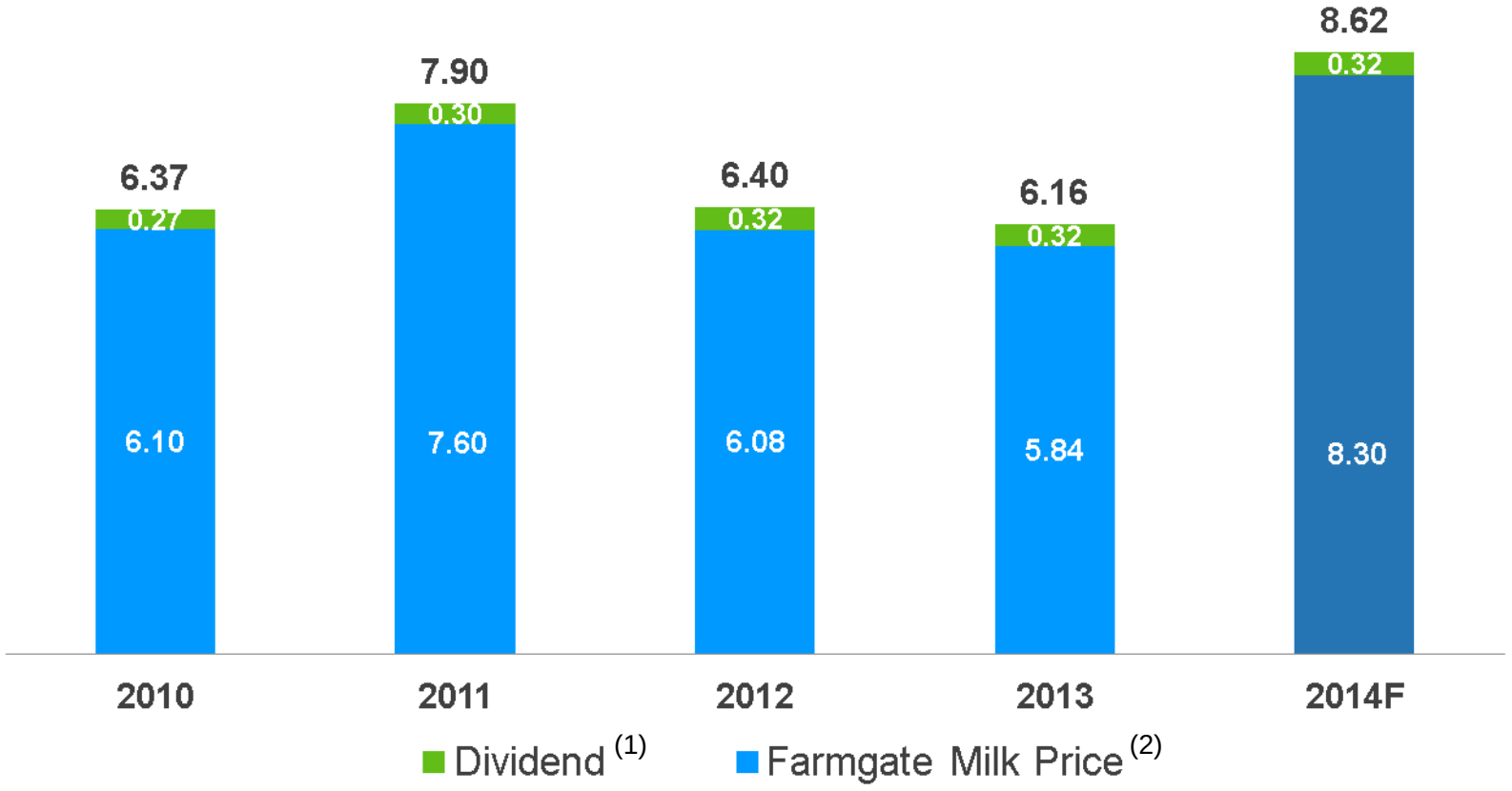
Global dairy prices are highly volatile



Source: GlobalDairyTrade, USDA DMN

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Fonterra's payout to farmers varies in line with international prices



(1) Cents per share
(2) $ per kgMS

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Fonterra's seven strategic paths





1. Optimise New Zealand milk



2. Build and grow beyond our current consumer positions



3. Deliver on foodservice potential



4. Grow our position in mobility



5. Develop leading positions in paediatrics and maternal



6. Selectively invest in milk pools

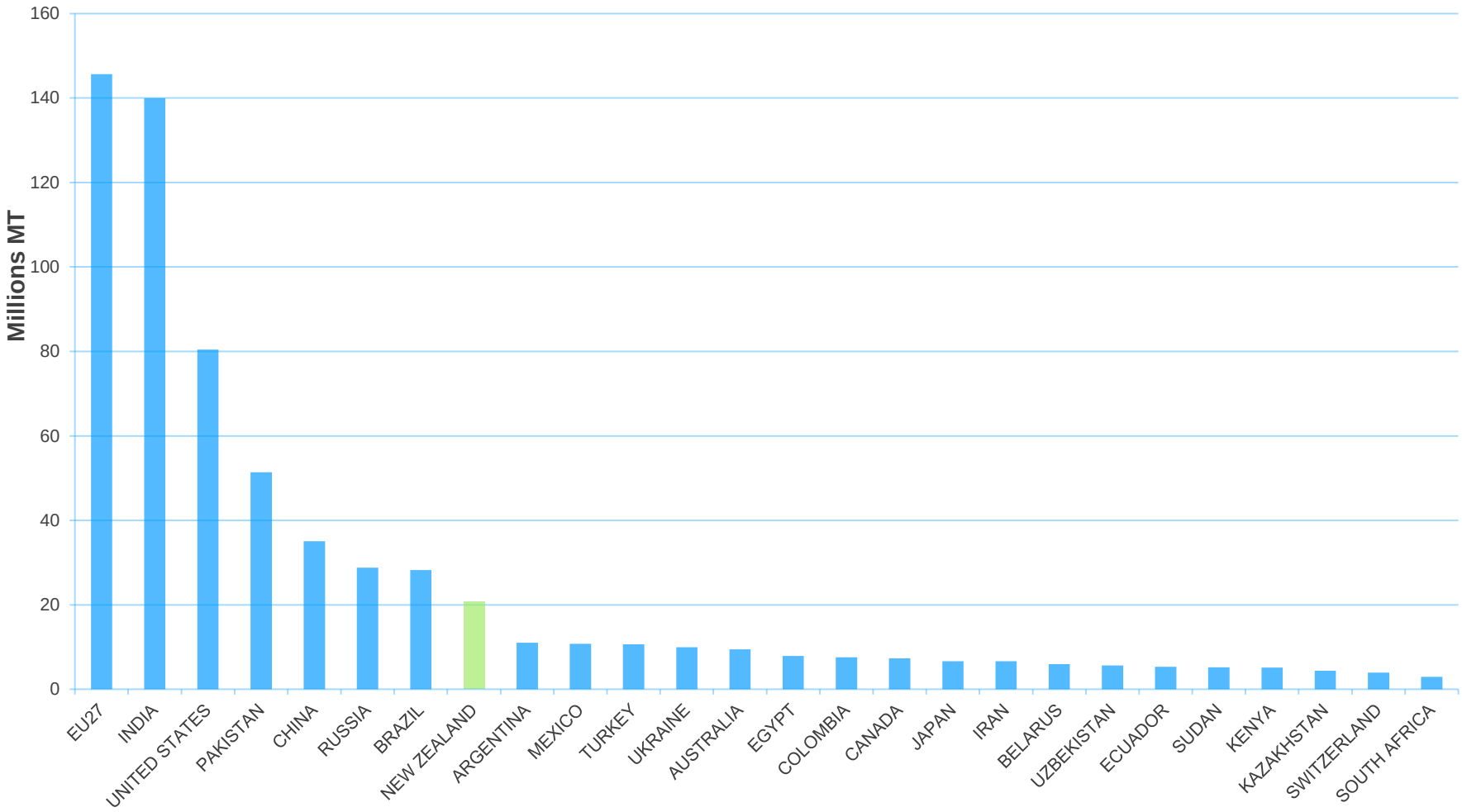


7. Alignment of business & organisation to enable strategy

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Global Milk Production – top 25 producers 2011

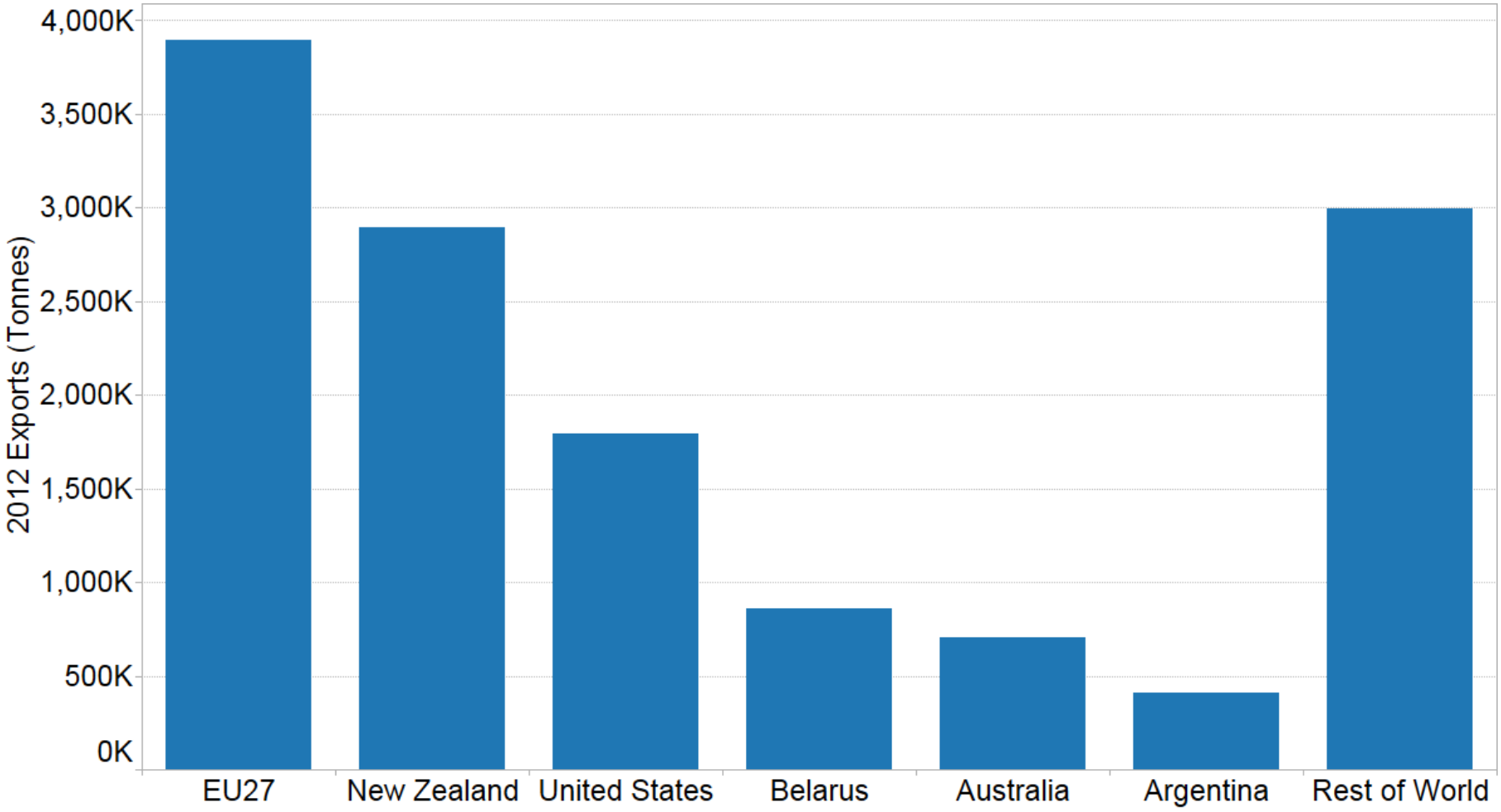
Total World Production 711 Million MT of Milk Solids



Source: Fonterra Internal

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Global dairy exports in 2012 accounted for ~8.5% of global milk production

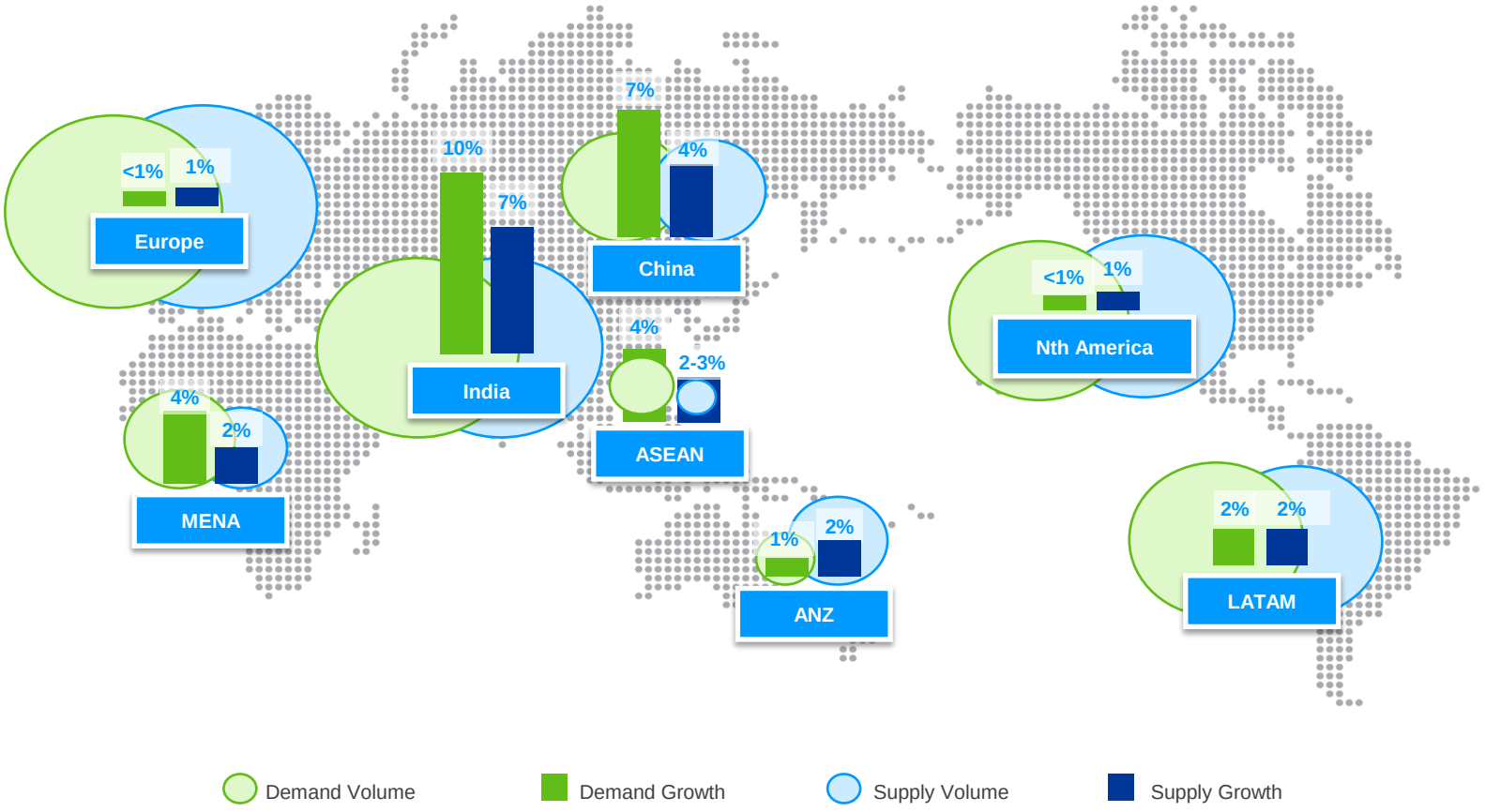


Source: Fonterra Internal

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The rise of emerging markets has created a demand led economy for dairy

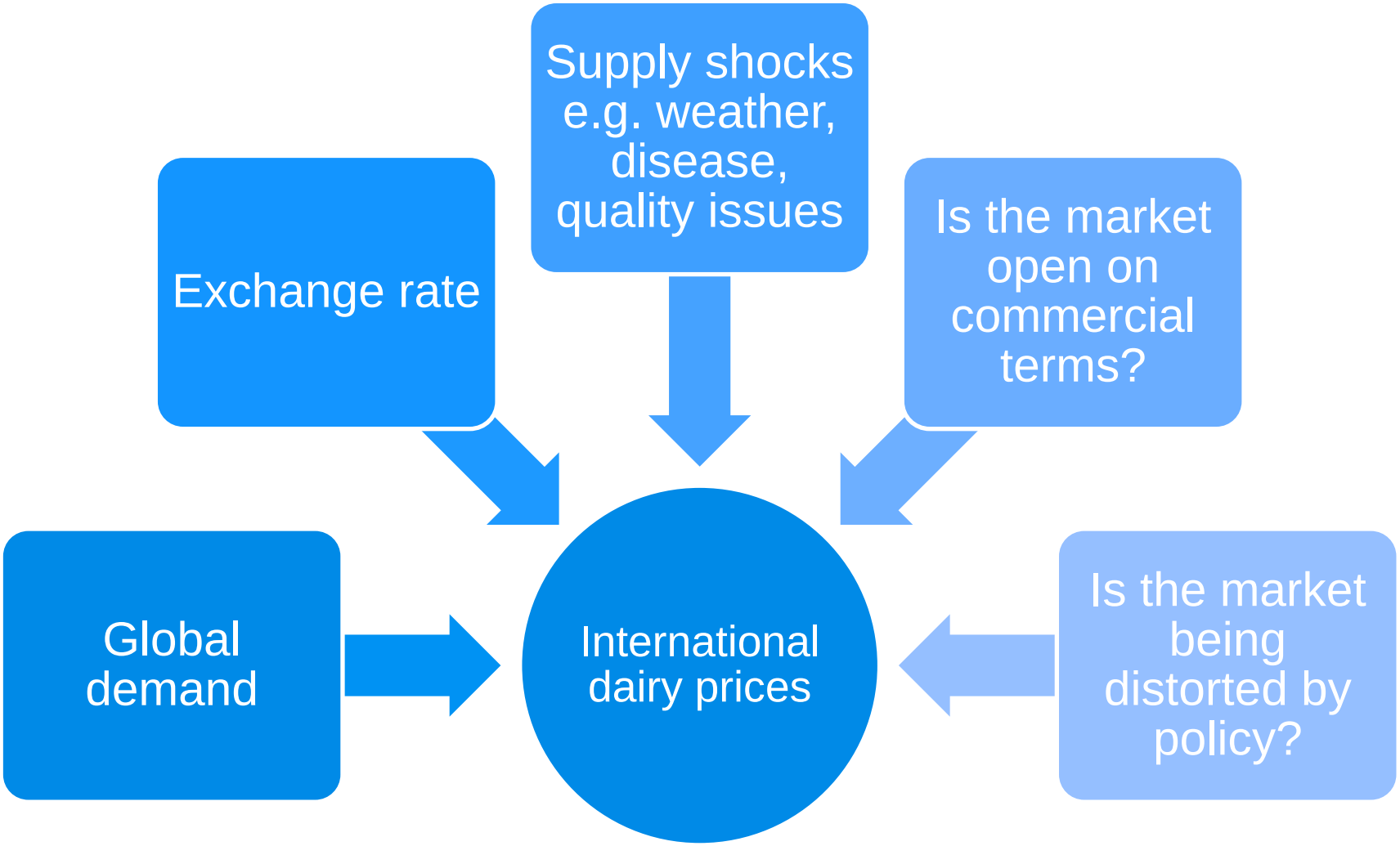
Outlook to 2020[1]



Source: Fonterra Internal

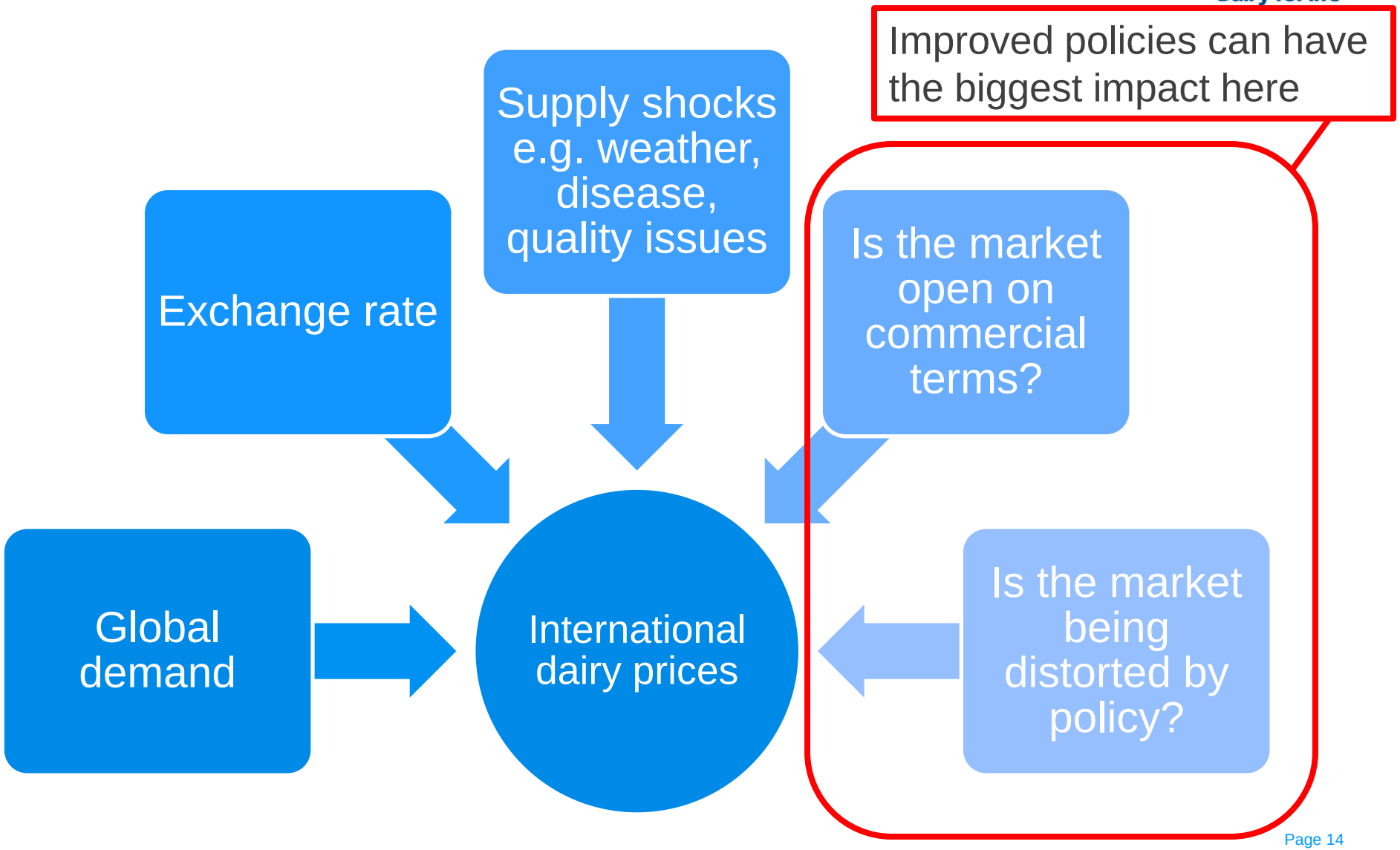
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Key influences on international dairy prices



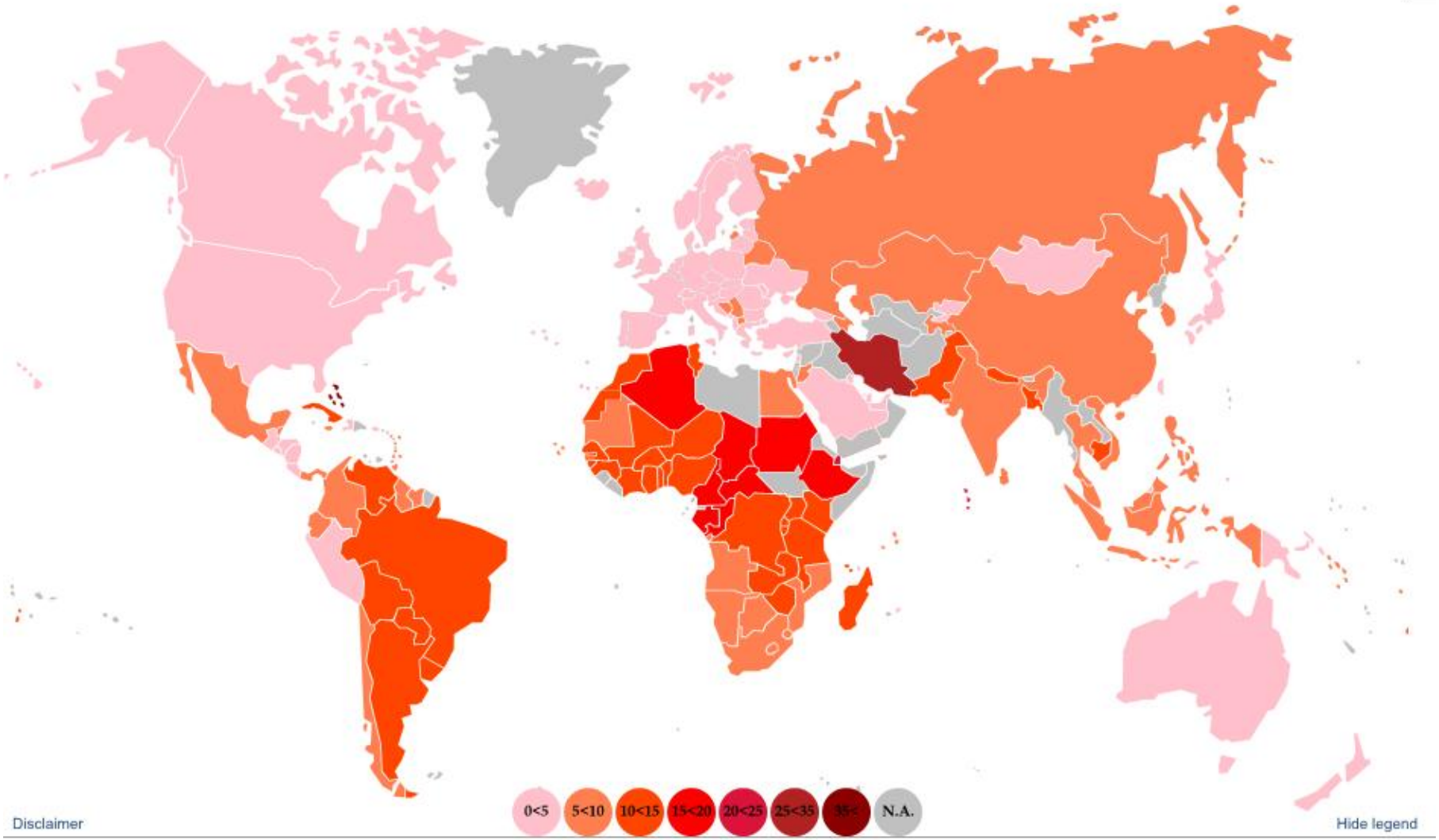
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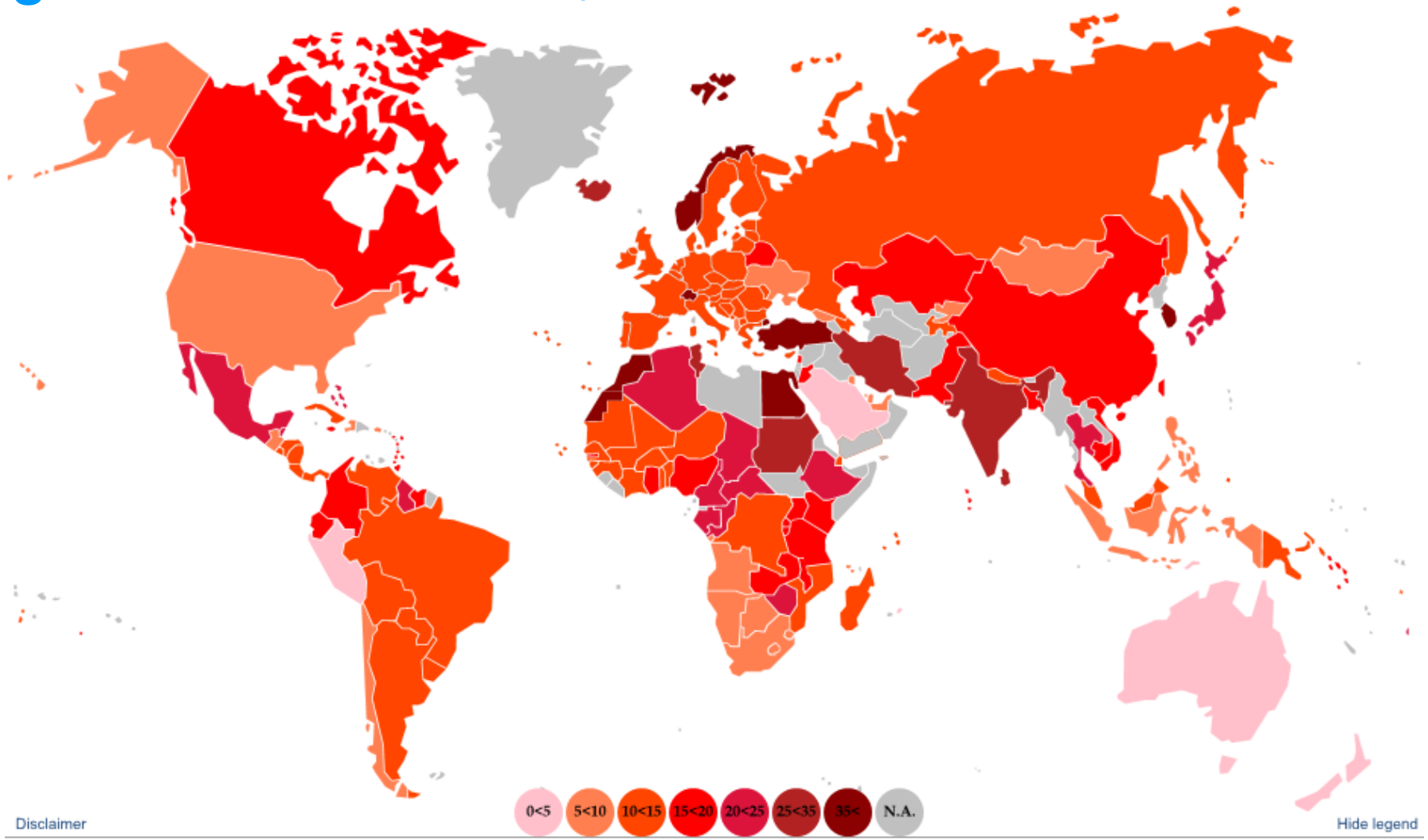
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WTO Simple Average of Applied MFN Tariffs for All **Non-Agricultural Products**, all Countries



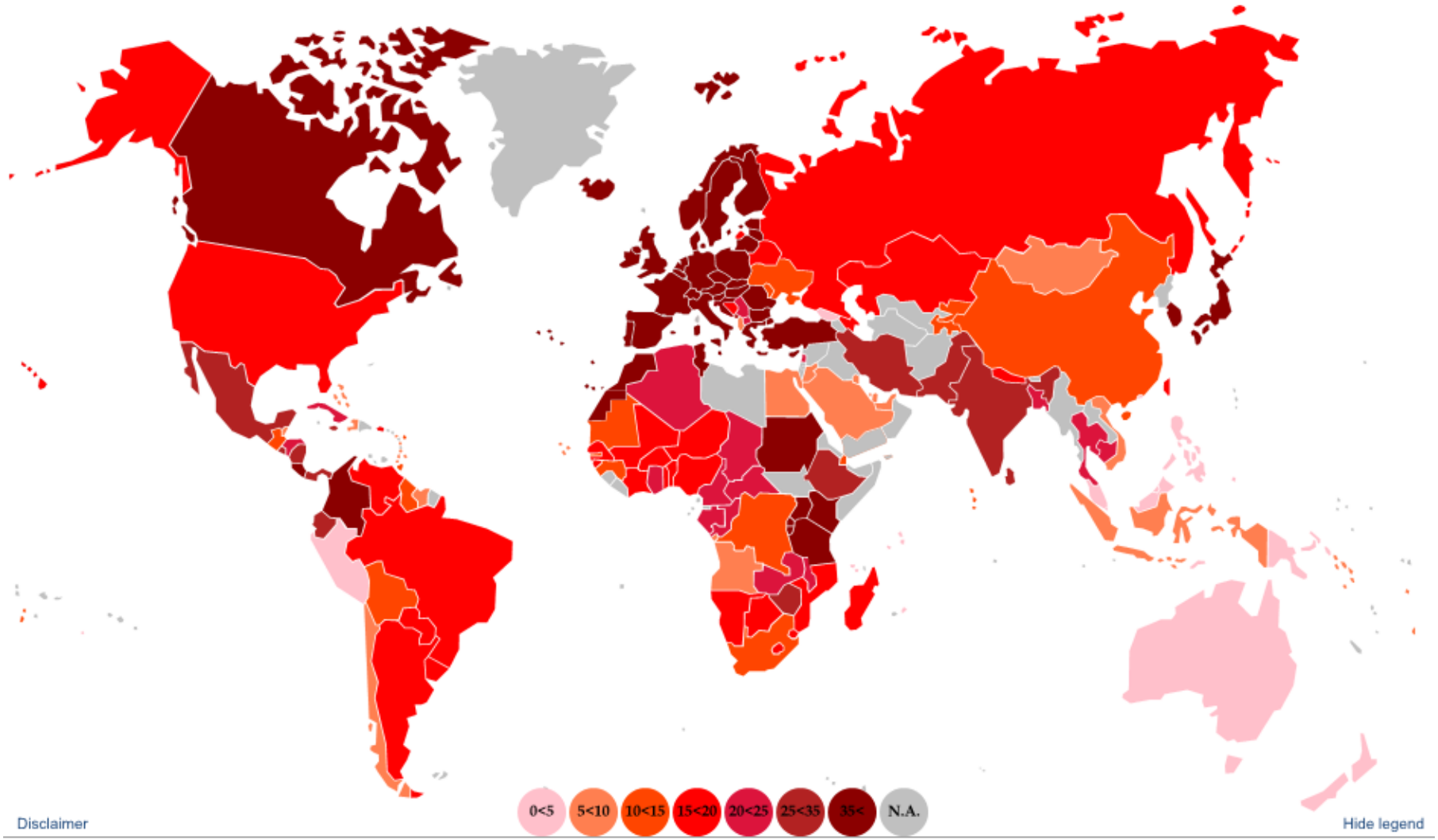
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WTO Simple Average of Applied MFN Tariffs for All **Agricultural Products**, all Countries



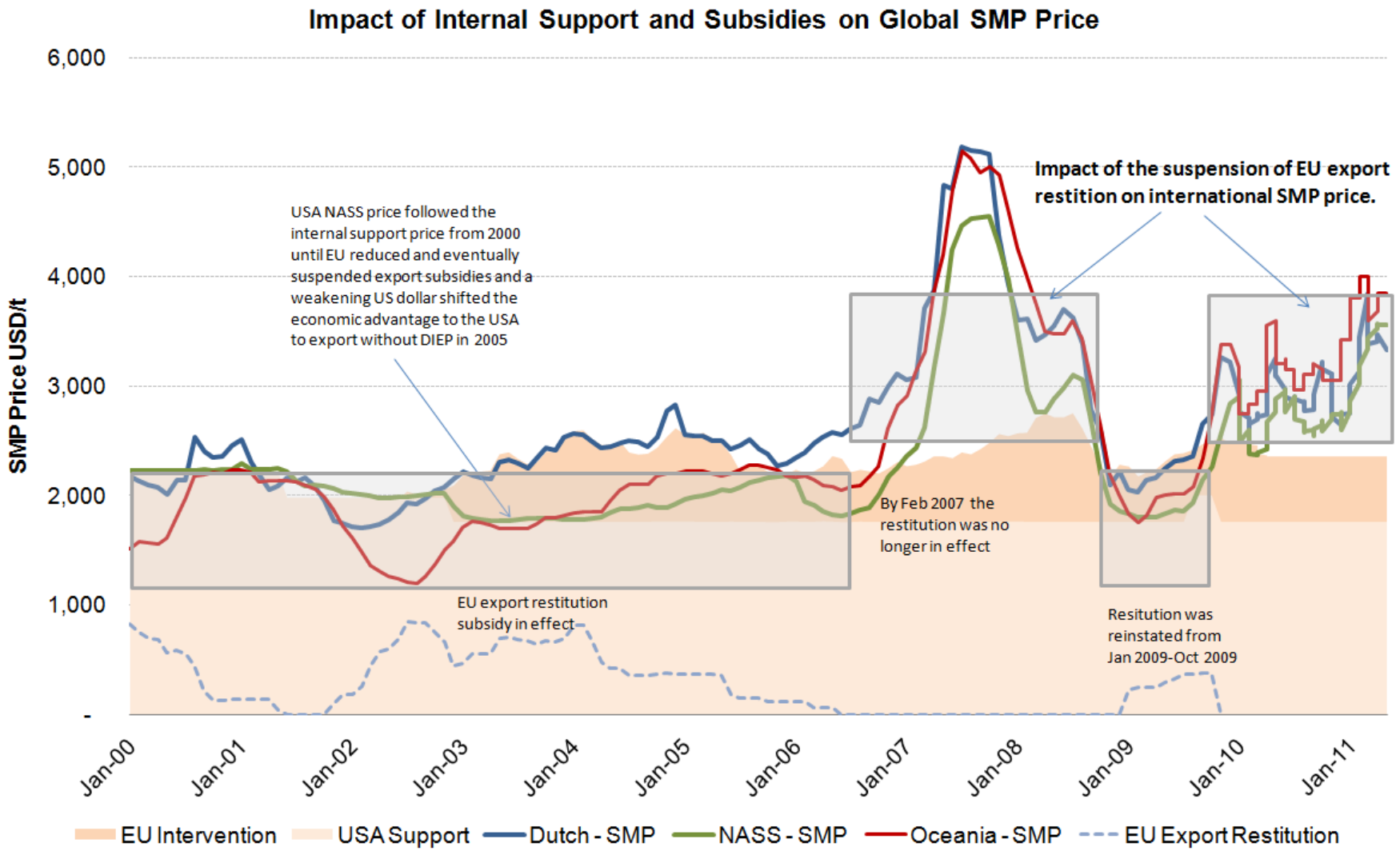
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WTO Simple Average of Applied MFN Tariffs for **All Dairy Products**, all Countries



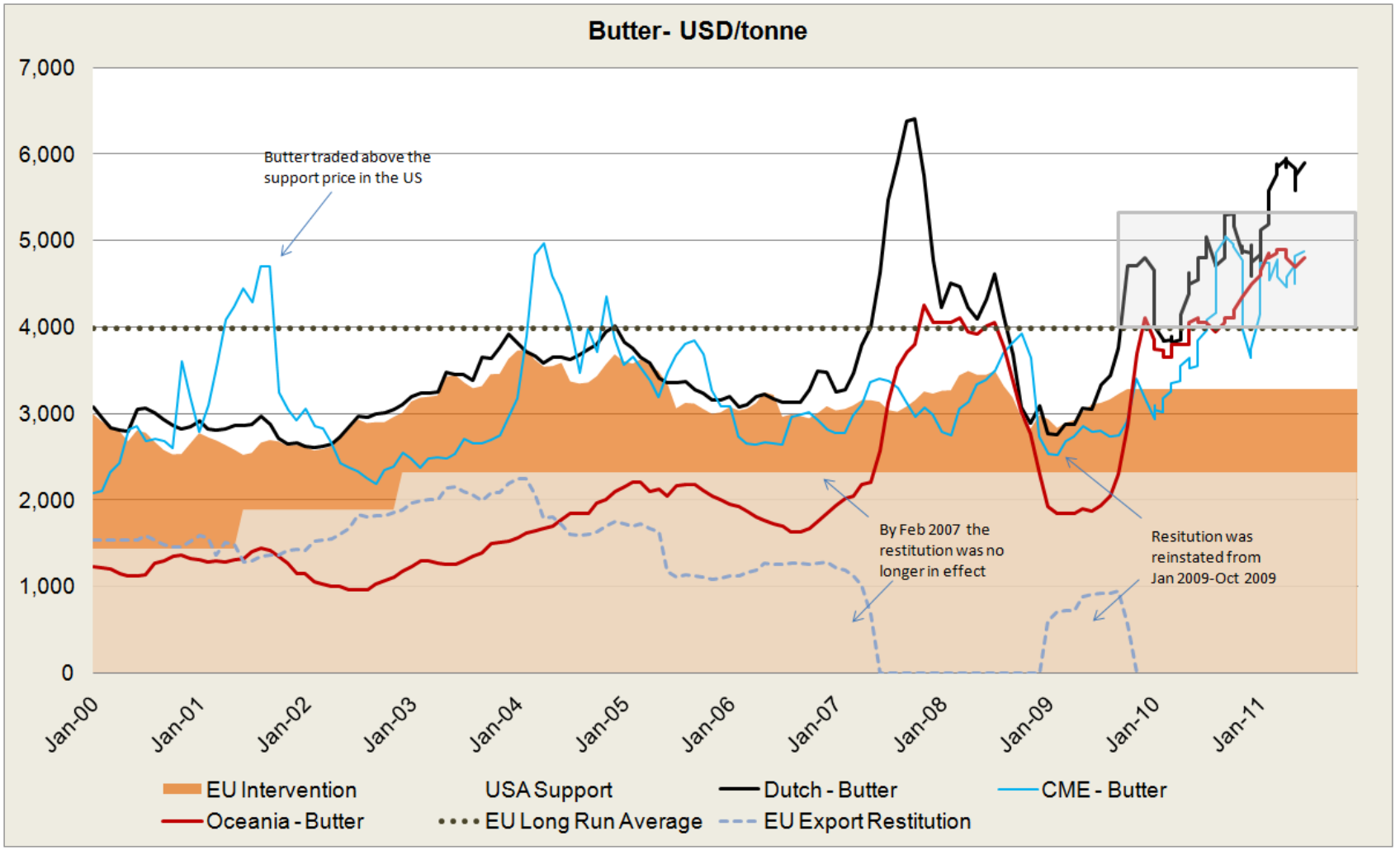
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What are the impact of these policies on dairy market prices?



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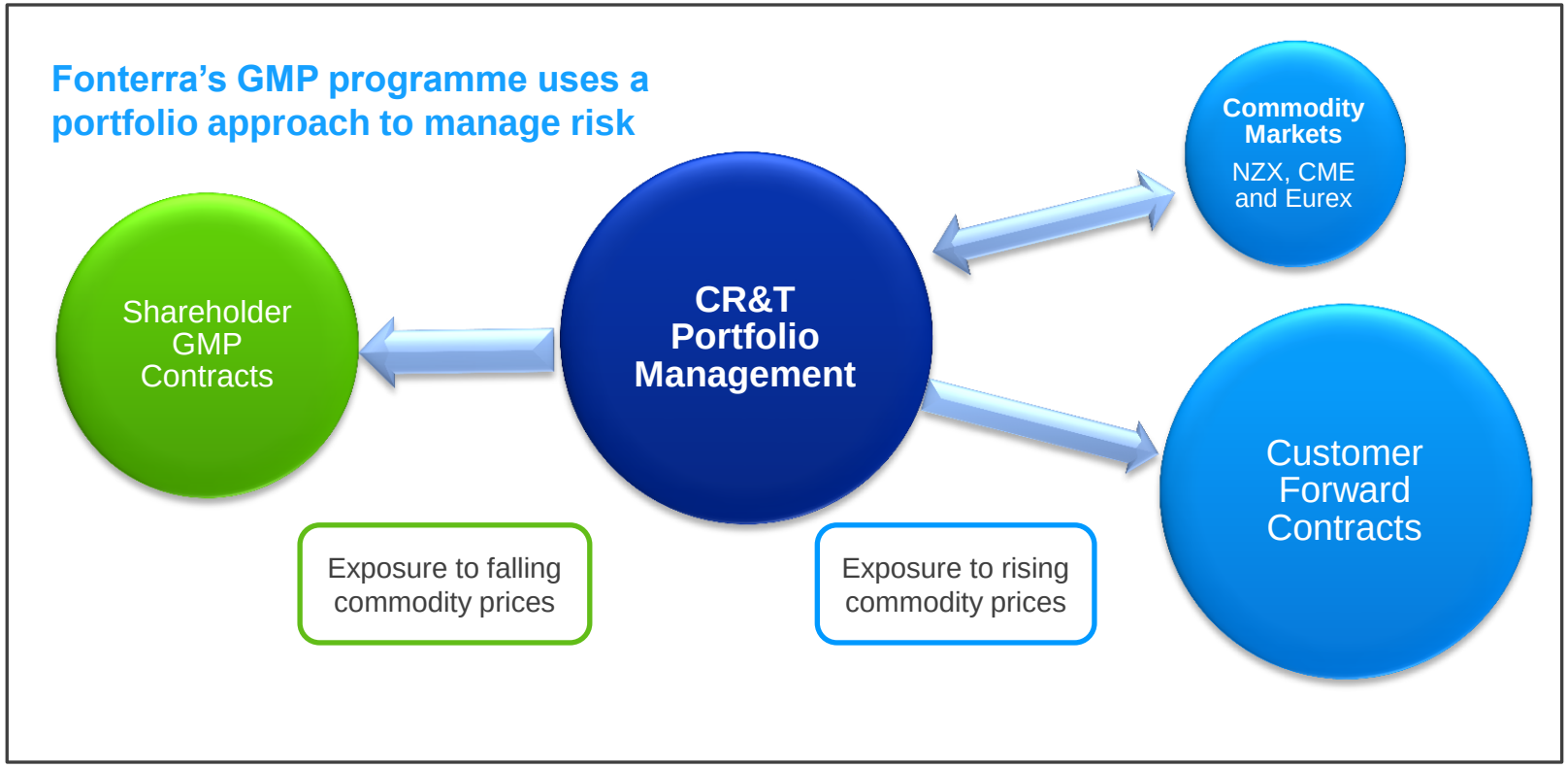
Impact of these policies on butter was even more pronounced



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Fonterra's Guaranteed Milk Price Pilot Programme helps suppliers manage milk price volatility

- Fonterra is running a Guaranteed Milk Price (GMP) Pilot Programme in the 2013/14 season which will offer New Zealand farmers the opportunity to lock in a fixed (or 'guaranteed') milk price for up to 75% (and not less than 10%) of their milk supply for the season.



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Conclusions

- Farmer owned cooperatives have the interests of farmers at their heart
- Key to value creation is maximising price achievement for finished goods
- Barriers to trade and other policies that unnecessarily or arbitrarily restrict trade or marketing of products prevent value creation
- Removing trade barriers and market distortions are key ways that policy makers can help to create value for agriculture producers
- Allowing markets to operate efficiently also promotes efficient use of resources and innovation, as well as encouraging the development of market-based risk management tools

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Thank you

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