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New Zealand

Dairy and Products

New Zealand Dairy Board Pursues Trans-Tasman Merger

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Report Highlights:

The New Zealand Dairy Board (NZDB) and the second largest Australian dairy company Bonlac have announced plans to merge parts of their operations, with the NZDB taking a minority interest. Commercial terms must still be finalized and the proposal is still subject to regulatory and shareholder approval. The proposal reflects NZDB's leadership in pursuing new growth strategies in the wake of the failed megamerger talks.

Includes PSD Changes: No

Includes Trade Matrix: No

Unscheduled Report

Wellington [NZ1], NZ

On April 28, the New Zealand Dairy Board (NZDB) and Bonlac Foods Limited (Australia's second largest dairy company and exporter with sales of NZ\$1.5 billion) announced plans to create the first Trans-Tasman dairy business. Directors of both organizations signed a Heads of Agreement outlining proposals under which parts of each organization's operations will be merged and the NZDB will take a minority role. The agreement is still subject to the parties completing due diligence, finalizing commercial terms and the approval of regulatory authorities and shareholders.

The main elements are: 1) the Australia consumer business of NZDB and Bonlac will be merged into a separate joint venture to be owned and operated on a 50/50 basis; 2) the NZDB will merge its Australian ingredients business into Bonlac; and 3) the NZDB will take a 25 percent interest in Bonlac, with Bonlac supplier shareholders holding the remaining 75 percent of the shares. Implementation of the alliance is dependent on approval by Bonlac's supplier shareholders and NZDB board of directors.

Both NZDB and Bonlac believe the proposal recognizes the power of regional alliances and will pave the way for establishing a vibrant trans-Tasman dairy vehicle. The new consumer products joint venture will combine the Australian consumer products and foodservice businesses of both organizations, marketing a portfolio of brands with leading market positions in cheese and spreads. The proposed alliance will also strengthen the combined international ingredients businesses in the face of increasing pressure from rapidly expanding global competitors.

The chairman of the NZDB, Graham Fraser has noted: "All around the world businesses are globalizing. Supermarket chains, ingredient customers and competitors are rapidly expanding internationally. As manufacturers and marketers of dairy products, we must combine to counter these trends and potential threats. This merger will make both partners stronger global players." The merger will provide both organizations with the opportunity to significantly strengthen their positions, both in the Australian market and globally.

New Zealand's Agriculture Minister noted that the proposal was evidence that the dairy industry is determined to advance its growth strategy and was a welcome assertion of leadership by the Dairy Board.

After the failure in late March of the megamerger talks between New Zealand Dairy Group and Kiwi Dairies (see NZ0017), there have been calls from Federated Farmers, the Ag Minister and even the NZDB for all parties to continue efforts at increased cooperation and restructuring to meet global competition. This proposed Trans-Tasman merger by the NZDB is seen by some as an effort to pressure the two dairy companies to continue efforts toward this goal. Reports indicate that the NZDB will handle all of Bonlac's export products, totaling 250,000 MT a year.

Press reports note that commenting on the Bonlac announcement, Kiwi Dairy has stated that it fully supported the initiative, showing that the industry was still intent on the mega company strategy. But senior Dairy Group officials are quoted as stating that there was nervousness about the NZDB, a statutory body, doing this when a stable industry structure was yet to be decided; there was also concern about Bonlac's financial performance. The trans-Tasman merger still needs to be approved by NZDB directors, which includes those from Dairy Group and Kiwi.

NZDB has noted that the Board had grabbed a fleeting opportunity to become No. 1 or a strong No. 2

in the Australia domestic market and to lift NZ farmer earnings. The Board's existing consumer business, Mainland, would be merged into a joint venture with Bonlac.

