

Farmers concerned that Fonterra has put their reputation at risk

10-Nov 21:08



Fonterra farmer shareholders who backed its investment in the Shijiazhuang Sanlu Group are unhappy the reputation of dairy foods has been damaged, and they are tied to the issue.

"Fonterra farmers are disturbed that our co-operative's name has been associated with the milk supply contamination in China," shareholders said today.

The reputation of dairy as a safe, healthy food was seriously damaged in China, after babies died after being fed milk powder contaminated with melamine.

"This may be a setback for the board in gaining continued farmer support for Fonterra's offshore growth strategy," the cooperative's shareholder council said in its annual report.

It had supported Fonterra's decision to buy a 43 percent stake in the Chinese dairy company "however, the presence of melamine in Sanlu's supply chain is a very real blow to our co-operative's plans for future growth in China".

At least four babies died, and another 53,000 were made ill by adulterated Chinese milk powders containing melamine.

The debacle is thought to have cost the farmer shareholders over \$200 million -- Sanlu is reported to now be nearly bankrupt.

China International Business newspaper reported the Chinese venture's estimated losses are over 700 million yuan (\$NZ172m) with rivals Sanyuan and Wondersun interested in taking over at least part of its operations.

The shareholders bluntly stated today that their directors had the ultimate responsibility for protecting Fonterra's name, brands and reputation.

Three of those directors are standing against a former chairman of the shareholder council for three seats on the board.

Fonterra had to recall one batch of its own brand Anmum Materna milk because it had been made by Sanlu using contaminated milk, and it has had to devote resources defending its brand in markets such as Bangladesh and the Philippines.

It has separately put \$8.4m into a Chinese charity for child health, but this has not stopped the damage to Fonterra's reputation damage spreading itself.

Fonterra Co-operative Group Ltd has been named to a list of the world's largest companies most criticised for their impacts on the environment, health and communities, by Swiss - owned RepRisk, a consulting firm that analyses companies' exposure to controversial issues and news.

Fonterra along with Sanlu Group Co and big Chinese rival Inner Mongolia Yili Industrial Group Co have both been included on in the RepRisk "top 10" after 22 producers were found to have sold milk containing toxic melamine.

In New Zealand, the shareholders said it was sensible to invest in China, but "it seems subsequent resourcing did not improve the co-operative's ability to impact the operations of the business".

While \$139 million of the Sanlu investment had formally been written off, the full cost was still to be quantified.

"It is of paramount importance to the council and to Fonterra's farmers that the quality and reputation of our products, our brands and our values are never compromised in pursuing any strategy," the shareholders said.

The council had raised its concerns with Fonterra directors and was waiting on an outline of how those would be addressed.

The shareholders said that the 2007-2008 season -- in which the average shareholder received a record payout of nearly \$900,000 -- had been overshadowed by the "devastating poisoning of the milk supply in China".

NZPA