

Fonterra: Dominate U.S. Dairy Industry with NZ “Free-Trade” Deal

by *The Milkweed* staff

Behind the scenes, a dangerous proposal threatens U.S. dairy farmers: a “Free Trade” deal between this nation and New Zealand.

Fonterra - the NZ-based global dairy trading giant -- has its financial hooks deep into the U.S. dairy industry. (Examples: Dairy Farmers of America and DairyAmerica.) Financially failing DFA seems particularly ripe for selective plucking by Fonterra's billions of profits siphoned from its U.S. dairy operations.

The politics run deep and dirty in the evolving “Free Trade” proposal with New Zealand. Bert Pena -- a sleazy Washington, D.C. lawyer/lobbyist, who counts New Zealand dairy interests as a major client -- is a top agricultural advisor for the presumed Republican presidential nominee, Senator John McCain.

Read this exhaustive staff analysis of how Fonterra and New Zealand political interests are greasing the U.S. political system to set the stage for their dangerous “Free Trade” deal, which will harm U.S. dairy farmers.

Dairy farmers, beware! Fonterra – the world's largest and most aggressive dairy exporter – is shifting its campaign to dominate the U.S. dairy market into high gear.

Like the large Japanese fleet once headed for Pearl Harbor, New Zealand's Fonterra Co-operative Group Ltd is poised to deliver a potentially lethal attack on American dairy farmers. But unlike Imperial Japan's “sneak attack,” the Kiwi threat is directed at our pocketbooks rather than our military assets, and thus is far less obvious to the casual observer. Unfortunately, many of the organizations representing American dairy farmers and federal and state officials are either ignorant of the threat or find it convenient to collaborate with the enemy in various ways.

Fonterra and the Government of New Zealand are waging a sophisticated, long-term propaganda and negotiating war to achieve a bilateral “Free Trade” agreement with the U.S. on dairy. This has been an uphill fight for more than two decades, since virtually all groups representing U.S. dairy farmers (including National Milk Producers Federation) have felt compelled to oppose a free trade pact with New Zealand. The concern is obvious – New Zealand's pasture-based dairy industry has the lowest milk production costs in the world. But the Kiwis have devised a clever scheme to circumvent the usually weak U.S. defenses.

Fonterra's strategy includes infiltration by establishing useful business relationships designed to placate and undermine major U.S. dairy co-ops. It takes full advantage of extensive government resources committed to advancing New Zealand's leading export industry. It co-opts the best Washington lawmakers money can buy. **Fonterra's campaign has been remarkably successful in vacuuming billions of dollars from American dairy farmers' wallets in recent years – and threatens to do far more damage in the future if the Kiwis succeed.**

The real threat, in part, lies in Fonterra's long-standing desire to dominate the lucrative American dairy market. Fonterra and its predecessor, the former New Zealand Dairy Board (NZDB), have long fought for duty-free market for its cheese, butter and milk powders in the U.S. But the evidence suggests Fonterra now has much more ambitious plans.

Recent news events provide insights into New Zealand's drive for U.S. dairy domination:

“Don't be afraid – we're your friends”

Item: The New Zealand Government's official Web site (www.beehive.govt.nz) carried a June 11 statement in which NZ Trade Minister Phil Goff expressed great confidence about progress toward achieving a free trade agreement with the U.S.

Goff cited Fonterra's success in the U.S. market as an exporter and joint venture partner as evidence of improving public perceptions of New Zealand as a valued business partner and friend of the American dairy industry. Fonterra has two strategic joint ventures – DairyConcepts with Dairy Farmers of America (DFA) and DairyAmerica, the milk-powder export cartel of nine U.S. dairy co-ops, including DFA.

These joint ventures, along with its wholly-owned subsidiaries in the U.S., have helped Fonterra politically by establishing itself as a “constituent” of many members of the U.S. House and Senate in whose districts and states those various entities are located.

Goff also emphasized fruitful discussions with U.S. Trade Representative Susan Schwab and other senior Bush administration officials who share New Zealand's “Free Trade” goals.

He noted the strong political backing provided on Capitol Hill by one of Fonterra's aces in the hole – the Friends of NZ Congressional Caucus. This bipartisan group of 62 lawmakers seeks to promote closer cooperation with New Zealand on a number of global issues of “mutual concern.” Its top priority is a U.S.-New Zealand Free Trade Agreement,

which is universally regarded as a serious threat by American dairy farmers.

Incredibly, this caucus includes several House members with a sizeable number of dairy farmer constituents in their districts. These House members – who should know better than to collaborate with the enemy – include Tom Petri (R-WI), Don Manzullo (R-IL), Mike Conaway (R-TX), and Wally Herger (R-CA). Voters in Minnesota's 1st Congressional District wised up and threw one prominent caucus member, Republican Gil Gutknecht, out of office in 2006. Perhaps dairy farmers in other districts will do the same this year.

Milking profits from U.S. dairy farmers

Item: Fonterra USA reported its U.S. business operations and joint ventures generated US\$2.5 billion in a year and contributed **earnings of US\$1.3 billion**, with strong prospects for future growth in this market, according to *The New Zealand Herald*. (Emphasis added.)

Compare Fonterra's huge, \$1.3 billion profit to Dairy Farmers of America's whopping \$109 million loss last year! **If the joint venture partners and other firms selling dairy products to Fonterra had charged a fair price, then U.S. dairy farmers might have netted an additional \$10,000 per farm -- if they had “shared” just half of Fonterra's profits!**

A big part of those profits no doubt came out of the coffers of DFA and the other eight dairy co-ops engaged in joint ventures with Fonterra. As the exclusive export agent for DairyAmerica, Fonterra must be making a huge commission on all the U.S. nonfat dry milk it exports.

Comparing the latest available (April 2008) nonfat dry milk price data reported by USDA, the National Agricultural Statistics Service survey price averaged \$1.2507/lb. on the domestic market compared to the U.S. export price of \$1.6121 – a difference of more than 36 cents/lb. How else to explain the huge difference between high world market price and the much lower prices paid to American dairy farmers?

That gap of over 36 cents/lb. in nonfat dry milk prices hits farmers directly in the pocketbook through lower blend prices under both the federal and state (California) milk marketing order systems. Apparently, co-op managers have yet to figure out just who is picking their members' pockets.

Fonterra has other reasons to look at the U.S. as a “cash cow” after failing to raise new capital at home to expand its operations. New Zealand dairy farmers recently rejected Fonterra's restructuring plan to raise more than NZ\$2 billion in new capital through a stock market float. NZ dairymen opposed to the recapitalization plan said it was a cover-up for weak management and would erode farmer control, according to Dow Jones Newswires. Apparently, New Zealand dairy farmers know something about Fonterra that its joint venture partners here do not know.

Colonizing U.S. milk production

Item: Fonterra CEO Andrew Ferrier said the growth of the U.S. as a world market supplier provides new opportunities for Fonterra to use American milk supplies to service New Zealand's customers in growing global markets.

Ferrier told Bloomberg.com “the US has good growth prospects,” according to a June 27 report in *The New Zealand Herald*. “The US is increasingly becoming a supplier to the world market, so we look at this as an opportunity to invest ... If we want to be supplying customers around the world, we need a supply base in the US. It's definitely a focus for us,” Ferrier was quoted as saying.

Here we see evidence that New Zealand's larger ambitions go beyond unfettered export access to the

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U.S. market for its cheese, milk proteins and butter. Fonterra seeks to “colonize” the U.S. as an off-shore base for producing and processing raw materials to help supply its growing list of customers in China, India and other rapidly expanding export markets. This “colonization” solves some big problems limiting New Zealand’s ability to expand export growth: its finite land resources for producing milk and the recent droughts that have shriveled its milk supplies.

Fonterra has already established a major presence in Latin American countries such as Mexico and Chile, and its neighbor down under, Australia. Until global “Free Trade” is a reality, Fonterra’s subsidiaries in these countries serve as off-shore bases for transshipping New Zealand products into the U.S. at lower duties under existing regional and bilateral FTAs (NAFTA, U.S.-Chile, and U.S.-Australia).

According to CEO Ferrier, Fonterra simply seeks to take process to the next logical step by expanding it to America.

New HQ provides “exciting opportunities”

Item: Fonterra USA in late June relocated its North American headquarters to the Chicago suburb of Rosemont, IL and opened a new research lab in the new location to take advantage of “exciting opportunities in its US business,” according to Fonterra USA President and CEO Martin Bates.

Fonterra USA’s decision to relocate its operations from Harrisburg, Pennsylvania and Guadalajara, Mexico to Rosemont was assisted by \$1.15 million in public funding from the State of Illinois. (Apparently, some states will do anything to attract new jobs.) The new site is literally minutes away from Dairy Management Inc. and the Chicago Mercantile Exchange.

Talk about convenient! The CME, of course, is the playground of DFA, Fonterra’s joint venture partner currently under federal investigation for alleged manipulation of cash cheese markets. DMI, the management arm of the National Dairy Board, has its fingers in pot of programs funded by millions of producer checkoff dollars. This pot of money is controlled, with minimal government oversight, by interlocking promotion and co-op boards dominated by Fonterra’s joint venture partners in DairiConcepts and DairyAmerica. We can see why Fonterra is excited.

In ceremonies marking the new headquarters, **Fonterra chairman Henry Van der Heyden made a special point of recognizing DFA chairman James P. “Tom” Camerlo, whom he said has a “very special relationship” with Fonterra.** Camerlo, the Lamborghini-driving king of co-op *per diem* collectors, has also featured prominently in major events hosted by the U.S.-New Zealand Council, a group dedicated to achieving a Free Trade Agreement between Washington and Wellington.

Camerlo is one of the top “movers and shakers” in U.S. dairy co-op circles. The Florence, Colorado dairy farmer is the former chairman of NMPF. Camerlo represented NMPF and DFA on the two highest industry trade advisory committees in Washington: the Advisory Committee on Trade Policy and Negotiations (for the White House) and the Agricultural Policy Advisory Committee for Trade (for USDA & the U.S. Trade Representative’s office). He has attended numerous GATT (General Agreement on Tariffs and Trade) and World Trade Organization functions in Geneva, Switzerland and other global hot spots. Camerlo’s “very special relationship” with New Zealand raises serious questions indeed about his loyalties to the U.S. dairy farmers he represents.

Fonterra lobbyist is top McCain ag advisor

Item: Congressional ag committee sources confirm that Fonterra lobbyist Humberto “Bert” Pena is a top agricultural policy advisor to the cam-

paigned of Sen. John McCain, the presumptive Republican presidential candidate. Like President George W. Bush, McCain is a strong, unwavering advocate of “Free Trade.”

“Republican candidate Senator John McCain has already expressed publicly his support for an FTA with New Zealand,” Trade Minister Goff’s said in his statement on the official NZ Web site.

Pena, a one-time House Agriculture Committee staff member with a particularly high “sleaze” factor, played a big role advancing Fonterra’s goals in the recently-concluded 2008 Farm Bill (where he helped cut the promotion assessment on dairy imports in half and provided refunds for some importers). He is a former law partner of Clayton Yeutter, the former Republican Ag Secretary and U.S. Trade Representative who has served New Zealand faithfully in various capacities since leaving the public sector. Pena -- sleaze that he is -- can be expected to advocate Fonterra’s vital interests at the highest levels of the McCain campaign.

Infiltration via joint ventures

The DairiConcepts joint venture gives Fonterra a relationship with DFA, the largest U.S. dairy co-op and the biggest member of National Milk Producers Federation. (NMPF’s Web site currently lists Fonterra as an “associate” member.) DairiConcepts provides valuable “cover” allowing Fonterra to export Italian-type cheese, Milk Protein Concentrates, and other New Zealand dairy products into the U.S. for various purposes, including blending with domestic products. Its role as a business partner allows the 18,000+ members of DFA in 48 states to see Fonterra in part as a friend and ally rather than a feared competitor out to eat their lunch.

DairyAmerica is also a very profitable (for New Zealand) business arrangement that allows Fonterra to use its global business expertise to “help” the nine American dairy co-ops export their nonfat dry milk into unfamiliar export markets. Many industry observers see this as a “fox guarding the hen house” arrangement in the Kiwis’ favor. Like many dairy co-ops that found it easy to sell generic cheese, butter and milk powder to the U.S. government, members of DairyAmerica have had no exporting experience. The arrangement with Fonterra removes any incentive for these lazy co-ops to develop their own in-house expertise in finding new markets at home or abroad.

With its largest joint venture partner on the

ropes financially, Fonterra is ideally positioned to pick up the pieces if DFA goes belly up, as *The Milkweed* has warned. Likewise, in the long-overdue event that the Feds finally bust DFA for antitrust violations and/or market manipulation. In the worst-case scenario, the thought of some DFA plants and member milk falling into Fonterra’s hands is a chilling thought – and not just for the DFA members whose milk checks are at risk. Or, Fonterra could financially “rescue” DFA in return for a heavy price – such as certain policy or milk supply concessions contrary to U.S. dairy farmers’ interests.

And, imagine the fun Fonterra could have at future NMPF board meetings as the puppet-master controlling National Milk’s largest member.

Hidden subsidies and revolving doors

Fonterra also receives significant assistance from the Government of New Zealand, which has a long history of advocacy for the former state trading enterprise. (Despite its 2001 make-over and renaming, Fonterra retains near-monopoly powers.) NZDB/Fonterra and their free trade allies have long criticized the excessive, “trade distorting” subsidies paid to dairy farmers in the U.S., European Union, and other “protected” dairy markets. Fonterra’s habit of bragging about New Zealand’s status as a pure, unsubsidized producer and exporter of dairy products ignores two hidden subsidies that its dairy farmers a considerable advantage:

Political support provided by the NZ Government in advancing Fonterra’s policy and commercial interests in Washington and other major foreign capitals. NZ’s Washington Embassy works full time on Fonterra’s behalf, providing services that would cost a fortune if performed by paid lobbyists and public relations firms.

In the Kiwi version of the “revolving door,” key officials rotated between high-level positions at NZDB and the NZ Embassy in Washington during the 1990s, when a major push for “Free Trade” was on at the Uruguay Round of the GATT and the failed “Seattle Round” of the World Trade Organization. This revolving door ensures that embassy staff from the Ambassador on down are highly attentive to Fonterra’s priorities. The Embassy reinforces the efforts of Fonterra’s paid lobbyists (such as Clayton Yeutter), who themselves are former high-level U.S. officials who have used Washington’s revolving door.