

HD Canada's loss is Australia's gain in Saputo bid for WCB

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Canadian **dairy** giant Saputo Inc has lifted its **stake** in Warrnambool **Cheese & Butter**, as it creeps up the register following its A\$504 **million** bid for Australia's oldest **dairy** producer.

Saputo is pitted against well-known Australian **dairy** cooperative, Murray Goulburn, which is seeking approval from the Competition Tribunal, arguing the net public benefit of its takeover would outweigh any anti-competitive effects. Saputo's bid is favoured by WCB's **board**.

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Australians are probably curious about who Saputo is and what it is trying to do in attempting to enter the Australian market, so far from its home base in Canada.

The strategic issue facing Saputo is fundamentally the issue facing many firms in Canada. Europe represents Canada's past while the US represents Canada's present but Asia represents Canada's future. Of course Australia understood this much earlier than other western countries.

In a remarkable speech given by the Bank of Canada Governor Mark Carney shortly before he departed for the UK to become the Governor of the Bank of England, he strongly urged Canadian firms to adopt "trade diversification" strategies by seeking **business** opportunities in Asia. Throughout the 20th century and to the present, the US accounts for 75% to 80% of the totality of Canada's exports.

Saputo understands that Asia, and more specifically **China**, is its future.

And this is where the policy history facing Saputo comes in. The critical input – **milk** – is far too costly in Canada due to our destructive supply management policy, meaning Saputo's leaders have realised they need to enter Australia to establish a base there to target exports to **China**.

Against all odds

Saputo started out as a small family-owned **company** established by Italian immigrants to Canada in 1954, led by the family patriarch Giuseppe Saputo who had been a master **cheese** maker in Italy. That in itself is not unusual. What is unusual is that the Saputo family **firm** grew in the following 70 years from its base in Montreal, Quebec – Canada's second largest city – to a very successful multinational with over CA\$7 **billion** in sales.

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However, even more unusual is that Saputo was not acquired by a larger **firm** – so often the case in Canada - but continued to grow while being led by père Saputo and then his children.

The success of this **company** was improbable because it was based in Quebec. Shortly after Saputo's founding in 1954, the French-speaking province underwent "la révolution tranquille" or the Quiet Revolution with the election of a new interventionist Liberal government in 1960, based on the principle of "maîtres chez nous" or "masters of our own house".

Over the next 50 years, successive Quebec governments – both separatist and federalist provincial governments - steadily ratcheted up corporate and personal taxes to finance state intervention in the economy such as Hydro Quebec. Quebec now has the dubious distinction of having some of the highest tax rates in North America, coupled with restrictive laws that compel the use of the French language in the workplace, making it difficult to recruit people from outside Quebec.

Supply management

If this was not a hostile enough climate for **business**, in the late 1960s the federal liberal government in partnership with provincial governments and aggressive lobbying by the **dairy** farmers led to the adoption of "supply management" designed to restrict the supply of **milk** using quotas to drive up the price of **milk** to farmers. Australians have their own experience with supply management and indeed wisely decided to terminate it in 2000.

However, sadly, in Canada, every political party continues to support supply management, milking and plucking 35 **million** Canadians to enrich 12,000 multimillionaire **dairy** farmers. Numerous economists, every think tank, and even the OECD have condemned this pernicious, destructive, and irresponsible policy, which has increased the price of **dairy** products in Canada by 50% to 100% over equivalent US products. All to no avail.

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A formidable investor

Notwithstanding the significant increases in **milk** prices, Saputo has grown gross revenues to CA\$7.3 **billion**, becoming one of the 10 largest **dairy** processors in the world, the largest in Canada, third largest in Argentina and one of the top three **cheese** producers in the US.

Today, Saputo produces and distributes a broad range of **dairy** products in Canada, the US, Argentina and Europe. Its products include **cheese**, fluid **milk**, yoghurt, cream products, culture products, **dairy** ingredients and snack cakes.

However, **dairy** products account for 98% of Saputo revenues while grocery products account for only 2%. Canada, Europe and Argentina account for 56% of its **dairy** revenues while US **dairy** sales account for 42%.

Saputo's brands, **sold** in more than 40 countries, include Alexis de Portneuf, Armstrong, Baxter, Dairyland, Dragon, DuVillage 1860, Friendship, Frigo **Cheese** Heads, Great Midwest, King's Choice, Kingsey, La Paulina, Milk2Go, Neilson, Nutrilait, Ricrem, Salemville, Stella and Treasure Cave.

If Saputo acquires WSB, it will invest in new capital equipment in Australia to target the **Chinese** market, thereby benefiting Australia's economy and workers.

Canada's destructive agricultural supply management policies could be Canada's unwitting gift to Australia.

Ian Lee does not work for, consult to, own shares in or receive funding from any **company** or organisation that would benefit from this article, and has no relevant affiliations.

CO mryglb : Murray Goulburn Co-operative Company Limited | sapgrp : Saputo Inc

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