

Project no. 15.03 / 15837

Public version

Review of Fonterra's 2016/17 base milk price calculation

Workshop details

Date of publication: 30 May 2017

Purpose

1. This paper provides details on the workshop that was held on 23rd May 2017 at the offices of the Commerce Commission.

Workshop purpose

2. The purpose of the workshop was to facilitate meaningful engagement with interested parties on our focus areas for the 2016/17 base milk price calculation review so that the Commission has the information it needs to conclude on these areas.
3. The focus areas of the review were communicated in a notification email regarding our process and approach sent to interested parties on 7 April 2017.
4. These were:
 - 4.1. Asset beta; and
 - 4.2. The impact on Fonterra's amendment of using off-GDT sales as a reference for Whole milk powder (WMP), Skim milk powder (SMP) and Anhydrous Milk Fat (AMF).
5. The workshop also gave the opportunity for independent processors to outline their view on the following topics:
 - 5.1. Transparency; and
 - 5.2. Practical feasibility.

Workshop format and process

6. The workshop featured a combination of presentations by participants and discussions led by the Commission. A range of views was provided during discussions with workshop participants.
7. Any views expressed by our staff at the workshop were for the purpose of stimulating discussion.

Workshop attendees and Agenda

8. The workshop was attended by Milk processors and Commission staff. A list of the attendees can be found in Attachment A.
9. The agenda is outlined in Attachment B.
10. We have also published participants' materials on our website.¹

Invitation to comment on topics discussed at the workshop

11. We invite interested parties to provide written comments on matters discussed at the workshop including interested parties' views on the following questions:
 - 11.1. Please provide detailed evidence of the extent to which firms in the comparator sample transfer commodity price risk to farmers, and how this compares to a notional producer that fully passes through that risk. We understand that some companies in the comparator sample may employ different pricing mechanisms to those employed in NZ. However, the key issue is the ability to transfer commodity price risk to farmers, regardless of what the specific pricing mechanism looks like.
 - 11.2. Are there other material components of the milk price whose fluctuations are systematic in nature? Please justify why they are or are not systematic. How does the allocation of these risks differ between the notional producer and companies in the comparator sample? Please provide a view of the impact on asset beta.
 - 11.3. What is the impact on the estimate of the notional producer's beta of excluding Fonterra from the comparator sample?
12. These comments are due by **5pm, Tuesday 13 June 2017**. Please address comments to:

Keston Ruxton
Manager, EAD Regulation Development
Regulation Branch
regulation.branch@comcom.govt.nz

¹ The workshop materials are available at: <http://www.comcom.govt.nz/regulated-industries/dairy-industry/review-of-fonterra-s-farm-gate-milk-price-and-manual/statutory-review-of-milk-price-calculation-2/review-of-milk-price-calculation-201617-season/>

Attachment A: Workshop attendees

No.	Representing	Name
1	Commerce Commission	Diego Villalobos, Senior Economist
2	Commerce Commission	Freyja Phillips, Analyst
3	Commerce Commission	Grant Weston, Chief Adviser
4	Commerce Commission	John Groot, Principal Adviser
5	Commerce Commission	Keston Ruxton, Manager: Regulation Development
6	Commerce Commission	Leighton Wong, Senior Analyst
7	Commerce Commission	Mark Worsley, Senior Legal Counsel
8	Commerce Commission	Rob Bernau, Head of Energy, Airports and Dairy
9	Commerce Commission	Dr Stephen Gale, Telecommunications Commissioner
10	Commerce Commission	Sue Begg, Deputy Chair
11	Fonterra	Andrew Cordner
12	Fonterra	Peter Goss
13	Fonterra	Stephanie Allan
14	Auckland UniServices (representing Fonterra)	Dr Alastair Marsden
15	Open Country Dairy	Malikah Mitha
16	Castalia (representing Open Country Dairy)	Alex Sundakov
17	Castalia (representing Open Country Dairy)	Sam Thomas
18	Parker Business Services (representing Miraka)	Murray Parker
19	Synlait	Nigel Greenwood

Attachment B: Workshop agenda

Start	Session topic and discussion points	Duration
9.00am	Introduction	10 mins
9.10am	Participants' 3-minute statements outlining what they would like to achieve at the workshop.	15 mins
9.25am	Session 1: Asset beta	90 mins
10.55am	Morning Tea	
11.10am	Session 2: Amendment to include off-GDT sales for WMP, SMP, AMF	45 mins
11.55am	Transparency and practical feasibility	60 mins
12.55pm	Wrap-up from participants	10 mins
1.05pm	Closing statements	20 min