

Notification email – Commerce Commission – Process and approach for our review of Fonterra’s 2016/17 base milk price calculation – 7 April 2017

Good morning

This email is to provide interested parties with details on the process of our review of Fonterra’s base milk price calculation (Calculation) for the 2016/17 season.

As required by the Dairy Industry Restructuring Act 2001 (DIRA) for each season, we will produce a draft report of our review of the Calculation by 15 August and a final report by **15 September**.

This review is the second of the reviews that we are required to undertake under DIRA on the base milk price each milk season. We published the report on our review of Fonterra’s 2016/17 Milk Price Manual (Manual) on 15 December 2016 which is available on our website at <http://www.comcom.govt.nz/statutory-review-of-milk-price-manual/201617-season/>.

Our approach for this year’s review of the Calculation

Our review of the Calculation builds on the conclusions from our previous reviews. In each review we consider outstanding issues from our previous Calculation and Manual reviews. Our review of the 2016/17 Calculation will start with our final 2015/16 Calculation review report and our final 2016/17 Manual review report.

This year, we will be holding a workshop for interested parties as part of our review of the Calculation. The purpose of the workshop is to facilitate meaningful engagement with interested parties on our focus areas for this year’s review as outlined below. There will also be an opportunity for interested parties to outline their material concerns on the Calculation at the Workshop.

The workshop is intended to front-end the consultation process for our review report. We also intend to provide interested parties with an opportunity to provide comments and further materials after completion of the workshop.

At this stage we do not anticipate consulting on our draft report except for the mandatory consultation with Fonterra required by the DIRA. This is because we have generally found that the timeframe for interested parties to submit and for us to properly engage with submissions is too short for this to be effective. However, we recognise that there may be situations where it would appropriate to extend the consultation on the draft report to other stakeholders. Any decision to extend the consultation on the draft report to other interested parties will depend on whether we consider such consultation necessary to achieve the overall purpose of the consultation process.

We note that we are trialling the workshop consultation process this year and that we may choose a different process for future reviews.

We are currently looking to hold the workshop on the week commencing 22nd May. We intend to confirm the date and provide further details on the workshop early next week.

Focus areas

The technical focus areas for this year's Calculation review are:

- Asset beta; and
- The impact on Fonterra's amendment of using off-GDT sales as a reference for the following reference commodity products: Whole milk powder (WMP), Skim milk powder (SMP) and Anhydrous Milk Fat (AMF).

These focus areas were outstanding issues from our 2015/16 Calculation review and our 2016/17 Manual review.

We further do not intend re-examine the framework for our Calculation review. Our review framework is outlined in our supporting paper: Approach in reviewing Fonterra's Milk Price Manual and base milk price calculation paper, which was published alongside our 2015/16 calculation review and is available on our website at <http://www.comcom.govt.nz/review-of-milk-price-calculation-201516-season/>.

We look forward to continuing our engagement with interested parties.

Kind regards

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