



Commerce Commission

44 The Terrace

Wellington

6 May 2022

Subject: Proposed Focus Areas Paper - Review of Fonterra's 2021/22 base milk price calculation 19 April 2022

To Whom It May Concern,

Synlait Milk Limited (Synlait) appreciates the opportunity to make a submission on the proposed focus areas of the 2021/22 base milk price calculation review.

Our submission will focus on the Commerce Commission's proposed focus areas:

- i. Asset Beta
- ii. Qualifying materials and incremental cost adjustments

In addition to Commerce Commissions proposed focus areas, Synlait recommends the following focus area:

- iii. Variable manufacturing cost inflation

i. Asset Beta

- a. Synlait supports the Commission's proposal to amend the milk price manual to address the inconsistency between Rule 42 and section 150C(4).
- b. It is expected the 2021/22 milk price calculation will based on an incompliant asset beta of 0.45. Synlait recommends the current DIRA consultation process addresses situations of non-compliance to avoid such outcomes in the future.
- c. Synlait shares Miraka's request<sup>1</sup> to review the set of comparator companies used to derive the asset beta under section 150C (4) of the Dairy Industry Restructuring Act 2001.

ii. Qualifying materials and incremental cost adjustments

- a. Qualifying materials – Synlait supports Miraka's request<sup>2</sup> for Fonterra to demonstrate qualifying reference sales meet the "prevailing market prices" definition in the milk price manual<sup>3</sup>.
- b. Incremental cost adjustments – Synlait supports Miraka's request<sup>4</sup> to provide assurance that the adjustment to selling prices from producing non-standard specification product is feasible and the costs for standard specification production is sourced from the Notional Producer Model (independent of Fonterra's costing).
- c. We share Miraka's concerns regarding the lack of transparency and presumed calculation of weighted average sales prices<sup>5</sup>. We support disclosing actual GDT prices and actual GDT prices inclusive of off-

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<sup>1</sup> Paragraph 41 - Miraka Submission to the Commerce Commission. 19 April 2022

<sup>2</sup> Paragraph 17 - Miraka Submission to the Commerce Commission. 19 April 2022.

<sup>3</sup> Farmgate Milk Price Manual – Part C: Definitions. Table 1.2 Definitions – Milk Price Revenue. Qualifying Reference Sales.

<sup>4</sup> Paragraph 24 - Miraka Submission to the Commerce Commission. 19 April 2022.

<sup>5</sup> Paragraph 28 - Miraka Submission to the Commerce Commission. 19 April 2022.



GDT prices separately in future farmgate milk price statements<sup>6</sup> and recommend the Commission reviews the calculation of weighted average prices due to concerns regarding phasing<sup>7</sup> and yield assumptions<sup>8</sup>.

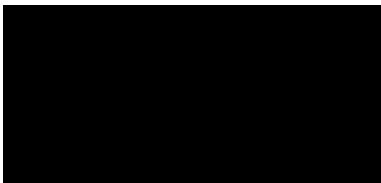
iii. Variable manufacturing cost inflation

As part of the 2021/22 milk price review Synlait recommends a focus on cost inflation assumptions. Covid-19 induced global supply chain disruptions have caused decades-high levels of inflation globally and domestically. Synlait expects higher than average cash cost inflation in 2021/22.

Under Table 3.1 in the milk price manual<sup>9</sup> variable manufacturing costs are calculated based on Resource Usage Rates and Unit Resource Costs. Regarding Unit Resource Costs, where elevated levels of inflation are expected to be realised, the manual outlines six approaches the Milk Price Group could adopt to determine the appropriate Unit Resource Cost.

In accordance with section 2.5 of the Milk Price Manual we would suggest the adopted approach(es) to derive Unit Resource Costs are accurate, sufficiently simple and objective. For transparency, we would recommend explicitly stating the assumptions in the 2021/22 milk price statement.

Yours faithfully,



Robert Stowell

CFO Synlait Milk Limited

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<sup>6</sup> Paragraph 32 - Miraka Submission to the Commerce Commission. 19 April 2022.

<sup>7</sup> Paragraph 29 - Miraka Submission to the Commerce Commission. 19 April 2022.

<sup>8</sup> Paragraph 34 - Miraka Submission to the Commerce Commission. 19 April 2022.

<sup>9</sup> Farmgate Milk Price Manual – Part B: Detailed Methodology. Table 3.1 Farmgate Milk Price Cash Costs - detailed rules. Variable Manufacturing Costs.