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Commerce Commission – “Submission on the Dairy Competition Review Consultation Paper, 20 July 2015”
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Karikaas is a small cheese and yoghurt manufacturer in North Canterbury. I collect milk under the 20% rule from a local Oxford farm, which also supplies Fonterra. I have been doing this since 2004. This is a seasonal farm, so during the winter months I have milk delivered to me by Fonterra, and I pay a predetermined contract price for it.

This Submission is in response to a meeting I had with members of the commerce commission on 21 July 2015. At that meeting they requested details about the use of “the 20% rule”. Cheesemakers are regular milk users and we are a small industry.

I have collected data on behalf of the New Zealand Specialist Cheesemakers Assn (NZSCA), which is summarised in the tables below. The cheesemaking industry is slightly larger than our membership, but I imagine the patterns/proportions for the whole industry will roughly mirror that of the NZSCA.

Volume of milk (L) collected using the 20% rule	No. of companies collecting
<15,000	3
15,000 – 50,000	5
50,000- 100,000	4
>100,000	4
Total No. of collecting Companies	16

% of farm production taken using the 20% rule	No. of farms.
<1%	5
1 – 5 %	8
5 – 20%	10
Total farm numbers	23

There are 37 members of NZSCA who are currently actively making cheese for sale. Of these, eight companies do not use cow's milk. A further three companies use cow's milk exclusively from their own animals. Three companies are very large – Goodman Fielder, Open Country and Fonterra Co-op, where the 20% rule is unlikely to be very useful.

Of the remaining 23 cheese makers, 16 members currently take milk from farms under the 20 % rule. Another four companies are planning to do so. Three companies take milk from more than one farm, and one of the companies planning to take milk directly off farm in the short/medium term will require milk from more than one farm.

My interpretation of this information – I'm generalising.

Firstly, about half the cheesemaking companies, that are buying cow's milk, take milk using the 20% rule. This proportion grows to about two thirds if the very big companies are excluded.

Three quarters of the companies that do collect milk using the 20% rule are taking < 100,000 litres.

The actual number of dairy farms involved is very small. In more than half the farms involved the milk taken equates to 5% or less of the farm's total production.

From the data provided, and the volumes and proportions involved, it is apparent that in absolute terms the milk taken is minute compared to New Zealand's milk production.

However, it is also apparent that there is a pattern of use of the 20% rule. Very small companies use it during their establishment, many starting very small and then growing their businesses as they can. For these companies there is often no other realistic source of milk.

The very big companies need so much milk that the 20% rule is of little value.

The moderate sized cheese producers who are largely supplying the domestic market may be taking regulated milk, for ease and because they lack the infrastructure to collect larger quantities of milk. These companies may or may not be big enough to take all the milk from a single farm. That will depend on the size of dairy farms in their area.

Some companies, in between the very small and very large, have the infrastructure to collect milk, which has developed as they have grown. At this stage they have a choice about how they to continue to grow their business. They can take regulated milk, take more 20% rule milk, or dedicated whole farms, or a mix. This depends on their business model.

Lots of small businesses are required for every business that grows on to become a large exporting company. The pathways that can allow this growth to happen are very important.

I suggest that despite the small volumes and small numbers involved, the 20% rule is a very important pathway for cheesemakers to become established and grow. This will become even more important should access to regulated milk be lost.

I believe that the 20% rule is important not only to the actual businesses currently collecting milk this way, but also as a pathway to continue the develop the cheese industry.

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