

1 September 2016

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Commerce Commission
WELLINGTON

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REVIEW OF FONTERRA'S 2015/16 BASE MILK PRICE CALCULATION

1. We set out in this letter Fonterra's response to the Commission's draft report on its review of Fonterra's 2015/16 base milk price, released on 15 August 2016.
2. Fonterra does not wish to raise any substantive issues in respect of the draft report but does wish to place on record its acknowledgement of the following points:
 - 2.1 Fonterra welcomes the Commission's draft conclusion that the assumptions adopted, and the inputs and process used, by Fonterra to calculate the 2015/16 base milk price are consistent with both the efficiency and the contestability dimensions of the purpose statement of the milk price monitoring regime stated in section 150A of the Dairy Industry Restructuring Act 2001. We also welcome the Commission's acknowledgement of our increased transparency and communication with respect to a number of aspects of the farmgate milk price methodology.
 - 2.2 We acknowledge the Commission's desire to see more frequent reviews of the current reference commodity product (RCP) basket, increased transparency of forecast information, and disclosure of future years' Global Ingredients and Operations businesses' RCP operation cost performance to allow interested parties to compare it with the notional producer. We will further consider these matters in the course of the 2016/17 season.
 - 2.3 We also acknowledge the Commission's comment to the effect that there is no allowance for some variable losses that may occur during the shoulder periods of the season and confirm we will include an allowance for these losses for the 2016/17 base milk price calculation.
 - 2.4 We welcome the Commission's conclusion that our treatment of winter milk premiums is practically feasible, and confirm we will provide additional detail on this matter in the Farmgate Milk Price Statement for the 2015/16 season.

Yours sincerely



Andrew Cordner
Group General Counsel