

31 August 2015

Alex Sim  
Chief Adviser  
Regulation Branch  
Commerce Commission  
WELLINGTON  
By email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Fonterra Co-operative Group Limited  
Private Bag 92032, Auckland 1142, New Zealand  
9 Princes Street, Auckland  
t +64 9 374 9000  
[www.fonterra.com](http://www.fonterra.com)

### **“Fonterra Loan to Shared-Up Farmers” – Response to Synlait Letter dated 12 August 2015**

We refer to the letter dated 12 August 2015 from Dr John Penno, the Managing Director and CEO of Synlait Milk Limited (*Synlait*), to Susan Brown of the Commerce Commission (the *Synlait Letter*) on the proposed loans to be provided by Fonterra Co-operative Group Limited (*Fonterra*) to its share-backed farmer suppliers. We understand that the Commission has elected to treat the Synlait Letter as a submission in the current Dairy Industry Restructuring Act (*DIRA*) review process. On that basis, this letter provides Fonterra’s response to the Synlait Letter.

As has been publicly announced, Fonterra intends to utilise the collective strength of our co-operative to help our farmers through the current adverse environment by providing the opportunity for our share-backed farmers to apply for up to \$430 million of loans (*Co-operative Support*). Funding for Co-operative Support will come from Fonterra management’s efforts to reduce working capital through changes to our business. Co-operative Support will amount to an additional 50 cents per kgMS for shared-up production for the first half of the season and will be interest free for two seasons (i.e. until 31 May 2017). After this, the Fonterra Board may decide to charge an interest rate which will be based on a wholesale interbank lending rate for the relevant interest period plus Fonterra’s borrowing costs above that rate (up to a maximum of 0.5% per annum). The Co-operative Support payment will be required to be repaid when the Fonterra advance rate or retro payments for the prior season go above \$6.00 per kgMS or if the farmer shareholder ceases to supply milk to Fonterra.

Fonterra expects to formally launch Co-operative Support on 1 September 2015 when the application process for Co-operative Support will open and our share-backed farmers will have the option (but no obligation) to apply for Co-operative Support. The full terms and conditions of Co-operative Support will be available at that time and provided to the Commission.

**The Co-operative Support will be compliant in all respects with Fonterra’s obligations under DIRA.** In particular, participation is voluntary, the loan may be repaid at any time, and it does not restrict suppliers from entering or exiting Fonterra in any other respect. For share-backed farmers who receive Co-operative Support, it will simply provide assistance to manage their cashflows during an extremely difficult and challenging season. While farmer suppliers will be required to repay the Co-operative Support upon ceasing to supply Fonterra, we do not consider that this will materially affect the decision to cease supply. First, this will not impact upon the key drivers of that decision. Secondly, we expect that repayment will be able to be made out of the proceeds of the required sale of Fonterra shares held by that farmer or out of the payments made for their milk which are paid following the end of the season.

We intend to provide a separate cross-submission on the Commission's substantive issues consultation paper and in that cross-submission we will respond to substantive issues regarding the DIRA review that have been identified by other submitters.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'AC', with a horizontal line extending to the right.

**Andrew Cordner**  
**Group General Counsel**