

Submission regarding Fonterra milk price manual.

To Commerce Commission.

From Stuart and Lorae King,

488 Ngutumanga Rd,

Te Aroha 3393.

Ph (07)8845857 0274309092

lorae@xtra.co.nz

Fonterra 76295

Introduction; We are foundation Fonterra supplying shareholders (members) and active dairy farmers of over 30 years hands on experience.

Our progression through the dairy industry has included being wage earners, contract milkers, 50:50 sharemilkers and farm owners. Two of our children now work in the dairy farming industry. Our motivation in submitting is to help support the New Zealand Dairy industry's image as an opportune place for hard working capable people to progress their careers.

We believe that the manual's 2017 milk price of \$6.12 is seen as positive when related to dairy farmers break even operating cost of approx, \$5.00 per kg ms. However the milk prices for 2016 of \$3.90 and for 2015 of \$4.40 were both challenging and in many cases damaging to the careers of indebted farmers and sharemilkers. Those particularly hard hit are share milkers whose income is generally totally reliant on milk price rather than dividend.

It is our belief that in setting the Fonterra milk price that the manual needs to ensure that all income derived from Fonterra's milk business (Fonterra Ingredients) goes towards milk price.

We believe our view is supported by Fonterra's constitution which in annex 1 states; "...the Milk Price should be the maximum amount that the Company, reflecting its status as properly managed and efficiently run sustainable co-operative, could pay for the Milk supplied to it in a Season if: The Company, on their behalf, processed that Milk into commodity products which were sold on freely contested global markets."

There is an idea within Fonterra that whether their farmers get their income from milk price or dividend is irrelevant. This is not so for sharemilkers who rely only on milk price.

The milk price manual has produced in 2015 and 2016 an 'unsustainably' low milk price which also lowers the hurdle to find the financial performance of investment businesses within Fonterra. We believe that the present milk manual is giving a milk price which understates the value contribution to the company of their members milk and overstates the perceived investment returns as expressed in the earnings and dividend results. This ensures large bonuses are paid to top management, but it leaves our farmers exposed and our business made less resilient. Coupled with

the increased compliance costs and large investments Dairy farmers have made in recent years in Environmental protection this has weakened the industry's financial security.

We ask Fonterra to review the range of reference products and to use the value of actual product sales rather than just GDT when calculating the Milk price.

Summary

It is of concern to see Fonterra's volume of milk collected decline by 3% for 2017 year and by 1% for the 2018 year to date. This is against Fonterra's budget for 1.5% annual milk volume growth.

Our judgement is that this decline reflects the negative sentiment that farmers feel when practising traditional productive farming practises. Ensuring that they are properly rewarded by the Co-op for their efforts is an important step towards giving the right signals to our farmers.

We believe properly rebalancing the milk price formula is necessary to give transparency and accountability to judge Fonterra's performance. Just as important is the need to properly reward Fonterra's sharemilkers to help encourage them to become our future farm owners and industry leaders.

But perhaps more profoundly what must also be weighed is the Human cost of not rebalancing the milk price formula. This will undoubtedly continue to see Farmers and their productive businesses lose resilience -a cost that has much wider consequences for our families, our communities and our economy at large.