

## Waimata Cheese Co Ltd

161 Riverside Road

Gisborne

Review of the State of Competition in the NZ Dairy Market.

July 2015

### **Submitter**

Waimata Cheese is a small family owned specialty cheese manufacturer, operating in the domestic market for over twenty years, processing approximately 3.5 million litres a year. Originally we sourced milk from the local milk supply company in Gisborne but on its closure were forced to purchase milk from Fonterra. To ensure we have quality milk year round, particularly during the winter months, we established our own dairy farm and have a supply agreement with a second local dairy farm. We continue to source approximately 30% of our milk requirements from Fonterra.

Waimata Cheese struggles to compete with Fonterra in the NZ specialty cheese market and has observed the demise of several new entrants over recent years. Although Goodman Fielder provides some balance in the domestic market there is no doubt that Fonterra holds a dominant position and effectively sets the market price. In our experience Fonterra is not adverse to using its market power to stifle competition.

### **Comments on the Review**

We are concerned with the limited scope of the review and believe the terms of reference suggest there is a bias towards deregulation. In our view ineffective regulation does not in itself provide evidence of sufficient competition.

We believe that the possibility of ongoing regulation, into the foreseeable future, needs to be included in the review as a serious option.

We believe the scope should also consider the possible improvement and refinement of DIRA.

We agree with many that any triggering threshold should only initiate a review and not presume deregulation as an outcome.

### **Observations.**

Clearly Fonterra dominates the market with 87% of the industry and will continue to do so for the foreseeable future. By allowing a monopoly to exist the Minister has no choice but to continue with DIRA in some form. There is current evidence of Fonterra using its market power to stifle completion at many levels, it is difficult to understand why this would not accelerate under deregulation.

To suggest the current threshold of 80% would provide sensible competition, particularly when the 20% balance would be split between 7 – 8 independent processors, defies logic. The Commission

needs to better define the bench mark for 'sufficient competition' and clearly demonstrate contestability if a lasting solution is to be found. If there were several large processors, each with 20% of the milk supply, then deregulation may make sense.

### **Possible Deregulation**

Waimata would welcome the opportunity to compete with Fonterra on a level playing field. The current cross subsidisation that occurs within Fonterra and the manipulation of the farm gate milk price does not support fair competition. The volatility of the commodity milk market appears to be exaggerated under the current Fonterra model. We believe the path to deregulation should require the restructuring of Fonterra into separate entities to manage 1) export commodities, 2) export value add and 3) domestic processing and sales.

We would support any review initiatives that provide better competition in the NZ Dairy market to ensure innovation, productivity and diversity flourish.

Rick Thorpe

Managing Director

Waimata Cheese