

Commerce Commission Fonterra Milk Price Submission.

Stuart and Loraë King

My wife and I are hands on dairy farmers at Te Aroha, Waikato.

We are foundation Fonterra members who believe the co-operative's vertically integrated business model should offer both strength and efficiency to the parties involved.

We are very concerned for the viability of most N.Z dairy farmers given that the present farm gate milk prices are at least \$1 per kg milk solid under the average operating cost of production. Of particular concern is the situation faced by sharemilkers who rely on the milk price for most of their income.

When Fonterra was formed particular emphasis was given to the importance of the farm gate milk price. Fonterra's milk price is prescribed in it's constitution as the maximum amount that a sustainable co-operative could pay based on world prices for the commodities that it produces.

As farmers we expect and need the maximum milk price as described above. Based on evidence we question whether this is what we are getting;

(a) From Fonterra 's Performance Review Interim Report 2016 the Fonterra Ingredients business reported total sales revenue for reference and non-reference products of \$5.133 billion and a total gross margin on the above of \$836 million. This gives total gross margin compared to total revenue for reference and non-reference products of 16.2%. Farmers question how Fonterra can pay the maximum milk price and still make such an attractive return on commodity sales.

(b) Fonterra is only using products that have local manufacturing competition as reference products. We believe that this need for contestability is neither a requirement under DIRA nor Fonterra's constitution and question why it is being applied.

(c) We note the commission's finding that Fonterra is gaining 47 cents above GDT when selling reference products through it's ingredients business. As

farmers who are operating below break- even point we would expect Fonterra to consider including these gains in the 2016 milk price.

Conclusion:

As farmers we see the setting of the maximum sustainable commodity milk price as crucial to ensuring Fonterra is subject to accountability and motivated to perform to add value from it's investment business's. To this end we want scrutiny given to ensuring that Fonterra is meeting it's constitutional obligations.

Stuart King

