

Proposed focus areas for our review of Fonterra's 2019/20 base milk price calculation

Date of publication: 22 April 2020



Associated documents

Publication date	Reference	Title
12 December 2019	ISSN 2382-1779	Final report – Review of Fonterra’s 2019/20 Milk Price Manual: Dairy Industry Restructuring Act 2001
12 September 2019	ISBN 978-1-869457-62-4	Final report - Review of Fonterra's 2018/19 base milk price calculation
15 August 2017	ISBN 978-1-869455-28-6	Our approach to reviewing Fonterra's Milk Price Manual and base milk price calculation

Commerce Commission

Wellington, New Zealand

We are reviewing Fonterra's 2019/20 base milk price calculation

1. This paper provides interested parties with details regarding our proposed focus areas for our review of Fonterra's base milk price calculation for the 2019/20 season (**Calculation**) under the Dairy Industry Restructuring Act 2001 (**DIRA**). This paper also invites feedback on those focus areas and seeks relevant information on those focus areas.
2. As required by the DIRA, we produce a draft report of our review of Fonterra's base milk price calculation for each season by **15 August** and a final report by **15 September**.
3. This review is the second of the reviews that we are required to complete under DIRA on the base milk price each milk season.
4. The first review for this 2019/20 season looked at the Milk Price Manual (**Manual**). We published the report on our review of Fonterra's 2019/20 Manual on 12 December 2019 which is available on our [website](#).
5. The framework for our reviews is contained in our **approach paper**, available on our [website](#).
6. This current review looks at the extent to which the assumptions adopted and the inputs and processes used by Fonterra in calculating the base milk price are consistent with the purpose of Subpart 5A of DIRA.

Indicative timeline

Indicative date	Publication/event
22 April 2020	Proposed focus areas published
1 May 2020	Stakeholder submissions on proposed scope due
17 August 2020	Draft report published
1 September 2020	Stakeholder submissions on draft report due
15 September 2020	Final report published

Our proposed focus areas

7. Our review of the Calculation builds on the conclusions from our previous reviews. In each review we can consider outstanding issues from our previous base milk price calculation and Manual reviews. These matters can form the focus areas of a future review.

8. In our review of Fonterra's 2019/20 Manual, we identified some areas that we said we will review during the Calculation review. These areas are as follows:¹
 - 8.1. whether it is practically feasible for the Notional Processor plant, as configured, to manufacture the specified product range included in Fonterra's Qualifying Materials;
 - 8.2. whether production efficiencies assumed for the Notional Processor are consistent with the range and scheduling of production for the full sales portfolio of Qualifying Materials;
 - 8.3. whether it is practically feasible to attribute manufacturing costs to the Notional Processor using the Incremental Product Cost adjustments for products that are not standard specification products;
 - 8.4. whether the selling costs for all of the Qualifying Materials have been appropriately provided for; and
 - 8.5. whether the assumptions, inputs and process, in particular Fonterra's cost allocation methodology, underlying the calculation of administration and other overhead costs, provide an appropriate incentive to Fonterra to operate efficiently.
9. These areas constitute the proposed focus areas for our 2019/20 review of the Calculation. For these proposed focus areas, we are required to conclude on both the contestability and efficiency limbs within section 150A of Subpart 5A.
10. Given the disruption and uncertainty that COVID-19 has caused, we may not be able to conclude on some of these focus areas.
11. If we are unable to conclude on some of these focus areas, we would look to complete our review of them in our 2020/21 Calculation review.
12. For a detailed explanation of how we determine the scope of our reviews, please refer to our [approach paper](#), referenced above.

¹ Commerce Commission "Review of Fonterra's 2019/20 Milk Price Manual: Dairy Industry Restructuring Act 2001 Final Report" (12 December 2019), paragraphs X12 and X14.

We invite your views on our focus areas for this year's calculation review

13. We continue to consider that consultation with all interested parties helps to inform us when making our conclusions. We are now inviting submissions on the following matters by **4pm, 1 May 2020**:
 - 13.1. submitters ability to engage in this year's process given the disruption that COVID-19 has caused;
 - 13.2. whether the proposed focus areas should form part of our review, or whether there are further focus areas that should be included; and
 - 13.3. any relevant information about the proposed focus areas themselves.
14. Receiving submissions on these matters will:
 - 14.1. allow us to better understand stakeholder's ability to engage in this year's Calculation review;
 - 14.2. assist us to decide what the focus areas should be for our Calculation draft report; and
 - 14.3. provide us with information relevant to those proposed focus areas, so that we may take this information into account when examining the proposed focus areas as part of our Calculation draft report.
15. Submissions should be sent by email to regulation.branch@comcom.govt.nz, with the subject line 'Base milk price calculation review 2019/20'. We intend to publish all public submissions on our website. This is an important step as it allows us to test all information received from stakeholders in a fully transparent way.
16. When including commercially sensitive or confidential information in your submission, we offer the following guidance:
 - 16.1. Please provide a clearly labelled confidential version and public version and provide reasons why you consider information to be confidential or commercially sensitive. We intend to publish all public versions on our website.
 - 16.2. The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.
17. If we consider information disclosed in the confidential version to be in the public interest, we will consult with the party that provided the information before any such disclosure is made.