

13 June 2017

The Commissioners
Commerce Commission
44 The Terrace
Wellington

Fonterra Co-operative Group Limited
Fonterra Centre, 109 Fanshawe Street
Auckland 1010
New Zealand

www.fonterra.com

2016/17 base milk price calculation review workshop – responses to Commission’s request for follow-up comments

The attachments to this letter provide Fonterra’s response to the Commission’s request for written comments on matters discussed at the Milk Price workshop held on 23 May 2017, including our views on the following questions:

- a. Please provide detailed evidence of the extent to which firms in the comparator sample transfer commodity price risk to farmers, and how this compares to a notional producer that fully passes through that risk. We understand that some companies in the comparator sample may employ different pricing mechanisms to those employed in NZ. However, the key issue is the ability to transfer commodity price risk to farmers, regardless of what the specific pricing mechanism looks like.;
- b. Are there other material components of the milk price whose fluctuations are systematic in nature? Please justify why they are or are not systematic. How does the allocation of these risks differ between the notional producer and companies in the comparator sample? Please provide a view of the impact on asset beta; and
- c. What is the impact on the estimate of the notional producer’s beta of excluding Fonterra from the comparator sample?

Attachment A has been prepared by Peter Goss of the Milk Price Group, and addresses question (a). This attachment also restates Fonterra’s views on the necessity of decomposing the asset betas of real world dairy processors into a weighted average of the asset beta applicable to a processor’s commodity processing operations and the asset beta(s) applicable to its other activities when comparing asset betas for the comparator set and Fonterra’s calculated asset beta for the milk price calculation.

Attachment B comprises a supplementary report provided by Dr Alastair Marsden which addresses questions (b) and (c).

Yours sincerely,



Andrew Cordner
Director Legal