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Review of Fonterra's 2025/26 Milk Price Calculation:

Dairy Industry Restructuring Act 2001

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Associated documents

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1 August 2023	ISBN 978-1-99-101282-1	Our approach to reviewing Fonterra's Milk Price Manual and Base Milk Price Calculation - 2023

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1. Introduction

1.1 This report sets out our conclusions from our statutory review of the extent to which Fonterra's 2025/26 base milk price calculation (**the Calculation**) is consistent with the purpose of the base milk price monitoring regime under subpart 5A of the Dairy Industry Restructuring Act 2001 (**DIRA**).[1]

1.2 This report follows our review of Fonterra's Milk Price Manual (**Manual**) for the 2025/26 season and builds on the analysis and conclusions from our previous reviews of Fonterra's base milk price calculation (**Calculation review**) and Manual.[2]

How this report is structured

1.3 Chapter 2 explains our review framework and the scope of our 2025/26 Calculation review.

1.4 Chapter 3 sets out a summary of our conclusions from our review of the focus areas, and our fit for purpose review.

1.5 Chapter 4 sets out our detailed findings and conclusions from our review of the import price and associated import costs of lactose.

1.6 Chapter 5 sets out our detailed findings and conclusions from our fit for purpose review.

1.7 Attachment A provides a summary of our responses to submissions on our draft report for our review of Fonterra's 2025/26 base milk price calculation, where we have not included them in our focus area or fit for purpose review in Chapters 4 and 5.[3]

1.8 Attachment B provides a glossary of key terms and abbreviations used in this report.

1.9 Attachment C provides a detailed list of the cost lines we have considered in our inflation cost adjustment component of our fit for purpose review. It provides a detailed breakdown of cost drivers, and the method Fonterra has applied to each line, as well as variances.

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1 The term 'base milk price' defined by DIRA is the price per kilogram of milk solids set by Fonterra for a dairy season. See also paragraph 2.6.

2 Commerce Commission "Final report – Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001" (15 December 2025).

3 Commerce Commission "Draft report – Review of Fonterra's 2025/26 Milk price Calculation: Dairy Industry Restructuring Act 2001" (3 August 2026)

2. Our review framework

Our approach for the Calculation review

2.1 This report should be read alongside "Our approach to reviewing Fonterra's Milk Price Manual and base milk price calculation" (**Approach paper**), which we have applied in this review and which forms part of this report.[4] The Approach paper provides an overview of the approach we take in our reviews of Fonterra's Manual and base milk price calculation and includes:

2.1.1 an overview of how the base milk price is set

2.1.2 our interpretation of key legislative provisions guiding our statutory reviews

2.1.3 our analytical and practical approach to our statutory reviews.

2.2 The base milk price monitoring regime is intended to provide incentives for Fonterra to act efficiently, while providing for contestability in the market for the purchase of milk from farmers. The regime also promotes greater transparency of Fonterra's base milk price setting processes.[5]

2.3 In our Approach paper, we discuss both the efficiency and contestability dimensions in the context of the base milk price calculation review.[6] In summary:

2.3.1 **Efficiency**: our view is that the assumptions adopted, and inputs and processes used in the calculation will provide an incentive for Fonterra to operate efficiently where the calculation uses independent notional benchmarks for the revenue and cost inputs.[7]

2.3.2 **Contestability**: the contestability dimension is satisfied if the assumptions adopted, inputs and processes used in the calculation are practically feasible for an efficient processor. The essence of contestability is that efficient firms can compete in the market. If efficient firms are able to compete in the market, then contestability is provided for.

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4 Commerce Commission "Our approach to the milk price manual and milk price calculation reviews" (2023).

5 DIRA, s 150A.

6 Commerce Commission "Our approach to the milk price manual and milk price calculation reviews" (2023), at pages 12-13.

7 There may also be instances where it is necessary to use actual data, such as where there is insufficient information to determine an appropriate notional value or this would be too costly, and where Fonterra has very limited control over actual costs. Commerce Commission "Our approach to reviewing Fonterra's Milk Price Manual and base milk price calculation" (1 August 2023), at paragraph 93.

2.4 Our analytical and practical approach to our statutory reviews is described in Chapter 4 of the Approach paper.[8]

2.5 Under DIRA we are required to review the calculation of the base milk price and assess the extent to which the assumptions adopted, and the inputs and processes used by Fonterra in setting the base milk price, are consistent with the efficiency and contestability dimensions, as outlined in s 150A of DIRA (**the s 150A purpose**).

2.6 The base milk price in relation to a season means the price per kilogram of milk solids (**kgMS**) that is set by Fonterra for that season.[9] The forecast for the base milk price is currently $9.60 - $9.80 per kgMS for the season under review in this report, which ended on 31 May 2026.[10]

2.7 We note that Fonterra uses the term 'farmgate milk price' when referring to the base milk price in its Manual and annual Farmgate Milk Price Statement. In this report we use the term 'base milk price' in all cases unless quoting from Fonterra materials.

2.8 We provide more information on the distinction between the base milk price, which is subject to our statutory reviews, and other prices in the dairy supply chain in our Approach paper.

Scope of our review of the 2025/26 Calculation

2.9 Our review of the Calculation builds on the conclusions from our previous reviews. Based on the information we gather, we determine the key areas to focus on for each Calculation review.[11] These constitute our 'focus areas' for which we undertake more detailed analysis.

2.10 For this year's Calculation review, our focus areas are the import price and associated import costs of lactose.

2.11 We broadly proposed these focus areas in our Proposed Focus Areas paper for this year's review.[12] We did not receive any submissions on our proposed focus areas. There were no other focus areas that we considered should also be reviewed this year.

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8 Commerce Commission "Our approach to the milk price manual and milk price calculation reviews" (2023), at pages 20-31.

9 DIRA, s 5.

10 See "Fonterra revises its 2026/27 forecast Farmgate Milk Price" (13 July 2026).

11 Commerce Commission "Our approach to the milk price manual and milk price calculation reviews" (2023), at paragraph 110.

12 Commerce Commission "Proposed focus areas for our review of Fonterra's 2025/26 base milk price calculation" (12 March 2026), at paragraph 12.

2.12 We have addressed points raised by stakeholders on our draft report that are directly relevant to our review of this year's focus areas, or to the fit for purpose review, in Chapters 4 and 5. In Attachment A we provide a summary of our responses to other matters raised in submissions on the draft report.

2.13 For the other revenue and cost components of the Calculation that are not part of the focus areas analysis, we undertake a fit for purpose review, which includes:[13]

2.13.1 an analytical verification of the values used in each component against our previous reviews of the same component

2.13.2 a review of the consistency of the assumptions, inputs and processes related to the different components.

2.14 We will consider whether further analysis of a component is required if any aspect of this 'fit for purpose' review identifies material changes from our previous analysis of the base milk price reporting model.[14] For the 2025/26 season, we noted a material variance in lactose costs. In addition, while not a specific line item within the base milk price reporting model, we observed a significant variance in the contribution from off-Global Dairy Trade (**GDT**) sales this season, which has been considered in the fit for purpose section of this report.

2.15 We have also identified and considered other matters including: the application of the Investment Boost tax credit; an increase in the volume of unstandardised production; the inclusion of reseller fees within Fonterra's Reasons paper and the separation of individual sales price adjustments within the base milk price reporting model; updates to economic life estimates for both manufacturing plant and site services assets; and a one-off benefit applied to the Notional Processor this season.

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13 Commerce Commission "Our approach to the milk price manual and milk price calculation reviews" (2023), at paragraph 111.

14 Commerce Commission "Our approach to the milk price manual and milk price calculation reviews" (2023), at paragraph 112. As described, for purposes of identifying changes which might be elevated to a focus area, we apply an 'indicative operational' materiality of an equivalent of 0.5% of the WACC used in the milk price reporting model for the season under review.

Information considered in our review process

2.16 In reaching our conclusions we have considered:

2.16.1 submissions received on our draft report[15]

2.16.2 Fonterra's Reasons paper in support of the base milk price calculation for the 2025/26 season[16]

2.16.3 additional models and documentation that Fonterra provided to us during our review which show the application of the assumptions, inputs and processes used by Fonterra in the base milk price calculation.

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15 Submissions on our draft report were received from three stakeholders (Fonterra Co-operative Group Limited, Open Country Dairy Limited and Parker Business Services Limed), available at https://www.comcom.govt.nz/regulated-industries/dairy/projects/202526-milk-price-calculation/?section=documents&date=2026-08-17.

16 Fonterra "2025/26 base milk price reasons paper" (15 June 2026).

3. Summary of conclusions

Purpose of this chapter

3.1 In this chapter we outline our conclusions on the extent to which the assumptions, inputs and processes of the base milk price calculation for the 2025/26 season are consistent with the s 150A purpose, including conclusions on our focus area review and fit for purpose review.

Summary of overall conclusion

3.2 Our conclusion is that the assumptions Fonterra has adopted, and the inputs and processes it has used to calculate the 2025/26 base milk price are consistent with the contestability and the efficiency dimensions of the s 150A purpose.

Focus areas of our review

Lactose import prices and associated costs

3.3 Our conclusion is that the assumptions Fonterra has adopted, and the inputs and processes it has used that we reviewed as part of our focus areas are consistent with the contestability and efficiency dimensions of s 150A. We consider that:

3.3.1 The assumptions Fonterra has adopted, and the inputs and processes it has used for calculating the lactose import price and associated costs are practically feasible for an efficient processor.

3.3.2 The way in which the lactose import price and associated costs are calculated incentivises Fonterra to operate efficiently.

3.4 We note that in our review of the 2025/26 Manual we recommended Fonterra consider how it can more clearly set out the way in which lactose costs are calculated in the Manual.[17] In that review we noted that Fonterra's amendment to the definition of Lactose Price, to include lactose freight costs, did not reflect our understanding of the way the Lactose Price is calculated. We note that the calculation of the lactose freight cost per metric tonne (**MT**) does not appear to be consistent with the Manual, but this is a Manual drafting concern, rather than a concern with how lactose freight costs are calculated.

3.4.1 We note that the way in which the separate components of the transaction value lactose import price and lactose freight costs are calculated to make up the Lactose Price is not new or different to how these components have been calculated in prior seasons. As such, we do not see this as a calculation issue.

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[17] Commerce Commission "Final report – Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001" (15 December 2025), at pages 19 and 20.

3.4.2 However, we consider that the Manual should be amended to more accurately reflect the calculation process, as outlined in our review of the 2025/26 Manual.[18] We note that Fonterra has sought to address this issue in the Manual for the 2026/27 season, which we will soon review.

Fit for purpose review

Review year items

3.5 There are no review year items for the 2025/26 season.

Review of other matters

3.6 We have reviewed Fonterra's explanations for cost category movements in relation to both variable and fixed cost components between the 2024/25 and the 2025/26 seasons.

3.7 We identified a material increase from last year's costs for lactose. This was driven by changes in international lactose prices and is outside of Fonterra's control. We consider this increased lactose cost is consistent with the efficiency and contestability dimensions of the s 150A purpose.

3.8 Off-GDT sales are expected to contribute a much smaller amount to the base milk price than they typically have in previous seasons. Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra in the calculation of the contribution of off-GDT sales are consistent with the contestability and efficiency dimensions of the s 150A purpose.

3.9 The Notional Processor has utilised the Investment Boost tax incentive scheme this season. Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra in the utilisation of the Investment Boost tax incentive by the Notional Processor are consistent with the contestability and efficiency dimensions of the s 150A purpose.

3.10 There has been a significant increase in unstandardised production that is modelled to be produced in the South Island for the 2025/26 season. Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra to model unstandardised production are consistent with the contestability and efficiency dimensions of the s 150A purpose.

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18 Commerce Commission "Final report – Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001" (15 December 2025), at pages 19 and 20.

3.11 Reseller fees have been specified in Fonterra's Reasons paper this season and separated out in the base milk price reporting model. However, they are not a new part of the base milk price calculation, and the way in which they have been determined is unchanged from prior seasons. Our conclusion is that the assumptions adopted, and the inputs and processes used related to reseller fees, as they apply to the calculation of selling prices in the base milk price, are consistent with s 150A.

3.12 Fonterra has updated the economic life estimates for new manufacturing plant and site services assets installed from the 2025/26 milk price season onwards. Our conclusion is that the assumptions adopted, and the inputs and processes used related to the economic life of assets, as they apply to the calculation of the capital recovery in the base milk price, are consistent with s 150A.

3.13 There has been a one-off benefit included in the milk price this season, arising from accepting milk from a third-party processor on non-standard terms. Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra for the inclusion of a one-off benefit to the base milk price are consistent with the contestability and efficiency dimensions of the s 150A purpose.

3.14 We did not identify any inconsistencies or material variances in inputs and assumptions compared with last year's base milk price calculation that we have not addressed elsewhere in this report.

3.15 For cost inflation adjustments, the rates Fonterra used are compiled independently of Fonterra's current year performance and so provide an appropriate notional benchmark to beat.

3.16 In its Reasons paper in support of the Calculation, Fonterra has confirmed that it has:

3.16.1 not made any substantive amendments to the Manual for 2025/26

3.16.2 not made any material changes to the Calculation methodology since last year.[19]

3.17 We rely on our conclusions from previous years' reviews for those aspects of the Manual and the Calculation methodology that have not significantly changed from previous years.

[19] Fonterra "2025/26 base milk price reasons paper" (15 June 2026), at pages 19, 28, 40.

3.18 Therefore, for the assumptions adopted, and inputs and processes that we have analysed as part of the fit for purpose review, our conclusions are as follows:

3.18.1 The assumptions Fonterra has adopted, and the inputs and processes it has used in calculating the 2025/26 base milk price, are consistent with the efficiency dimension of the s 150A purpose.

3.18.2 The assumptions Fonterra has adopted, and the inputs and processes it has used to calculate the 2025/26 base milk price, are consistent with the contestability dimension of the s 150A purpose.

3.19 The following chapters set out our detailed findings and reasons for our conclusions on each focus area, and our fit for purpose review.

4. Detailed findings and conclusions on the lactose import price and associated costs focus area

Purpose of this chapter

4.1 In this chapter we outline our detailed findings from the review of lactose import prices and associated import costs, including the extent to which the assumptions, inputs and processes are consistent with the s 150A purpose.

4.2 This chapter considers the scope of the focus area, including individual aspects of lactose import prices and associated costs, and a conclusion for each of the aspects considered.

Scope of focus area

4.3 We proposed focusing on the import price and associated import costs of lactose in our proposed focus areas paper. We did not propose to review the required volume of lactose and lactose losses.[20]

4.4 We did not receive any submissions on our proposed focus areas and so have proceeded with our review as proposed. However, Independent Dairy Processors (**IDPs**) did raise their concern over lactose ingredient costs during the 2024/25 calculation review.[21] We have sought to address several of the points raised in that submission in the course of this review.

Lactose assumption inputs

4.5 One of the points IDPs have previously raised is that the filtering of transactions on the basis of scale and price is not transparent.[22] In Table 1 we outline the values that are used for this process. How they are used is outlined in the following sections.

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20 Commerce Commission "Proposed focus areas for our review of Fonterra's 2025/26 base milk price calculation: process paper" (12 March 2026), at page 6.

21 Miraka, Open Country Dairy, Synlait Milk and Westland Milk Products "IDP Joint submission on the Commerce Commission process paper: "Proposed focus areas for our review of Fonterra's 2024/25 base milk price calculation"" (6 March 2025), at pages 13 and 14.

22 Miraka, Open Country Dairy, Synlait Milk and Westland Milk Products "IDP Joint submission on the Commerce Commission process paper: "Proposed focus areas for our review of Fonterra's 2024/25 base milk price calculation"" (6 March 2025), at page 13.

Table 1: Filtering assumptions for the lactose price calculation

Description	Value	Fonterra's explanation
Tonnage cut off	18MT	Based on the volume of lactose required to fill a Twenty-foot Equivalent Unit (**TEU**) container. Given the import volumes of the Notional Processor, the partial container freight cost per MT are expected to be higher and so are excluded.
United States Department of Agriculture (**USDA**) price threshold	200%	Shipments that exceed the USDA benchmark price by more than 200% are excluded as it is not deemed to fit within the characteristics of commodity grade lactose to be used for standardising. The 200% would represent extreme outliers.
Lactose freight threshold	US$30/MT	Freight per MT below this minimum cost is excluded from the cost including insurance and freight (**CIF**) calculation as it is considered unachievable on commercial terms. The $30 minimum threshold would represent extreme outliers.
USDA premium	Industry based forecast value	This value is only used with forecast lactose prices earlier in the season; it is not used as part of the final lactose price. This value, along with lactose price forecasts, is superseded by the final weighted average lactose costs reported to NZ Customs. The USDA premium is the US inland freight to port cost, which is forecast on top of a base price, to get to a landed price.
Contract to landing lag	2 months	Based on Fonterra's own experience with its lactose suppliers across the US and EU where transit estimates are available. Using the mid-point of any transit time range estimate provided, Fonterra calculates the average transit time in days, which is typically slightly over 60 days. This is used for USDA prices as a check against actual shipments arriving into New Zealand.

Description	Value	Fonterra's explanation
Landing to use lag	1 month	Based on an estimate of the Notional Processor's expected lactose stock turn based on data for the prior season. Fonterra calculates the total actual lactose used divided by the estimated average closing inventory for the season. The inventory balance is determined by calculating the volume of lactose ordered (based on the expected lactose volume need in two-months' time with a small buffer to account for typical variances in volume forecasts) less the volume of lactose used. Fonterra estimates that the Notional Processor will turn over its lactose stores slightly more than 11 times in a season resulting in an assumption of a 1-month NZ storage time.
Months of output to average	3 months	The monthly price is calculated as a weighted average lactose price using the prior 3 months of pricing data (lagged by 1 month). Three months of pricing data is used to reflect the expected longest and shortest transit time between contract date and landed date based on Fonterra's actual transit range estimates from lactose suppliers.

Lactose import prices

4.6 As outlined in Rule 16 of the Manual, Fonterra has the choice of using Fonterra import prices or competitor import prices when calculating the Lactose Price.[23] Fonterra has always chosen to use competitor prices. Fonterra states this is because competitors can source lactose at more competitive rates, given the materially higher volumes they import (compared to Fonterra), and the qualitative characteristics of the lactose that competitors import is more likely to be like that the Notional Processor would be expected to use.

4.7 The following section details how the calculation for import prices is carried out, including how the filtering assumptions are used.

[23] Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 44.

Calculation of lactose import prices

4.8 Prices used are based on Statistics New Zealand import data. Shipments are flagged for whether they enter by sea or air, whether they meet the tonnage cut off, and whether they fall into the correct product group.

4.8.1 Only the Harmonised System (**HS**) code for refined lactose is used (17.02.11.00.00: Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not mixed with natural honey; caramel – lactose and lactose syrup --- Containing by weight 99 % or more lactose, expressed as anhydrous lactose, calculated on the dry matter).

4.8.2 Shipments that arrive by air are typically much more expensive small volume shipments that are not likely to be lactose to be used for standardising milk.

4.9 Shipments are then split into a 'Fonterra' series and a 'competitor' series, with these maintained through the rest of the calculations for import prices. The Customs exchange rate is applied to separately convert a value for duty (**VFD**) series and a CIF series back into USD, for each of 'Fonterra' and 'competitor'.

4.10 While Fonterra uses the terminology VFD and CIF in its lactose model, VFD in this case means the transaction value of the goods. This is the method by which the NZ Customs Service values imports, and is the price paid or payable for the goods on a Free On Board (**FOB**) basis.[24]

4.11 Transaction values are converted to a per metric tonne price, simply by dividing the calculated USD price by the relevant quantity for each shipment.

4.12 The USDA price threshold is applied to the transaction value to exclude any outliers, using monthly average USDA lactose prices.[25]

4.13 A monthly average lactose price is calculated (that is, a simple average). Finally, a three-month volume weighted average is calculated using prices that have been lagged one month (hardcoded values of 'months of output to average' and 'landing to use lag' respectively). That is, a weighted average price is calculated using three months of pricing data to reflect the expected longest and shortest transit times between contracting and landing. This price is then lagged by one month to reflect when the lactose is used by the Notional Processor.

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24 New Zealand Customs Service "Customer guide: Customs valuation guide" (May 2025), at page 10.

25 The publicly available Central and West US Lactose price series is used. Reported at https://mymarketnews.ams.usda.gov/viewReport/1052 by the United States Department of Agriculture's Agricultural Marketing Service. Fonterra uses weekly prices averaged into monthly prices.

4.14 The price series calculated using the competitor transaction value series and the process described above is used for monthly lactose prices in the base milk price model. These monthly prices are averaged to reach a single lactose import price for the season (meaning the transaction value at this point of the calculation).

Conclusion on lactose import prices

4.15 Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra in the calculation of the transaction value of lactose import prices are consistent with the contestability and efficiency dimensions of the s 150A purpose.

4.16 The way in which the transaction value of lactose import prices is determined is consistent with s 150A. In addition, the use of the competitor price series is consistent with s 150A.

4.17 The transaction values of lactose import prices used are those actually achieved by businesses importing lactose into New Zealand, and so they are practically feasible and meet the contestability limb of s 150A.

4.18 The assumptions adopted, inputs and processes used to reach a transaction value lactose import price for the season incentivise Fonterra to operate efficiently. Limits and filters appear to reflect reasonable assumptions of how an efficient New Zealand processor would procure lactose, and the prices used in the calculation are independent of Fonterra. This meets the efficiency limb of s 150A.

Lactose international freight

4.19 Fonterra calculates the international freight component of the lactose cost differently than it does the transaction value import prices. The transaction value prices simply take either a Fonterra price series or a competitor price series, determined before the start of the season, as required by Rule 16 of the Manual.[26] However, for international freight, Fonterra rates are the default and competitor rates are only used for transactions where Fonterra rates are not available. This means that both Fonterra and competitor rates are used to determine a reference freight rate for the season.

4.20 Fonterra has stated the following in reference to international freight rates:

4.20.1 The determination of the CIF series used (competitor vs Fonterra) is made prior to the start of the season and aligned to the determination of the price series used. The determination of the CIF series is applied in the Milk Price Reporting Model.

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26 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 44.

4.20.2 The CIF per metric tonne series is calculated in the Lactose Model based on the principle that a Notional Processor of equivalent size to Fonterra can negotiate similar freight rates and rebates.

4.20.3 The competitor CIF series logic therefore determines the "reference total", where if both the competitor and Fonterra freight rates are available by destination in a month, it will default to Fonterra's freight rate as long as the rate exceeds the commercially achievable lactose freight threshold, but in the absence of a Fonterra freight rate it will default to the competitor rates.

4.20.4 The calculation therefore restates the effective competitor CIF rates, using the equivalent Fonterra rates if discoverable, and it does not default to the lowest possible freight rate.

4.21 The following section details how the calculation for international freight is carried out, including how filtering assumptions are used.

Calculation of international freight rates for lactose

4.22 Freight values are initially calculated by subtracting the transaction values from the CIF values for each shipment in the import data, separated into a Fonterra series and a competitor series. This separates the freight component of the total CIF value from the transaction value. Freight per metric tonne is then calculated.

4.23 The Fonterra freight series and competitor freight series are then combined to calculate a reference freight per metric tonne value, with Fonterra rates allocated first and competitor rates allocated where a Fonterra rate is not available. If the value is below the freight threshold (outlined in Table 1, US$30/MT), it is excluded from the price series.

4.24 Allocating Fonterra and competitor freight rates in this way ensures that there is a corresponding freight rate allocated to each eligible shipment in the model. Individual shipments are not left without equivalent freight rates, which would result in an artificially low freight rate once weighted averages are calculated.

4.25 Both Fonterra and competitor volumes for each shipment are then multiplied by the reference freight per metric tonne value, to reach 'reference total at Fonterra quantity' and 'reference total at competitor quantity' series. These series are summed to create a monthly value. Reference freight is divided by reference quantity to find a new freight per metric tonne value, split into reference freight at Fonterra quantity and reference freight at competitor quantity.

4.26 The actual freight values allocated to the milk price model are lagged by one month and a three-month weighted average is applied, in the same way as for the transaction value import prices. The monthly 'reference freight at competitor quantity' is used in the base milk price model, with these prices averaged to reach a single freight cost for the season, in the same way as for the transaction value import price component. The average transaction value import price and average freight cost are added together to reach the Lactose Price (effectively giving a CIF import price).

4.27 While the competitor series is used for the freight cost (the 'reference lactose freight per metric tonne at competitor quantity' series), Fonterra freight values (but not quantities) may have been used to calculate the freight price in a given month.

Lactose Price in the Manual

4.28 The Lactose Price (that which is defined by the Manual and which appears as 'Lactose' in Fonterra's reporting) is the lactose CIF price – that is, the import price inclusive of insurance and freight (CIF) costs.

4.29 The definition of "Lactose Price" was amended in the 2025/26 Manual to add the clause "inclusive of Lactose CIF costs". However, Rule 16, which defines the way in which the lactose price is determined, does not refer to CIF costs, and the process described in this rule is not the same process that is used for the freight cost component of the lactose prices.[27] This creates uncertainty as to whether the same approach should be used to determine lactose freight costs as is used to determine transaction value of lactose import prices.

4.30 In our 2025/26 Manual review, we noted that the amendment referred to above does not provide enough clarity, nor aid transparency of the base milk price calculation. We recommended that Fonterra consider how it can more clearly set out the way in which lactose costs are calculated in the Manual.[28]

Conclusion on lactose international freight

4.31 Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra in the calculation of lactose freight costs are consistent with the contestability and efficiency dimensions of the s 150A purpose.

4.32 The lactose freight costs per metric tonne used as an input are those actually achieved, either by Fonterra or by another New Zealand processor, making them practically feasible and meeting the contestability limb of s 150A.

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27 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 44.

28 Commerce Commission "Final report – Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001" (15 December 2025), at pages 19 and 20.

4.33 The assumptions adopted, inputs and processes used to determine a lactose freight cost per metric tonne incentivise Fonterra to operate efficiently. The resulting value is independent of Fonterra, given that it includes competitor values and quantities. This meets the efficiency limb of s 150A.

4.34 We note that in our review of the 2025/26 Manual we recommended Fonterra consider how it can more clearly set out the way in which lactose costs are calculated in the Manual.[29] The calculation of the lactose freight cost per metric tonne does not appear to be consistent with the Manual, but this is a Manual drafting concern, rather than a concern with how lactose freight costs are calculated.

4.35 In that review we noted that Fonterra's amendment to the definition of Lactose Price to state that it is "inclusive of CIF costs" (indicating that Rule 16, which applies to the calculation of the Lactose Price, includes both the transaction value of import prices and the freight costs), did not reflect our understanding of the way in which the Lactose Price is calculated.

4.36 Rule 16 requires that:

> *The Lactose Price for the Season will be set equal to either the volume weighted average price declared to New Zealand Customs by Fonterra or the volume weighted average price declared to New Zealand Customs by other New Zealand processors…*[30]

4.37 Using either/or implies that one option must be chosen. The freight cost component of the lactose price uses both Fonterra and competitor freight cost inputs, though it only uses competitor volumes to calculate the lactose freight cost per metric tonne.

4.38 The transaction value lactose import prices are consistent with Rule 16 as they only use competitor lactose prices and volumes.

4.39 The way in which the separate components of the transaction value lactose import price and lactose freight costs are calculated to make up the Lactose Price is not new or different to how these components have been calculated in prior seasons. As such, we do not see this as a calculation issue.

4.40 However, we consider that the Manual should be amended to more accurately reflect the calculation process, as outlined in our review of the 2025/26 Manual.[31]

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29 Commerce Commission "Final report – Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001" (15 December 2025), at pages 19 and 20.

30 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 44.

31 Commerce Commission "Final report – Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001" (15 December 2025), at pages 19 and 20.

4.41 We also note that the definition of Farmgate Milk Price Lactose Cost in the Manual includes both 'Lactose Price' and 'Lactose CIF Costs'.[32] Given the definition of Lactose Price now includes Lactose CIF Costs, their inclusion in this definition is redundant.

Lactose foreign exchange

4.42 The Statistics New Zealand data which is used as the basis for calculating import costs is originally sourced from New Zealand Customs. Customs applies an exchange rate at the point of entry to convert import transactions into New Zealand dollars.

4.43 Fonterra stated that lactose contracts are typically priced in USD so the import data will have been based on Customs converting USD to NZD. Fonterra therefore uses the Customs published exchange rate to reverse the prices from NZD back into USD.

4.44 Rule 16 of the Manual states that the lactose cost should include "relevant costs, comprising an appropriate estimate of the Lactose Price converted to NZD at the Benchmark FX Conversion Rate, and any additional costs that might reasonably be incurred in transporting the Lactose Requirements to Fonterra's Sites, each expressed in NZD per MT."[33]

4.45 The Lactose Price (meaning the imported cost of lactose – the import price plus the freight cost) is converted into NZD using the Benchmark FX Conversion Rate once the Lactose Price has been calculated in USD. This is consistent with other aspects of the model which are originally calculated in USD.

4.46 Inland freight and storage costs for lactose are calculated in NZD to start with, given they are domestic costs.

Conclusion on lactose foreign exchange

4.47 Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra for the use of foreign exchange in the calculation of lactose import prices are consistent with the contestability and efficiency dimensions of the s 150A purpose.

4.48 The foreign exchange rates used to convert lactose import costs from NZD to USD are actually achieved by NZ processors and are reported independently of Fonterra, meeting both the contestability and efficiency limbs of s 150A.

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32 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 71.

33 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 44.

4.49 The conversion of lactose costs back into NZD is consistent with other aspects of the model that also use the Benchmark FX Conversion Rate. We consider this process also meets the objectives of s 150A.

Other associated costs for lactose

4.50 There are several other costs for lactose, associated with transporting it from the port and storing it until use, as well as capital requirements. These costs are outlined briefly below.

Inland freight

4.51 Inland freight is calculated on the same basis as the freight for other dry products (ie milk powders). A dry stock freight to port unit cost is calculated by site, based on Fonterra actual values. Inland freight costs are based on the volume of product processed at each site. For lactose, this determines the volume of lactose that is needed to process the assumed volume of standardised milk powder for the season, as a result there is no backfill advantage available in the calculation methodology. There is no streamlined cost in view of the fact that lactose is transported from port to site.

Storage costs

4.52 Dry storage costs are calculated as part of supply chain costs and are calculated with reference to Fonterra actual values. Costs are allocated to lactose by multiplying the dry storage costs by the required volume of lactose.

Storage space requirements

4.53 Capital cost requirements for dry store assets include an allocation for product floor space requirement, with a 10% buffer added. A peak day store space requirement is calculated using peak forecast volumes for the season. Fonterra has noted that the 10% buffer capacity is based on the peak storage requirements of the 2016 season, which represented the highest historical peak milk volumes for Fonterra. For lactose the floor space requirement is 0.79MT/m^2.

Working capital

4.54 Creditor days for lactose are derived from Fonterra's average actual payment terms for lactose contracts, less average transit time (typically around 2 months). In addition, the timing of payments for lactose allocated in the model shows that most lactose is paid for two months prior to the expense being incurred (80 – 85% in the 2025/26 season). The remainder is paid one month prior.

Conclusion on other associated costs for lactose

4.55 Our conclusion is that the assumptions adopted, and the inputs and processes used for each of the costs of inland freight, storage costs and storage space requirements and working capital, as they apply to the calculation of the lactose cost in the base milk price, are consistent with s 150A.

4.56 Actual Fonterra values are referenced in the calculation of each of these costs, making them practically feasible for an efficient processor and meeting the contestability limb of s 150A.

4.57 The assumptions adopted, inputs and processes used to reach the requisite costs incentivise Fonterra to operate efficiently, meeting the efficiency limb of s 150A.

Submissions on lactose and our response

4.58 Parker Business Services (**PBS**) asked the Commission to reconsider the failure of lactose CIF costs to comply with the Manual, including by reference to the principles it [the Commission] applies in determining consistency with the efficiency criteria of s 150A, as established in our Approach Paper.[34]

4.59 The methodology for lactose CIF costs results in a mixture of Fonterra costs and competitor costs being used. The calculation does not use only Fonterra or only competitor values. The lactose CIF cost effectively becomes a notional value independent of Fonterra. We therefore consider it to be consistent with both the Approach Paper and with s 150A. Our concern is that the way in which Lactose CIF costs are calculated is not clearly explained in the Manual.

4.60 Open Country Dairy suggested Fonterra has too much discretion over both FOB lactose prices and related freight costs. It noted that where there are clear independent references for lactose prices and related shipping costs, those independent references should be used as the input references.[35]

4.61 We consider that Fonterra has limited discretion. It is still using an independent reference in the form of import data sourced from Statistics New Zealand. The selection of FOB costs is determined in advance of the season, noted in the Reasons paper for the previous season.[36] The selection of CIF costs is dependent on the data available. Fonterra uses the available data and applies a consistent approach to couple a CIF cost for an import origin with the FOB costs for that import origin. Fonterra has not changed the methodology or approach from season to season. We consider the methodology reasonable as it results in a notional lactose CIF cost.

Overall conclusion on lactose import prices and associated costs

4.62 We consider the way in which each aspect of lactose import prices and associated costs are calculated is consistent with s 150A.

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34 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 38 to 41.

35 Open Country Dairy "Submission by Open Country Dairy Limited: Review of Fonterra's 2025/26 Base Milk Price Calculation" (17 August 2026), at page 2.

36 Fonterra advised in its 2024/25 Reasons paper that it had elected to use the average price reported by other New Zealand processors in the calculation of the 2025/26 milk price – Fonterra "2024/25 base milk price reasons paper" (16 June 2025), at page 29.

4.63 Our conclusion is that the assumptions, inputs and processes used in calculating lactose import prices and associated import costs are practically feasible for an efficient processor and meet the s 150A purpose.

4.64 In our review of the 2025/26 Manual we noted that Fonterra's amendment to the definition of Lactose Price to include "inclusive of CIF costs" did not reflect our understanding of the way that Lactose Price is calculated. We consider that the Manual should be amended to more accurately reflect the calculation process as outlined in our review of the 2025/26 Manual.[37] The calculation of the lactose freight cost per metric tonne does not appear to be consistent with the Manual, but this is a Manual drafting concern, rather than a concern with how lactose freight costs are calculated. We note that Fonterra has sought to address this issue in the Manual for the 2026/27 season, which we will soon review.

[37] Commerce Commission "Final report – Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001" (15 December 2025), at pages 19 and 20.

5. Detailed findings and conclusions from our fit for purpose review

Purpose of this chapter

5.1 In this chapter we outline our detailed findings from our fit for purpose review, including the extent to which the assumptions, inputs and processes are consistent with the s 150A purpose.

Scope of fit for purpose review

5.2 We have reviewed Fonterra's base milk price calculation model, as well as supporting models for each of the key inputs. We have assessed further information on a confidential basis where we considered it necessary.

5.3 There are no review-year items for the 2025/26 season.

5.4 We have examined any changes in the following assumptions that could impact the base milk price:

5.4.1 changes in costs

5.4.2 yield and loss calculations.

5.5 As part of our review, we have also identified the following matters and considered their consistency with the s 150A purpose:

5.5.1 a significantly smaller contribution from off-GDT sales

5.5.2 use of the Investment Boost tax incentive scheme

5.5.3 a significant increase in unstandardised production

5.5.4 reseller fees have been specified in Fonterra’s Reasons paper this season, and separated out in the base milk price reporting model

5.5.5 updates to the economic lives of new assets

5.5.6 an allowance for a one-off benefit, arising from accepting milk from a third-party processor.

5.6 In addition, we have included commentary regarding cost inflation adjustments, as we have provided in recent seasons.

5.7 We note that analysis in this chapter and in Attachment C has now been updated to reflect the final July month-end models (unless otherwise indicated).

Conclusions

5.8 For the assumptions adopted, and inputs and processes that we have analysed as part of the fit for purpose review, our conclusions are as follows:

5.8.1 The assumptions Fonterra has adopted, and the inputs and processes it has used in calculating the 2025/26 base milk price, are consistent with the efficiency dimension of the s 150A purpose.

5.8.2 The assumptions Fonterra has adopted, and the inputs and processes it has used to calculate the 2025/26 base milk price, are consistent with the contestability dimension of the s 150A purpose.

Detailed findings on standard fit for purpose review items

Changes in costs

5.9 Base milk price component costs for the 2025/26 season are higher, with non-milk expenses increasing by $346m or around 12c per kgMS relative to the 2024/25 season. Higher lactose costs are the primary drivers of the increase.

Lactose costs

5.10 Lactose costs for the 2025/26 season have increased by $208m or around 11c per kgMS relative to the 2024/25 season. The increase is primarily driven by changes in international lactose prices applied to the notional milk price volumes and is outside Fonterra's control.

5.11 We have undertaken a review of international lactose price movements and note a similar trend in international lactose prices to the lactose costs applied to the Notional Processor.

5.12 Our assessment of the calculation of lactose costs as a whole is outlined in Chapter 4 of this report. However, for the purposes of our fit for purpose analysis, our conclusion regarding lactose costs this season is:

5.12.1 Prior to the beginning of a season, Fonterra chooses whether it will use its own lactose price or that of other processors in calculating the base milk price. For the 2025/26 season, Fonterra has used the competitor price series, reflecting actual costs for lactose landed in New Zealand. We therefore consider that the assumptions relating to lactose costs are practically feasible.

5.12.2 We consider that selecting Fonterra's competitors' actual lactose costs as a benchmark, prior to the beginning of the season, in combination with the Notional Processor's lactose volume requirements that are significantly larger than Fonterra's actual volumes, incentivises Fonterra to reduce its actual lactose costs (ie operate efficiently).

5.12.3 Therefore, our conclusion is that we consider the lactose cost assumptions are consistent with the efficiency and contestability dimensions of s 150A.

Yield and loss calculations

5.13 A full description of Fonterra's process to update the specification offset and loss assumptions (the yield inputs) can be found in its 2025/26 Reasons paper.

5.14 We have confirmed the calculated yield for the Notional Processor by performing a 'mass balance' calculation to verify that loss assumptions have been properly taken into account. This reconciles the milk solids in the total volume of raw milk purchased by the Notional Processor with the fat and protein in the Reference Commodity Products (**RCPs**) together with associated losses. Losses and composition targets assumed in the yield calculations remain unchanged from the 2024/25 season.

Detailed findings on additional matters

Contribution from off-GDT sales

5.15 As at 30 April 2026, Fonterra forecast that off-GDT sales would contribute 2 cents per kgMS to the milk price in the 2025/26 season, compared to an average contribution of 9-11 cents in previous seasons. It has noted that this decrease is driven by:

5.15.1 supply and demand dynamics this season, considering strong global milk supply

5.15.2 the addition of key tenders as a qualifying sale going forward[38]

5.15.3 a transition to off-GDT pricing being referenced to the SGX index, supporting strong contracting.[39]

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[38] That is, the sale of a Reference Commodity Product that is either on GDT, or a sale which can be reasonably regarded as being on arm's length terms at a price that reflects prevailing market prices, as defined in the Manual for determining which sales inform the base milk price (Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 66).

[39] 'SGX index' refers to NZX-SGX dairy commodity futures for WMP, SMP, AMF and butter. A futures contract is a commitment to make or take delivery of a given asset or of the cash difference at a specific future date at a price agreed today. NZX-SGX dairy commodity futures are cash-settled to the average of a given contract for a specified grade of product on GDT. For example, the August WMP futures contract will settle to the average price achieved at both August GDT events for regular grade WMP sold for October delivery. Commodity futures are listed at: https://www.nzx.com/markets/nzx-dairy-derivatives/quotes/futures/WMP

5.16 Fonterra also noted in its Reasons paper that the proportion of GDT sales informing total sales for the Notional Processor was 62% this season (as at 30 April 2026) – a reduction relative to recent seasons. Fonterra attributed this proportional increase in off-GDT sales to the inclusion of certain key tenders.[40]

Addition of key tenders

5.17 The Milk Price Panel approved adding tender purchases [redacted] to the base milk price calculation.

5.18 Historically [redacted] sales have been considered non-price-informing. In the 2019-20 Calculation review, it was noted that government purchasing agencies are identified as restricted customers and sales to them were excluded from the base milk price because:

5.18.1 Tender sales are generally for large volumes and in most instances Fonterra was the only processor which could fulfil the order.

5.18.2 The conditions imposed by the government purchasing agencies may have resulted in Fonterra being the supplier that was awarded the majority of volume.[41]

5.19 The Milk Price Panel considers this rationale is no longer applicable, because:

5.19.1 These tenders are open to all processors, and volumes have been consistently won by New Zealand processors other than Fonterra.

5.19.2 Fonterra considers the risk of cascading is low, as [redacted] product is only manufactured based on a successful tender.[42]

5.20 Related to this, Fonterra has amended its Reasons paper in relation to qualifying reference material requirements, and specifically the milk price revenue exclusions test. The change has added an exception to the "non-cascadable to general materials" criteria, where the sale is at scale and volumes are made to order.[43]

5.21 This change was necessary in order to include the [redacted] tender sales which are at scale and where volumes are made to order. We consider that this is a reasonable change given that cascadability risk is likely to be low under such circumstances.

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40 Fonterra "2025/26 base milk price reasons paper" (15 June 2026), at page 25.

41 Commerce Commission "Final report – Review of Fonterra's 2019/20 base milk price calculation: Dairy Industry Restructuring Act 2001" (15 September 2020), at pages 19 to 21.

42 Cascading in this context refers to a test as to whether a product can be considered relatively undifferentiated – that is, can it be used to satisfy an order for a standard product offering without prior consultation with the customer?

43 Fonterra "2025/26 base milk price reasons paper" (15 June 2026), at page 56.

Submissions on addition of key tenders and our response

5.22 Submissions on our draft report raised questions as to why some tenders remain excluded,[44] and whether Fonterra has discretion to include or exclude large tenders based on their impact on the base milk price.[45]

5.23 As outlined in our 2019/20 Calculation review, we do not consider that there are strong arguments as to why tender sales in general should inform milk price revenues.[46] The rationale for their exclusion is summarised in paragraph 5.18, which we consider still apply in most instances.

5.24 Where these reasons for excluding tender sales to a specific customer are no longer applicable, and where the sale would otherwise meet the qualifying reference sale criteria, we consider it reasonable to re-evaluate the inclusion of these sales in the base milk price calculation.

5.25 Requirements of government purchasing agencies may mean that tender sales are not cascadable to general trade materials. From the 2025/26 season onwards, Fonterra has revised the qualifying reference material requirements, removing the ability to cascade as an exclusion criteria if the sales volume is at scale and made to order. The amendment to the exclusions criteria introduced this season is intended to apply to all tender sales going forward. This amendment is consistent with what the Manual permits.

5.26 The tenders included in the 2025/26 season base milk price calculation meet the exception to the exclusion criteria. We accept the view of the Milk Price Panel that the historical reasons for excluding these tenders no longer apply.

5.27 Where tender sales to a specific customer have been deemed to meet the amended criteria, we expect their inclusion in future base milk price calculations to be applied consistently. This would not provide Fonterra with discretion to add or remove tenders to influence the base milk price from season to season.

SGX index

5.28 Fonterra has expanded its definition of references for pricing to include the SGX index (referring to NZX-SGX dairy commodity futures prices). This index is now being used as the benchmark for Fonterra's sales team performance with respect to off-GDT sales.

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44 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 9 to 11.

45 Open Country Dairy "Submission by Open Country Dairy Limited: Review of Fonterra's 2025/26 Base Milk Price Calculation" (17 August 2026), at page 4.

46 Commerce Commission "Final report – Review of Fonterra's 2019/20 base milk price calculation: Dairy Industry Restructuring Act 2001" (15 September 2020), at pages 19 to 21.

5.29 This enables Fonterra to provide customers with daily price indications rather than waiting until the next GDT event (which is only two times per month), supporting more responsive and flexible contracting. The shift applies to all off-GDT sales, not solely those used for base milk price qualifying sales.

5.30 We consider this does not impact which sales are included as a 'qualifying sale' and note that these sales remain subject to standard commercial negotiations to reach a final selling price. As such, we do not consider that this change impacts the s 150A purpose.

Conclusion on contribution from off-GDT sales

5.31 The decision to include [redacted] tender sales does not detract from achieving the s 150A purpose. [redacted] tenders are open to all processors and have been won by New Zealand processors other than Fonterra, meaning these sales are practically feasible for an efficient New Zealand processor. Furthermore, the tendering nature of the contract contributes to meeting the efficiency criteria of s 150A, as values are determined externally to Fonterra.

5.32 The amendments to the Reasons paper to enable inclusion of [redacted] sales is reasonable, as we expect Fonterra to continue to include these sales as a qualifying sale going forward. The changes to the Reasons paper contribute to achieving the s 150A purpose.

5.33 Referencing the SGX index does not detract from achieving the s 150A purpose. Dairy commodity futures prices are publicly available and settle to GDT. Any negotiations using futures as reference still need to go through a commercial negotiation process.

5.34 Overall, we consider that the assumptions adopted, and the inputs and processes used for determining the contribution of off-GDT sales are consistent with s 150A.

Investment Boost

5.35 The Notional Processor has utilised the Investment Boost tax incentive scheme this season. From 22 May 2025, the Investment Boost tax incentive is available to claim on new assets, defined as first available for the business to use on or after 22 May 2025 and depreciable for tax purposes. The regime allows a one-off initial 20% deduction, with the remaining asset value depreciated as usual.

5.36 The Notional Processor's capital model assumes that assets commissioned at the start of the 2025-26 milk price season were investments made as part of the 2024-25 milk price capital expenditure. The Notional Processor has subsequently claimed the Investment Boost on these assets.

5.37 We do not have any specific concerns with the way that the scheme has been applied to the Notional Processor.

Conclusion on Investment Boost

5.38 The way in which the Investment Boost tax incentive scheme has been applied to the Notional Processor appears reasonable. The scheme looks to have been applied in the way that any other New Zealand dairy processor would apply it and is available to other processors. As such we consider that the assumptions adopted, and the inputs and processes used are consistent with s 150A.

Unstandardised production

5.39 The most recent review of the fixed asset base was completed in May 2025 (ie in the 2024/25 season). It was decided in this review that F26 processing capacity be maintained as set in 2023/24, with none of the plants reaching the end of their assumed lives being replaced.

5.40 The 2025/26 volume of milk collected (1,574m kgMS) was 4.3% higher than 2024/25. Nationally, milk volumes collected in October, the seasonal peak month in New Zealand, were considerably higher than prior year, and this was particularly the case in the South Island.

5.41 For the 2025/26 season, unstandardised production of approximately 106,000 MT of WMP/SMP is modelled for the South Island over the peak months. This is a significant increase from prior years, with unstandardised production less than 5,000 MT in the 2024/25 and 2023/24 seasons.

5.42 Fonterra has indicated that, in practice, where a shortfall occurs, the Notional Processor would seek to partially standardise product. This results in the partially standardised product being manufactured at the upper limit of the product specification, but it would remain within the GDT range. On this basis, the product can continue to be sold on GDT and feasibly achieving the WMP/SMP prices modelled for the Notional Processor.

5.43 The Notional Processor's modelling choice of only making standardised or unstandardised production is a simplification, as product is only treated as one or the other, however practically still achieving the same amount of partial standardisation required to meet the capacity shortfall.

5.44 To check the practical feasibility of the assumption that the Notional Processor would seek to partially standardise product, we tested whether the implied capacity in the South Island over peak would have been sufficient to make partially standardised WMP/SMP to meet the upper limits of GDT specifications. We have confirmed that there was sufficient capacity to process all milk over peak in the South Island into partially standardised WMP/SMP that would fall within the upper limits of GDT specifications.

5.45 If the Notional Processor were to produce partially standardised product that meets the upper limits of GDT specifications, it would be effectively foregoing some sales volume that would otherwise have been produced, if there was higher plant capacity to do so.

Conclusion on unstandardised production

5.46 We are satisfied that there was sufficient capacity to process all available milk in the 2025/26 season.

5.47 We consider that it is practically feasible for the Notional Processor to have processed all milk in the South Island over peak into partially standardised product which falls within the upper limits of GDT specifications.

5.48 Overall, we consider that the assumptions adopted, and the inputs and processes used are consistent with s 150A and meet both the contestability and efficiency requirements.

Reseller fees

5.49 Reseller fees are the annual fees Fonterra receives from approved resellers of RCPs. Fonterra sells RCPs to these parties on GDT. The resellers then sell the GDT product within their own markets, paying Fonterra a fee to able to do so. Fonterra indicates that these fees are relevant to the milk price calculation as they are an actual fee that a processor of the scale of the Notional Processor could earn if they also ran a reseller programme, and sold RCPs to these resellers on GDT, in the way that Fonterra does.

5.50 Reseller fees are one of several adjustments that Fonterra makes to average base commodity prices, alongside a notional freight rebate, net recoveries on credit management offerings (letter of credit and receivables management services), ocean freight recovery and marine cargo insurance recovery.

5.51 Reseller fees have been an input into the calculation of the average base commodity prices component of the milk price since the 2018/19 season but have not previously been referred to in the Reasons paper. In the 2025/26 Reasons paper, Fonterra has now explicitly referenced reseller fees as an adjustment to average base commodity prices.[47] Fonterra has also separated out reseller fees and the other adjustments that Fonterra makes to average base commodity prices into distinct input items in the base milk price reporting model.

5.52 Fonterra has confirmed to us that it separated out reseller fees and other sales price adjustments for clarity and transparency of the models. There has been no change to the methodology for these items.

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[47] Fonterra "2025/26 base milk price reasons paper" (15 June 2026), at page 25.

5.53 Reseller fees are determined with reference to Fonterra's actual reseller fees received for product acquired through GDT. Fonterra has stated that reseller fees are only included on an absolute basis to the extent to which it is achievable, in addition to the Free-Alongside-Ship (**FAS**) price, by an efficient processor of Fonterra's (and the Notional Processor's) scale.

Conclusion on reseller fees

5.54 We consider it reasonable to assume that an efficient processor could utilise resellers. The resellers are not a related party, which preserves the arms-length sale criteria. We see no reason that another processor of the scale of the Notional Processor could not earn similar fees.

5.55 Given the reseller fees are based on Fonterra's actual fees, we consider that this is consistent with practical feasibility. Apportioning the absolute value of these reseller fees across the Notional Processor's production volumes creates a notional value per tonne of product. This adjustment is applied to the Notional Processor's average selling price, which itself is a notional benchmark. We consider this to be consistent with the efficiency objective.

5.56 Our conclusion is that the assumptions adopted, and the inputs and processes used related to reseller fees, as they apply to the calculation of the selling prices in the base milk price, are consistent with s 150A.

Updates to economic lives of new assets

5.57 Fonterra has noted in its Reasons paper that it has updated some of the capital assumptions after its 2023/24 capital reset.[48] These updates relate to the economic life estimates for manufacturing plant and site services assets provided by Bayleys in 2026. We have reviewed this supporting documentation.

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48 Fonterra "2025/26 base milk price reasons paper" (15 June 2026), at pages 41-42.

5.58 The updated estimates of economic lives will only apply to new assets installed in the 2025/26 milk price season and beyond, consistent with Rule 29 of the Manual.[49] Historic investment continues to be depreciated based on the original asset life assumption in place at the time of investment. As such, these updates do not materially impact the 2025/26 base milk price calculation.

Conclusion on updates to economic lives of new assets

5.59 Revising economic life assumptions to align with actual asset utilisation and replacement patterns is a standard and commercially reasonable practice that would be available to, and adopted by, an efficient operator. The revised assumptions, based on analysis conducted by Bayleys, represent asset replacement lifecycles that are practically achievable in a real-world operating environment. As a result, we consider the updated economic lives of assets consistent with the practical feasibility objective of s 150A.

5.60 We consider the updated economic lives of assets consistent with the efficiency objective of s 150A, as the economic lives are applied to a notional asset base, creating a notional benchmark.

5.61 Our conclusion is that the assumptions adopted, and the inputs and processes used related to the economic life of assets, as they apply to the calculation of the capital recovery in the base milk price, are consistent with s 150A.

One-off benefit

5.62 An allowance for a one-off benefit has been included in the milk price for the 2025/26 season, arising from Fonterra accepting additional milk from a third-party processor on non-standard terms.

5.63 Fonterra accepted additional milk from a third-party processor during the season. It has assessed that the Notional Processor would enter into the agreement under the same circumstances and that the volumes would meet the definition of milk supply in the Manual.

5.64 Non-recurring benefits to the milk price have previously been included. For example, insurance recoveries related to the impact of Cyclone Gabrielle were included in the 2023/24 base milk price (being a partial reversal of costs that had been provided for in the 2022/23 base milk price).

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[49] Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 52.

5.65 While Fonterra has related the benefit to Rule 19 in its Reason's paper,[50] Rule 45 (Additional Commodity Milk Payments) of the Manual allows for additional commodity milk payments to be added back into the Aggregate Farmgate Milk Price.[51]

5.66 We consider that an efficient processor with available capacity could reasonably enter into a similar arrangement if offered.

5.67 For completeness, we note that the impact on the base milk price from this one-off benefit is less than 1 cent per kgMS.

Submissions on one-off benefit and our response

5.68 In its submission on our draft report, Open Country Dairy indicated its view that the one-off benefit applied this season should be genuinely available to an efficient processor, not merely available to Fonterra. It should not arise only from Fonterra's market position or unique processing footprint. Open Country Dairy also considers that the benefit should not increase the benchmark milk price in a way that competitors cannot reasonably replicate.[52]

5.69 We do not consider that the ability to accept milk from a third-party processor on non-standard terms is, in principle, dependent on Fonterra's market position or processing footprint.

5.70 Consistent with our Approach paper, we do not consider that contestability under s 150A requires that every processor be able to replicate a particular assumption. Rather, the relevant question is whether the assumption is practically feasible for an efficient processor.[53]

5.71 In addition, Open Country Dairy put forward its view that including a benefit from milk received from another processor appears to depart from the statutory principle of s 150C(1)(c).[54] It claims that the gain did not arise from Fonterra collecting milk from the farms on which that milk was produced, but from receiving milk from another processor under non-standard commercial circumstances.[55]

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50 Fonterra "2025/26 base milk price reasons paper" (15 June 2026), at page 39.

51 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 59.

52 Open Country Dairy "Submission by Open Country Dairy Limited: Review of Fonterra's 2025/26 Base Milk Price Calculation" (17 August 2026), at page 3.

53 Commerce Commission "Our approach to the milk price manual and milk price calculation reviews" (2023), at pages 13-14.

54 DIRA, s 150C(1)(c), which requires that "For the achievement of the purpose set out in s 150A, the base milk price must be set in a way that is consistent with the following principles… new co-op collects all milk that it processes from the farms on which the milk is produced."

55 Open Country Dairy "Submission by Open Country Dairy Limited: Review of Fonterra's 2025/26 Base Milk Price Calculation" (17 August 2026), at page 3.

5.72 We consider the inclusion of milk supplied on non-standard terms in this instance is consistent with s 150C(1)(c). The raw milk was collected from farms and transported directly to a Fonterra facility. The associated collection costs reflect the collection of milk from the farms on which the milk is produced. The arrangement only relates to a small fraction of a percent of the overall volumes of milk processed by the Notional Processor. In these circumstances, we do not consider that the one-off benefit arose from a departure from the principle in s 150C(1)(c).

5.73 If similar scenarios arise in future, we will assess the relevant facts and circumstances on a case-by-case basis to determine whether its treatment is consistent with s 150C(1)(c) and the purpose of s 150A.

Conclusion on one-off benefit

5.74 Our conclusion is that the assumptions adopted, and the inputs and processes used by Fonterra for the inclusion of a one-off benefit to the base milk price are consistent with the contestability and efficiency dimensions of the s 150A purpose.

Cost inflation adjustments

5.75 In previous base milk price calculation reviews, we have included a review of assumptions relating to the impact on milk price costs of inflationary pressures across the broader economy.

5.76 In response to submissions in the 2024/25 calculation review, we have updated Attachment C cost categories to align more closely with Fonterra disclosures.[56]

5.77 The section below follows the same approach to this topic as we included in our recent Calculation reviews.

Capital asset base costs

5.78 Fonterra has carried out an annual update of capital goods inflation based on an independent report from Bayleys using movements in Fonterra asset values.

5.79 We have reviewed the advisory report prepared by Bayleys for the purpose of valuation of specified plants and assets at various sites to assist with the milk price index pricing update.

56 Commerce Commission "Final report – Review of Fonterra's 2024/25 base milk price calculation: Dairy Industry Restructuring Act 2001" (15 September 2025), at page 63.

5.80 The information sources used to create the capital cost index include, but are not limited to:

5.80.1 Bayleys Plant and Machinery Database

5.80.2 discussions with suppliers and dealers of machinery and equipment

5.80.3 searches of similar plant from internet websites

5.80.4 information provided by Fonterra such as receipts, fixed asset schedule and verbal advice as to original purchase costs and date of assets when acquired.

5.81 The overall increase in the replacement cost of the asset base from 2025 to 2026 was 3.5%. In our 2021/22 Calculation review, we used the Producer Price Index Outputs building construction index as a reasonableness check that is directionally indicative of movements in replacement costs. We have performed a crosscheck against these benchmarks. The annual movement for this index to June 2025 was 1.2%.[57]

5.82 While this is lower than the increase in replacement cost assessed by Bayleys, the index reflects aggregate construction cost trends and is intended only as a high-level cross-check. Given the asset-specific factors considered as part of the Bayleys revaluation, we do not consider the difference to be unreasonable.

Variable manufacturing costs

5.83 We have reviewed the variable manufacturing cost lines to assess the appropriateness of the methods used to update the costs.

5.84 The list of the cost lines and the method applied to each line are outlined in Attachment C.

5.85 The allowable methods for updating variable manufacturing costs are specified in the Manual, in Table 3.1 Detailed Rules.[58] We consider the cost assumptions have been updated in accordance with the Manual.

Other cash costs

5.86 We have reviewed all other cash cost lines to assess the appropriateness of the methods used to update the costs.

5.87 The list of the cost lines and the method applied to each line are outlined in Attachment C.

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57 The Producer Price Index Outputs building construction index is available from Statistics New Zealand Infoshare, Economic Indicators.

58 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 40.

Depreciation expense

5.88 We have reviewed the depreciation expense cost line and noted a decrease of 1.3c/kgMS relative to the 2024/25 season, or a decrease of 6.8%.

5.89 The tilted annuity mechanism used by Fonterra calculates an annual amount of capital recovery, consisting of both depreciation and capital charges on fixed assets, that is constant in real terms over the life of the asset (see Manual Rule 36).[59]

5.90 Depreciation is calculated as the difference between the annuity and the return on capital (based on the Weighted Average Cost of Capital (**WACC**)). In the 2025/26 milk price season, a higher WACC rate increased the return on capital component, and as a result deprecation fell.

Assessment of cost inflation adjustments against the s 150A purpose

5.91 Our conclusions are that:

5.91.1 The methods used are appropriate for the capital asset and variable manufacturing cost lines to which they have been applied. They are based on industry trends in actual cost data and therefore we consider they are practically feasible.

5.91.2 The rates used are compiled independently of Fonterra's current year performance and so provide an appropriate notional benchmark to beat. Therefore, we consider that the efficiency dimension is met.

59 Fonterra, "Farmgate Milk Price Manual for the 2025/26 season (marked-up version) – corrected version" (21 November 2025), at page 56.

Attachment A Responses to other matters raised in submissions on our draft report

Submitter(s)	Key points	Our response
Lactose		
PBS	Request to support in-season disclosure by Fonterra of the lactose cost, on at least a quarterly basis.[60]	This is not part of our remit in relation to review of the base milk price calculation. However, we support any additional disclosures Fonterra chooses to make in relation to lactose costs. Increased transparency of these costs would support the s 150A purpose.
OCD	Key parts of the lactose methodology are not clearly and completely described in the Manual.[61]	We agree that the lactose methodology is not clearly and completely described in the Manual. We consider that the matter outlined in this report is a Manual drafting issue. We note that Fonterra has sought to address this matter in the Manual for the 2026/27 season, which we will soon review.

60 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 34 to 37.

61 Open Country Dairy "Submission by Open Country Dairy Limited: Review of Fonterra's 2025/26 Base Milk Price Calculation" (17 August 2026), at page 2.

Submitter(s)	Key points	Our response
Off-GDT sales		
PBS	Fonterra has changed its approach of reporting off-GDT sales from actual to date to a full year forecast. For Fonterra to meaningfully forecast the contribution from off-GDT sales, it would need to forecast how both GDT and NZX/SGX futures would behave in relation to each other over the remainder of the season. The Commission is requested to further consider whether off-GDT sales continue to contribute meaningful or acceptable discovery of international prices in the same way as GDT prices. PBS also requests the Commission seek clarification from Fonterra on its reporting on off-GDT sales and to support more timely and transparent reporting.[62]	Fonterra has not changed how off-GDT sales are included within the base milk price calculation. The change is only in how these sales are referenced. The wider issue of whether off-GDT sales should be included is outside the scope of this current review. The questions posed by PBS in its submission[63] do not relate directly to how off-GDT sales are included in the base milk price calculation. Fonterra makes regular disclosures (as outlined by PBS in its' submission) in its monthly Global Dairy Update or other releases to the market. We encourage Fonterra to continue to be transparent and to consider when and how it is disclosing information.

[62] Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 9 to 11 and 17 to 21.

[63] Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraph 11.

Submitter(s)	Key points	Our response
PBS	The Commission is requested to provide an explanation for the apparent inconsistencies in the proportion of GDT to off-GDT sales.[64]	Some of the metrics quoted by PBS in its' submission represent differences in timing as well as rounding. Fonterra has stated to us that the 60% quoted in the Reasons paper represents the assumed split of sales volume between GDT and off-GDT channels. This percentage is used as an input to determine the volume of GDT sales and, in turn, influences the commission cost included in the base milk price. The input is reviewed periodically and rounded to the nearest 5%. Fonterra also noted that as underlying sales data is refined throughout the season, the reported percentages may change from month to month, resulting in corresponding movements in the reported weightings. The GDT percentages included in the Reasons Papers are based on the weighted average across all RCPs as at 30 April of the relevant season. This reflects the most current data available at the time the Reasons Paper is finalised. We note then, that the 62% that is quoted in the Reasons paper is the same metric as the 60%, but is the actual figure as of 30 April rather than reflecting the rounded assumption for the full season. We encourage Fonterra to consider how to more clearly describe in its Reasons paper what these numbers represent. We note that the Milk Price Statements reflect the final value for the full season of off-GDT sales.

Submitter(s)	Key points	Our response
One-off benefit		
PBS	The Commission is requested to further review the "one-off benefit" to consider whether it reflects Fonterra leveraging market power to gain advantage in third party milk purchases in a manner which is contrary to the contestability outcomes sought by the DIRA.[65]	In this instance, we consider the inclusion of milk supplied on non-standard terms, and the associated benefit, to be consistent with the contestability and efficiency dimensions of the purpose in s 150A.
Reseller fees		
PBS	The Commission notes that Fonterra has been adjusting Notional Processor (**NP**) selling prices to include "reseller fees" since 2018/19. It would seem the Commission was not previously aware of these adjustments. It also appears that Fonterra did not disclose this change in calculations procedures in its Reasons Papers for 2018/19. The Commission is asked to clarify and reconsider the seriousness of this apparent omission.[66]	We have been aware of reseller fees being included in the base milk calculation; however until this season they have been part of a bundle of sales price adjustments. We may consider how sales price adjustments are applied to the base milk price calculation in a future review, if we consider it appropriate.

64 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 22 to 25.

65 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 53.

66 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 23 to 27.

Submitter(s)	Key points	Our response
PBS	The Commission is requested to explain how reseller fees are taken into account in the selling price calculations and what is meant by the inclusion of reseller fees on an "absolute basis".[67]	Reseller fees are one of several adjustments made to selling prices. The absolute basis for reseller fees reflects the actual total dollar value of reseller fees that Fonterra received on sales of RCPs through GDT. It is converted to a sales price adjustment by dividing this value by the total number of tonnes of product modelled to be sold by the Notional Processor.
PBS	The Commission is asked to reconsider whether licence fees for rights granted to certain GDT customers are correctly an adjustment to the GDT selling prices successfully bid by those customers. The Commission is further requested to consider whether such licence fees arise from "unique features of Fonterra" as addressed in paragraph 104 of the Approaches Paper.[68]	Reseller fees are one of several adjustments made to sales prices. We do not consider this a feature unique to Fonterra. As noted in paragraph 5.54, we consider it reasonable to assume that an efficient processor could utilise resellers if they so choose.

67 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 28 to 29.

68 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 30 to 33.

Submitter(s)	Key points	Our response
Unstandardised production		
PBS	The Draft Report notes peak milk in 2025/26 was significantly higher than previous seasons (especially in the South Island) resulting in assumed unstandardised production of 106,000 MT (previous season 5,000 MT). A confusing discussion follows regarding partially standardised production (paragraph 5.36 [of the draft report]). This seems to imply the unstandardised production of 106,000 MT is based on an equivalence calculation from a separate undisclosed calculation for partially standardised production. The Commission is asked to clarify the calculations that determined the volume of unstandardised production and the relevance of any calculations concerning partially standardised production.[69]	The reference to partially standardised production was a separate matter, where we considered the implications for the Notional Processor of selling what was a significant increase in unstandardised powders relative to recent seasons. In response to our question on this matter, Fonterra provided the rationale outlined in paragraph 5.36 of our draft report, namely that in practice, a processor in this situation would seek to partially standardise product to remain within the GDT specification range. As a cross-check, we then confirmed that there was sufficient capacity to process all milk over peak in the South Island into partially standardised WMP/SMP that would fall within the upper limits of GDT specifications.

[69] Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 42 to 43.

Submitter(s)	Key points	Our response
PBS	The peak milk period is also peak "stress" period for production management in the seasonal milk dominated NZ dairy processing industry. On the face of it, the shortfall in South Island capacity would have been a serious challenge for a real world commercial operator the scale of the NP. This raises issues about processing capacity (i.e. plant numbers and scale). The calculations for peak milk processing "under stress" should include a "turn down" of Island based capacity to reflect the real world challenges that arise from distributed plants. A base line for that turndown is readily determined as a calculation of feasible NP non-standardised production at each NP site where daily deliveries (actual Fonterra deliveries) exceed the NP daily standardised milk processing capacity. The Commission is requested to review the calculations of peak milk processing (volume of unstandardised production) to reflect the additional stress on NP distributed plant facilities that would have occurred in the season.[70]	The MPG estimates that peak milk flows would have required the Notional Processor to process approximately 1% of September, 40% of October, 44% of November, and 2% of December milk in the South Island as unstandardised WMP or SMP in the 2025/26 season. These values were determined by the MPG after reviewing the actual daily milk volumes collected by Fonterra for the 2025/26 season and determining the percentage of milk needing to be manufactured as unstandardised WMP/SMP in order to meet any capacity shortfalls in processing capacity at peak (when manufacturing 100% standardised powders). We are satisfied that the MPG determined that the Notional Processor would have been able to process all of the available milk, using realistic assessments of available peak plant capacity and daily milk flows in the South Island for the 2025/26 season.

70 Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 44 to 47.

Submitter(s)	Key points	Our response
PBS	The Commission is also asked to revisit the conclusion that there is sufficient buffer in plant capacity to account for the real world commercial risks of variations in peak milk volumes and of unexpected plant downtime. Ideally this requires independent expert input. If this cannot be properly reviewed within the available timeframe, the Commission is requested to include it as a Focus Area for 2026/27 reviews.[71]	As part of our annual review process we consider information provided by the MPG regarding a forward-looking assessment of incremental plant requirements. This assessment is aligned to Fonterra's formal annual refresh of its long run milk supply forecasts, with decisions regarding the addition of plants made irrevocably approximately 18 months prior to commencement of the Season in which plant is assumed to be first available for use. We have not identified any inconsistencies between these plant decisions and the milk supply forecasts. We therefore do not consider that this matter requires further immediate review.

[71] Parker Business Services "Submission on the Commerce Commission draft report: "Review of Fonterra's 2025/26 base milk price calculation"" (17 August 2026), at paragraphs 44 to 47.

Attachment B Glossary of key terms and abbreviations

Term/Abbreviation	Definition
AMF	Anhydrous milkfat
Approach paper	Commerce Commission's overview of the approach we take in our reviews of Fonterra's Manual and base milk price calculation.
Base milk price	Base milk price, in relation to a season, means the price per kilogram of milk solids (kgMS) that is set by Fonterra for that season.
BMP	Butter milk powder
Calculation review	Commission's review of Fonterra's base milk price calculation for the prior season.
CIF	Cost including insurance and freight, whereby the seller is responsible for moving the goods to the destination port, with cargo insurance.
Dairy season	1 June to 31 May annually
DIRA	Dairy Industry Restructuring Act 2001
FAS	Free Alongside Ship, where goods are delivered by the seller to the buyer's ship.
FOB	Free On Board, where the seller is responsible for the goods until they are loaded on to the ship at the port of origin.
GDT	Global Dairy Trade, online auction platform used to sell dairy commodities
HS	Harmonised System - the globally standardised 6-digit numerical system governed by the World Customs Organisation to classify traded products. Digits after the first six digits are specific to individual countries, allowing more specific use for tax or statistical purposes.
Manual review	Commission's review of Fonterra's Milk Price Manual for the current season.
Milk Price Manual or the Manual	Fonterra's Milk Price Manual
MPG	Milk Price Group
MPP	Milk Price Panel
MT	Metric Tonne

Term/Abbreviation	Definition
Notional Processor or NP	The notional commodity business that is used to calculate the base milk price (in its Reasons paper Fonterra uses the term notional producer).
OCD	Open Country Dairy
PBS	Parker Business Services
Reasons paper	Fonterra's Reasons paper which is provided alongside the Manual for each dairy season (this is also provided when Fonterra discloses its base milk price calculation at the end of each dairy season).
Review Period	With respect to an item subject to review in the Manual, this generally refers to a period of four financial years.
SMP	Skim milk power
TEU	Twenty-foot Equivalent Unit, or the cargo capacity of a standard 20-foot shipping container.
USDA	United States Department of Agriculture
VFD	Value for duty – the value of the good itself, typically used to calculate customs duties and any applicable taxes.
WACC	Weighted Average Cost of Capital
WMP	Whole milk powder

Attachment C Inflationary cost variances and cost drivers

Variable operating costs

Cost line	% change (NZD/kgMS basis)	Unit cost update basis	Usage rate basis
Packaging	2.4%	Actual unit packaging costs for milk price base product specifications	Packaging usage items as per Fonterra product specification. Wastage as per Fonterra actuals after outlier data exclusions.
Energy	7.4%	Actual rates	Actual usage rates from milk price energy audits on Fonterra plants (Darfield / Pahiatua). Equipment supplier data for Butter, AMF and BMP.
Water	8.3%	Budget rates	Equipment supplier information.
Cleaning & CIP	-0.9%	Actual rates	Equipment supplier information and plant acceptance testing information.
Consumables	-7.3%	Actual rates	Equipment supplier information.
Effluent	-3.0%	Budget rates	Effluent kg's fat/protein from milk price loss audit of actual Fonterra plants.
Laboratory	-1.5%	Prior year actuals + inflation (PPI)	Unit testing requirement as per Fonterra product specification, in process testing requirements as per Fonterra actual in process costs for benchmark plants comparable to those assumed for the Notional Processor.
Total	**4.3%**		

Fixed operating costs

Cost line	% change (NZD/kgMS basis)	Unit cost update basis	Usage rate basis
Wages & ERE	-2.2%	Actual rates	Staffing requirements, by level, for each of Fonterra's standard plants, average per cent overtime as per Fonterra's actuals, average per cent temporary labour as per Fonterra's actuals, average per cent employee related expenses as per Fonterra actuals.
Repairs & maintenance	3.9%	Actual rates	Actual R&M spend as a per cent of total replacement cost of eight most similar manufacturing sites of Notional Processor. Total replacement cost of milk price asset base.
Energy - fixed	1.4%	Actual rates	Equipment supplier information for peak energy demand.
Site overheads	-2.1%	Actual rates	Average direct and indirect cost rates as per Fonterra's actuals, FTE provisions for non-plant site labour.
Total	**0.6%**		

Other cash costs

Cost line	% change (NZD/kgMS basis)	Unit cost update basis	Usage rate basis
Commission	-1.5%	Notional unit costs.	Calculated; once every four years an update is made to sales overheads.
Collection costs	-3.0%	Actual rates	Calculated usage rates from production plan using asset footprint and product mix.
Lactose	26.4%	Notional/actual rates	Yield calculations as per Fonterra actuals and loss allowance based on Fonterra actuals.
Variable supply chain costs	11.4%	Actual rates and notional rates	Calculated production volumes of each RCP at each site, with respect to actual volume milk allocated by Fonterra.
Fixed supply chain costs	0.5%	Actual/notional rate	Fixed usage rates for certain activities, reviewed at 4-year review.
Administration	-1.4%	Actual rates	Adjustments to exclude activities not incurred by Notional Processor.
Miscellaneous costs	-19.0%	Actual rates	As incurred as per Fonterra actuals.