17 August 2026

Submission on the Commerce Commission draft report:
"Review of Fonterra's 2025/26 base milk price calculation" (issued 3.8.26)

Submitted by email: *dairy@comcom.govt.nz*
Subject: Submission: 2025/26 Milk Price Calculation Review
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Abbreviations and other references

Approaches Paper – Commerce Commission document: "Our approach to reviewing Fonterra's Milk Price Manual and base milk price calculation (2023)"

BMP - Base Milk Price

DIRA - Dairy Industry Restructuring Act 2001

Draft Report – Commerce Commission draft report issued 3 August 2026 and subject of this submission: "Review of Fonterra's 2025/26 base milk price calculation"

Reasons Paper (2025/26) – Fonterra document issued pursuant to with DIRA s. 150T: "2025/26 base milk price reasons paper (15 June 2026) Public Version"

FMP – Fonterra's farmgate milk price

NP – Notional Processor, the economic performance of which is modelled for purposes of determining the BMP

PBS – Parker Business Services Ltd (the submitter)

25/26 Manual – Fonterra's current (2025/26 Season) Farmgate Milk Price Manual

Introduction

1. PBS provides financial planning and milk cost risk management services to certain New Zealand dairy processors. PBS has an interest in transparency and disambiguation of processes, calculations and components of the BMP. That is the primary focus of this submission.

2. Towards the end of May each year, Fonterra provides a forecast FMP for the season about to commence. When Fonterra considers circumstances have significantly changed, it provides an update of its forecast FMP. Fonterra prefers to use the term "FMP" as an alternative to the DIRA regulated BMP although contends they are the same thing. Fonterra's final FMP is certainly always the same as the BMP[1].

3. It could be expected that Fonterra's forecast FMP is also a contemporary forecast of the BMP providing reliable guidance to the market. That is however evidently not the case, and other considerations appear in play when Fonterra issues its FMP forecasts. For example in the 2024/25 Season, Fonterra's forecast FMP issued at the end of May 2025 was $10.00 (unchanged from the two previous forecasts issued in December '24 and March '25 [2]). By comparison Fonterra's May 2025 BMP forecasts was $10.16. The final FMP (not disclosed by Fonterra until 25 September 2025) was $10.16 i.e. the same as the Fonterra's May 25 forecast BMP. It is unsurprising that the final FMP (final BMP) was the same as the May '25 forecast BMP. By May '25 all material parameters for the final BMP are known and there is little reason why that forecast cannot be established as the final BMP. The BMP of $10.16, known to Fonterra as early as its May BMP forecast, was withheld from the market until the following September.

[1] On rare occasions Fonterra sets a final milk price which is different to the BMP. In such cases Fonterra continues to report its nominal FMP at the same price as the BMP. Fonterra's "Final" or "Announced" FMP is then based on the FMP plus a "Milk Price Adjustment". Under the current regime this has occurred on just two occasions (2013/14 and 2017/18 seasons).

[2] Fonterra typically issues a forecast range and the mid-point of that range is either implicitly or explicitly the Fonterra FMP forecast. It was implicit in the case of the December '24 and March '25 forecasts, and explicit in the case of the May '25 forecast. Recently Fonterra has twice also issued forecast FMPs which are explicitly different from the range mid-point.

Fonterra's BMP forecasts are confidential to Fonterra, although some of them are finally made available in October following the end of the season as part of the DIRA S 150QA disclosures.

4. A fuller comparison between Fonterra's FMP and BMP forecasts starting in December 2024 is provided in Table 1 below. It demonstrates the extent to which Fonterra FMP forecasts are not the same as their BMP forecasts, and that the BMP forecasts provided a timelier and more reliable forecast of the final BMP. Fonterra's FMP forecasts cannot therefore be relied on to provide other dairy processors and indeed Fonterra's own suppliers with a reliable forecast of the final BMP. This is exacerbated by Fonterra's persistence with issuing unjustifiable forecast ranges later in the Season. For example, at the time the confidential May 2025 BMP forecast was $10.16 (the same as the final BMP), Fonterra issued its FMP forecast of $10.00 with a forecast range of $9.70 to $10.30. Fonterra did update the forecast FMP to $10.15 in late August 2025, but the BMP forecast ($10.16) remained obscured by Fonterra's FMP forecast range of $10.10 to $10.20.

5. It is not clear why Fonterra maintains separate BMP and FMP forecasts or its unjustified forecast ranges. However, the delayed disclosure of the $10.16 BMP forecast, known as early as May 2025 by Fonterra but not disclosed in full until late September (four months after the Season had finished) will have had a major impact on Fonterra competitor milk costs and financial risk.

Table 1: Fonterra FMP and BMP Forecasts for the 2025/26 Season

FMP Forecast		BMP Forecast (1)	
Issued	$/kg MS	As at	$/kg MS
5-Dec-24	10.00	Dec-24	10.06
		Jan-25	10.07
		Feb-25	n/a
20-Mar-25	10.00	Mar-25	n/a
		Apr-25	10.10
29-May-25	10.00	May-25	10.16
		Jun-25	10.16
		Jul-25 (2)	10.16
21-Aug-25	10.15		
25-Sept-25 (2)	10.16		

(1) Disclosures made by Fonterra in accordance with DIRA S 150Q(A), issued 14 Oct 2025.

6. Fonterra has access to all data from which the BMP is determined and BMP forecasts are calculated. In many case that data is exclusive to Fonterra. It appears that Fonterra calculates a BMP forecast each month. The January, May and July forecasts are provided to the Commission and are therefore released in the following October in accordance with DIRA S 150QA disclosure requirements. Until that time the forecasts remain confidential to Fonterra. Disclosure in October is 3 months after financial year end and 5 months after the relevant dairy season has finished. This should not be acceptable by comparison with best practice financial disclosure and accountability standards.

7. The unreliability of the Fonterra FMP forecasts adds weight to the need for transparency in the milk price calculations so that other dairy processors can manage their milk price risk and Fonterra cannot retain exclusive knowledge until well after the Season has closed. This should be a priority for achieving the DIRA contestability requirements for the market for raw milk in

New Zealand. BMP transparency is currently however woefully inadequate. This submission seeks increased transparency in a number of areas addressed in the Draft Report.

8. More broadly, transparency should be a key issue for the DIRA review currently underway. It is hoped the Commission will provide input based on the unique perspectives it has gained on this issue.

Off-GDT sales

Contribution to the BMP from off-GDT Sales

9. As the season proceeds, Fonterra provides three updates ($/kg MS[3]) on the contribution to the BMP from off-GDT sales. Until the first report in 2025/26, Fonterra had always reported a season to date contribution to the BMP. For example in its first report for 2025/26 issued at the end of January 2026, Fonterra advised off-GDT sales to the end of November 2025 contributed $0.02/kg MS to the BMP[4]. In its second update for the 2025/26 Season (issued end of March 2026) Fonterra changed to reporting a full year forecast contribution from off-GDT sales. That forecast was $0.02/kg MS. The season to date contribution was no longer reported. The forecast was unchanged in its next report (issued 29 May '26) and the forecast impact is again disclosed as $0.02/kg MS in the Draft Report (paragraph 5.15). No reason has been provided for the change in the approach from reporting actual to date to full year forecast.

10. For 2025/26 then, Fonterra has consistently forecast a zero net contribution from off-GDT sales to the BMP for sales commencing 1 December '25. On the face of it, a meaningful forecast of the full year impact from off-GDT sales is challenging. This is especially now the case where Fonterra uses SGX dairy futures prices as the reference price for negotiating off-GDT sales prices (Draft Report paragraph 5.22). For Fonterra to meaningfully forecast the contribution from off-GDT sales, it would need to forecast how both price series (GDT and NZX/SGX futures) would behave in relation to each other over the remainder of the season. This would seem no easier than forecasting a lottery [5]. It is then remarkable that the Fonterra forecast of $0.02/kg MS remains unchanged since November 2025. This raises questions about the underlying circumstance that lead Fonterra to be able to meaningfully forecast the full year impact of off-GDT sales.

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[3] It is understood this $/kg MS metric is the difference (delta) between a BMP based on GDT prices only, and the final BMP based on GDT plus off-GDT prices. Fonterra does not provide a definition of the metric or of its calculation. It is not for example clear how the impact of sales phasing is taken into account in the calculations from which the delta is drawn. A sales phasing impact occurs from the undisclosed impact of the volume informing off-GDT sales (which includes the price informing off-GDT sales). It seems obvious that the second limb of the delta (i.e. the final BMP including all price informing sales) must be adjusted for sales phasing. It is unclear if the first limb is also adjusted for sales phasing and if so, for which part of the volume informing sales. The "contribution metric" cannot be properly interpreted in the absence of a definition of how it is calculated.

[4] This first report for 2025/26 was issued late. The first report is typically issued at the end of November and addresses results as of the end of October.

[5] Comparisons between SGX futures prices with GDT prices for the same reference shipment date show major variations both up and down. This is not unexpected. At any time however, it does not appear possible to meaningfully determine how a current price established on the futures market (current or future) will compare with a comparable GDT price in the future. Both price sets (futures and GDT) can be highly (and varyingly) volatile at various times.

11. The Commission is asked to seek the following clarifications from Fonterra with regard to the contribution from off-GDT sales:

    - Why did Fonterra change from reporting the contribution on a year to date basis to a full year forecast basis?
    - Is it reasonable that Fonterra is in a position to provide a meaningful forecast of the contribution from off-GDT sales and if so why?
    - Does Fonterra intend that reports on the contribution from off-GDT sales going forward will continue to be on a full year forecast basis?
    - Define how the $/kg MS contribution from off-GDT sales is calculated and in particular how sales phasing is taken into account (refer note 3 above).

Reduction in the contribution from off-GDT sales

12. Fonterra forecasts that off-GDT sales will contribute $0.02/kg MS to the 2025/26 BMP. By comparison the contribution last season was $0.11/kg. That is the same as the average and typical contribution since 2016/17[6].

13. The Draft Report (paragraph 5.15) attributes the decline in the contribution from off-GDT sales to:

    - Supply and demand dynamics
    - The addition of key tenders as qualifying sales
    - "…off-GDT pricing being referenced to the SGX index". Paragraph 5.22 states this more clearly as "the SGX-NZX index (referring to NZX-SGX dairy commodity futures prices) [is] now being used as the benchmark for Fonterra's sales team performance with respect to off-GDT sales".

Key Tenders as Qualifying Sales

14. Tenders were previously explicitly identified as a sales category which does not meet the DIRA definition of dairy commodities. Tender sales were therefore excluded from NP selling price calculations. It was represented by Fonterra and accepted by the Commission that tender sales should be excluded because of the large volume sought and that Fonterra was the only New Zealand processor that could participate. This rationale had been contested in submissions to the Commission. Fonterra competes with other global suppliers for these tenders. It should be irrelevant to discovery of global commodity prices whether other NZ processors are able to participate.

15. Fonterra has now concluded tenders can in fact meet the requirements of qualifying price informing sales, although Fonterra continues to include only some (or one?) "key" tenders. No explanation is provided of the characteristics that determine a tender is a "key" tender. It is not clear why all tenders (fulfilled by reference products) are not simply included in NP price

[6] Certain off-GDT sales for butter and BMP have always been included in the BMP calculations. This was necessary at a time that limited (or no) volume of these products was sold on GDT. In the 2016/17 season, the scope for including off-GDT sales was expanded to include the full range of reference products. The contribution of $0.11/kg MS noted above is for the full range of off-GDT sales included in the BMP.

calculations. The fact that a sale is an outcome of a tender process should not itself be relevant to determining "price include" sales. It would seem that inclusion of specific tenders is at Fonterra's discretion and the Commission is comfortable with this.

16. **The Commission is requested to explain why some (many?) tenders remain excluded from NP price calculations, and why tenders should continue to command special consideration in determining "price include" sales.**

Off-GDT Pricing now referenced to NZX/SGX Futures Prices

17. Fonterra has previously advised that off-GDT prices were negotiated with reference to GDT prices. This provided significant assurance for adding (confidential) off-GDT selling prices to transparent GDT selling prices for determining the NP selling prices. That assurance was repeated in the 2025/26 Fonterra Reasons paper (now apparently in error) as justification for including off GDT sales in the BMP:

    At page 25: "The remaining 40 percent of 'price informing' sales, *all of which used the most recent relevant GDT price as a key reference point*, were undertaken through other sales channels".

18. The change in Fonterra policy for managing price performance is not in question here. However, with the loss of a key justification for including off-GDT sales prices (direct link to GDT pricing), it is reasonable to reconsider if the contribution from off-GDT sales should continue to be included in the BMP. Excluding off-GDT sales would have the advantage of simplifying the BMP calculations and of increasing acceptance of and confidence in NP selling prices.

19. **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, and whether they should continue to be included in NP selling price calculations. On this point, it is likely, as is its prerogative, that Fonterra is an active participant and possibly at times a price maker in the NZX/SGX futures market price disclosures (e.g. SGX reported "Daily Settlement Prices").**

20. As noted above, contribution from off-GDT sales had been uniform (and thus predictable) across a long time period. This no doubt reflected the pricing policy where off-GDT prices were negotiated with reference to GDT prices. It is of concern that the change in Fonterra's pricing policy could now result in the contribution from off-GDT sales being a new source of volatility/prediction risk for the BMP. If the Commission continues to consider inclusion of off-GDT sales remain compliant with the DIRA, the clarifications sought in paragraph 11 above become even more important.

21. **In addition, the Commission is requested to support that Fonterra should provide more timely and transparent reporting of the contribution from off-GDT sales as follows:**

    - **Improve certainty and regularity of reporting the contribution: a change to a minimum quarterly reporting is sought, publishing in each of September, December, March, and June for periods ending August, November, February and May; and**
    - **That each of these reports provide at least the year to date contribution from off-GDT sales.**

Relative Proportions: GDT and off-GDT sales

22. The Draft Report paragraph 5.16 (quoting the Fonterra Reasons Paper page 25) explains that "the proportion of GDT sales informing total sales" has reduced from 70% to 62% because of the newly included "key tenders". The Fonterra Reasons Paper (page 25) provides that explanation but at the same time provides a seemingly different measure of this same metric – i.e.

    - "The split of GDT sales informing the NMPB sales reduced to 62 percent compared to prior Seasons of approximately 70%". At the same time, Fonterra states:
    - "In the forecast Farmgate Milk Price as at 31 May 2026, 60 percent by volume of Fonterra's actual sales used to calculate NMPB revenue were undertaken on GDT. The remaining 40 percent of 'price informing' sales …. were undertaken through other sales channels"; and then inconsistently states

23. Fonterra also reports a split between GDT and off-GDT sales in each of its annual Milk Price Statements. The 2024/25 Milk Price Statement for example reported that "off-GDT sales accounted for 36% of the sales used to inform the Farmgate Milk Price" – i.e. GDT sales accounted for 64% of sales. Using the same source, average GDT sales over the past three seasons again represented 64% of sales, and average over the last five seasons has been 62%. Compared to these reports in the Milk Price Statements, the 62% by volume noted in the first bullet point above (or 60% in the second) is largely unchanged from "prior seasons" and on that basis there has been no noticeable change from the inclusion of "key tenders".

23. While the claimed prior season number of 70% noted in the first above bullet point is not consistent with the Milk Price Statements, it does appear in Fonterra disclosures for the 2024/25 BMP as part of calculations to determine GDT commissions[7].

24. This inconsistency and ambiguity in the proportion of GDT to off-GDT sales raises a number of issues, including concerning the calculation of GDT sales commissions.

25. **The Commission is requested to provide an explanation for the apparent inconsistencies noted above.**

Reseller Fees

Disclosure: Reseller Fees

23. Fonterra charges "reseller fees" to certain customers that purchase product on GDT. While not explained further, it appears the fees are consideration for certain rights granted to those customers for product purchased on GDT, not available to other GDT customers.

24. The Commission notes that Fonterra has been adjusting 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.

[7] For example, in excel file "F25 July WD3 Milk Price Reporting Model (Redact and Release)", a file within "July Models.zip" of the S150QA disclosures for the 2024/25 BMP.

25. Reliability of the calculations which determine NP selling prices are crucial for confidence in the milk price calculations. Fonterra publishes no details to show how its selling prices are translated into the NP selling price. Reliance is placed on the Commission to provide assurance the calculations comply with the DIRA. Those assurances are routinely provided by the Commission. It is now of concern the Commission was not in fact in a position to provide that assurance because it was not provided will the full calculations for the selling prices.

26. This omission should add weight to calls for the BMP to be calculated (and forecast) independently of Fonterra control.

27. The Commission is asked to clarify and reconsider the seriousness of this apparent omission. The Commission might also consider if independent calculation of the BMP would better serve the purposes of the DIRA (for example in the context of the current review of the DIRA).

Calculation

28. The Draft Report (paragraph 5.47) explains that "reseller fees are only included on an absolute basis to the extent to which it [sic] is achievable ". The Draft Report quotes directly from the Fonterra Reasons Paper (page 25). It is difficult to draw meaning from this explanation, including but not limited to what is intended by "absolute basis".

29. 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".

Sales Channel

30. The Draft Report (paragraph 5.48) concludes it is reasonable to consider "resellers" are a "sales channel" for an efficient processor and that reseller fees are an appropriate adjustment to the GDT selling price achieved on sales to resellers.

31. Volume purchased by any customer on GDT depends on success in winning auction volumes at arms-length competition with other GDT customers. Presumably Fonterra cannot influence or determine how much volume any single customer wins at each auction. It is then difficult to consider that "resellers" purchasing from GDT are a Fonterra sales channel. GDT is the sales channel, not the status of certain "reselling" rights. That would be different to a possible other scenario where Fonterra appoints a reseller and manages the volume available for sale through that sales channel.

32. On the basis of the information provided, reseller fees collected from certain GDT customers seem more correctly characterised as licence fees. The fee is consideration for the granting of rights to certain GDT customers that extend beyond rights of other GDT customers.

33. 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:

"…assumptions that are only practically feasible for Fonterra due to features unique to Fonterra… may not be practically feasible for another efficient processor".

Lactose Ingredient Cost

Lactose Cost Calculations

34. Lactose ingredient is the largest single cost accounted for in the BMP. It is volatile, reflecting the underlying volatility of international lactose prices, exacerbated over time by major events (Covid, regional wars) materially affecting international freight costs. Over the past five completed seasons lactose cost was on average $0.46/kg MS, ranging from a low of $0.39/kg MS to a high of $0.59/kg MS. The Draft Report suggests 2025/26 lactose cost is $0.55/kg MS, close to the highpoint over the previous five seasons.

35. It is noted with gratitude that the Commission has laid out in detail in the Draft Report the complex suite of parameters and assumptions used to determine the NP lactose cost. As the season unfolds many of these parameters are known only to Fonterra – eg:

- NP product mix
- NP production plan scheduling/scheduling of lactose ingredient consumption
- Volume of non-standardised production
- Backing out Fonterra import costs from NZ import statistics

36. As the season progresses, Fonterra currently has exclusive access to key metrics on which the lactose cost will be determined. This gives Fonterra an advantage over its competitors creating increased certainty for itself of a key milk price component. This advantage is similar to the exclusive knowledge Fonterra holds with regard to the NP USD conversion rate, and the contribution from off-GDT sales. Fonterra has recognised and addressed this issue by providing in-season disclosures for those key BMP inputs. In like manner, Fonterra should provide in-season disclosure of the lactose cost.

37. **The Commission is requested to support in-season disclosure by Fonterra of the NP lactose ingredient cost (CIF). This should occur at least on the same quarterly basis as noted in paragraph 21 above.**

Lactose CIF Costs

38. The Draft Report (paragraph 4.34) has identified that CIF costs (mainly international freight and insurance) for imported lactose are not calculated in accordance with the 25/26 Manual. Consistent with the 25/26 Manual, Fonterra calculates the underlying FAS cost of lactose on the basis of its competitors imports into NZ. Fonterra however uses its own importing costs (where available) to determine the NP lactose CIF costs. This does not comply with the 25/26 Manual.

39. The Commission considers this is only a drafting issue for the 25/26 Manual, and does not otherwise affect its view that the CIF cost calculations are compliant with the DIRA. The Commission view seems inconsistent with the principles laid out in its Approaches Paper and which it uses to assess BMP compliance with the DIRA s 150A efficiency requirement.

40. The Approaches Paper states at paragraph 88 that “Fonterra has a stronger incentive to operate efficiently when the base milk price is set independently of Fonterra’s actual performance”. The Commission considers actual Fonterra data can be used where alternative data is not available or where it would be impractical to determine a notional value. It is important the Commission takes a consistent approach in reviewing the BMP calculations. It is also concerning that

Fonterra is able to "pick and choose" from alternative approaches to meet its own objectives. In this case, CIF costs independent of Fonterra's actual performance are of course readily available, in exactly the same way that lactose FAS costs are available (i.e. from NZ import statistics). It is then inconsistent with both the Approaches Paper and the 2025/26 Manual to use Fonterra's own import/CIF costs.

41. The Commission is requested to reconsider the failure of Lactose CIF costs to comply with the 25/26 Manual including by reference to the principles it applies in determining DIRA S 150A "efficiency" as established in its Approaches Paper.

Unstandardised/Partially Standardised Production

42. The Draft Report (paragraph 5.34 ff) 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 ff). 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.

43. 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.

44. The peak milk period is also peak "stress" period for production management in the seasonal milk dominated NZ dairy processing industry. Plant and logistics resources are at their most stretched, and unexpected events can be difficult and costly to manage. For this reason, there is tension between long term capacity planning/installation (capital cost) and the buffer needed to manage short term peaks in milk supply together with the risks of unexpected plant downtime.

45. On the face of it, the shortfall in Sth 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 Draft Report (paragraph 5.40) concludes "there was sufficient capacity to process all available milk in the 2025/26 season". This will have been on the basis of the NP approach to capacity management which simplistically matches capacity and total milk on a "total Island" basis. That approach has been contested in previous submissions to the Commission. It would be particularly concerning that assumptions about available peak milk processing **<u>under stress</u>** follow the same approach. Under these circumstances it is unrealistic to assume processing and logistics could be managed in such a way that total Island milk could readily move between distributed plants across the Island and so operate at peak capacity. Decision lead times to achieve that outcome, and stretched logistics resources mean a different approach is needed.

46. 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.

47. 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. 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.

One-off Benefit: 3^{d} party milk purchases

48. The BMP includes a "one-off benefit arising from accepting milk from a third party processor on non-standard terms" (Fonterra Reasons Paper page 39). This description refers to a single potentially very large transaction. Fonterra refers to Rule 19 of the 25/26 Manual to justify including this transaction in the BMP. Rule 19 concerns "costs of a non-recurring nature". There is no link between Rule 19 (non-recurring costs) and a gain made on 3rd party milk purchases. Rule 19 does not therefore explain or justify including this transaction in the BMP.

49. Fonterra provides no further details of the transaction. The Draft Report (paragraph 5.61) however notes it contributes less than 1 c/kg MS to the BMP. In the absence of further detail, the benefit presumably refers to a discount on the purchase of the milk of as much as $16M ($0.01/kg MS) compared to Fonterra standard terms. Again in the absence of further details, the volume of milk involved was up to 1.6M kg MS (assuming a maximum discount of 100%). Neither of these are trivial numbers.

50. The Draft Report considers (paragraph 5.60) that "it seems reasonable that an efficient processor of Fonterra's scale could accept milk from a third-party processor on non-standard terms", and so concludes the one-off benefit is consistent with DIRA s 150A.

51. The Draft Report does not appear curious about why Fonterra was able to purchase milk at a potentially substantial discount. Given the real world environment in which the transaction occurred, it is likely this reflected Fonterra leveraging market power and its unique position in the NZ market – i.e. the third party had no option other than to sell the milk to Fonterra[8] and Fonterra took commercial advantage of that market power.

52. This submission is indifferent to how Fonterra was able to gain that benefit (other than it likely reflects the continuing limited competition for milk processing in New Zealand). It is however of more general concern that the Commission seems to sanction the BMP can include benefits resulting from Fonterra leveraging market power to an uncompetitive advantage. That should be contrary to the purpose of the DIRA.

53. **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.**

L M Parker
Director
Parker Business Services Ltd
17 August 2026

[8] Dumping milk is not an acceptable option including because of environmental hazards.