

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

Dairy Industry Restructuring Act 2001

15 December 2025



Associated documents

Publication date	Reference	Title
15 September 2025	ISSN 2382-0675	<u>Final report – Review of Fonterra’s 2024/25 Base Milk Price Calculation: Dairy Industry Restructuring Act 2001</u>
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1 August 2023	ISBN 978-1-99- 101282-1	<u>Our approach to reviewing Fonterra’s Milk Price Manual and Base Milk Price Calculation - 2023</u>

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1.0 Introduction

Purpose of this report

- 1.1 This report sets out our conclusions from our statutory review of the extent to which Fonterra's 2025/26 Milk Price Manual (the **2025/26 Manual**) is consistent with the purposes of the base milk price monitoring regime under Subpart 5A of the Dairy Industry Restructuring Act 2001 (**DIRA**).¹
- 1.2 The Manual contains the methodology that will be used to calculate Fonterra's base milk price for the 2025/26 season.
- 1.3 The purpose of the regime is laid out under subpart 5A of **DIRA**.²
- 1.4 The regime is intended to provide incentives for Fonterra to act efficiently, while providing for contestability in the market for the purchase of raw milk from farmers. The regime also promotes greater transparency of Fonterra's base milk price setting processes.³

How this report is structured

- 1.5 Chapter 2 explains our review framework and the scope of our 2025/26 Manual review.
- 1.6 Chapter 3 sets out a summary of our conclusions.
- 1.7 Chapter 4 provides our assessment of amendments to the 2025/26 Manual and their consistency with the s 150A purpose.
- 1.8 Attachment A provides a glossary of the key terms and abbreviations used in this report.

¹ DIRA, s 150A.

² DIRA, s 150A.

³ Dairy Industry Restructuring Amendment Bill (Government Bill) 2012.

2.0 Our review framework

Our approach for the Manual review

- 2.1 This report should be read along with ‘Our approach to reviewing Fonterra’s Milk Price Manual and base milk price calculation’ (**Approach paper**). 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:⁴
- 2.1.1 an overview of how the base milk price is set;
 - 2.1.2 our interpretation of the key legislative provisions guiding our statutory reviews; and
 - 2.1.3 our analytical and practical approach to statutory reviews.
- 2.2 The monitoring regime is intended to provide incentives for Fonterra to act efficiently, while providing for contestability in the market for the purchase of raw milk from farmers. The regime also promotes greater transparency of Fonterra’s base milk price setting processes.⁵
- 2.3 We undertake a review of the Manual for each season. The Manual contains the methodology Fonterra uses to calculate its base milk price. As such, the Manual contains a set of definitions, rules and formulas specifying the inputs and processes to be followed in calculating the base milk price.
- 2.4 We consider the extent to which the Manual is consistent with the purpose of Subpart 5A of DIRA. In particular, our review considers the ‘efficiency’ and ‘contestability’ dimensions of the s 150A purpose as required by DIRA. Our review therefore focuses on whether the methodology and rules used in the Manual:
- 2.4.1 provide an incentive for Fonterra to operate efficiently (the ‘efficiency dimension’); and
 - 2.4.2 adopt assumptions, inputs and processes that would be practically feasible for an efficient processor (the ‘contestability dimension’).⁶
- 2.5 As set out in the Approach paper, the efficiency dimension is met if Fonterra uses notional inputs in calculating the milk price (independent from Fonterra’s actual data).

⁴ Commerce Commission ["Our approach to reviewing Fonterra’s milk price manual and base milk price calculation"](#) (1 August 2023).

⁵ Dairy Industry Restructuring Amendment Bill (Government Bill) 2012.

⁶ We consider the same 'efficiency' and 'contestability' dimensions when we carry out our base milk price calculation review.

- 2.6 Contestability is considered to be provided for if any notional costs, revenues, or other assumptions taken into account in calculating the base milk price are practically feasible for an efficient processor.⁷
- 2.7 To satisfy the purpose of s 150A, our interpretation is that our statutory review must assess the extent to which the Manual is consistent with the efficiency and contestability dimensions. We attach equal weight to both dimensions in our reviews. Our analytical approach to both dimensions is described in chapter 4 of the Approach paper.⁸
- 2.8 We mostly focus our review each year on changes to the Manual from the previous year's Manual and on any unresolved issues carried over from previous reviews.

Scope of this review

- 2.9 DIRA requires Fonterra to provide us with the following information for consideration in our Manual review:⁹
- 2.9.1 the Manual for the current season;
 - 2.9.2 any recommendations by the Milk Price Panel (**MPP**)¹⁰ in relation to the milk price Manual;¹¹
 - 2.9.3 notification of any change in the economic and business environment that, in Fonterra's view, requires a change to the Manual;
 - 2.9.4 certification on the extent to which Fonterra considers that the Manual is consistent with the s 150A purpose; and
 - 2.9.5 the reasoning behind the views expressed in Fonterra's certification.
- 2.10 The above information, where relevant, has been provided by Fonterra and has been considered as part of our review. Specifically, Fonterra has provided us with:

⁷ DIRA, s 150A(2).

⁸ Commerce Commission ["Our approach to reviewing Fonterra's milk price manual and base milk price calculation"](#) (1 August 2023), at paragraph 6.

⁹ DIRA, s 150L.

¹⁰ The MPP is a committee that Fonterra is required to establish and maintain under s 150D of DIRA. The MPP is required, for each season, to supervise the calculation of the base milk price; advise Fonterra on the application of the Manual; and recommend the base milk price to Fonterra. See also Fonterra ["Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) - 1 August 2025"](#) (26 August 2025), at page 27.

¹¹ Fonterra has "interpreted this provision as in fact relating to recommendations by the Milk Price Panel in relation to amendments to the Milk Price Manual." (See Fonterra ["Reasons Paper in support of Fonterra's Milk Price Manual for the 2022/23 season - 1 August 2022"](#) (23 August 2022), at footnote 1). We agree with this interpretation.

- 2.10.1 the Milk Price Manual for the 2025/26 season (marked-up version);¹²
 - 2.10.2 a reasons paper in support of Fonterra's Milk Price Manual for the 2025/26 season (**Fonterra's Reasons paper**), which contains the information noted in paragraphs 2.9.3, 2.9.4, and 2.9.5;¹³ and
 - 2.10.3 the MPP's recommendations to Fonterra's Board with respect to amendments to the 2025/26 Manual.
- 2.11 The 'marked up' version of the 2025/26 Manual shows the changes that have been made to the 2024/25 season's version of the Manual. Fonterra has stated in its Reasons paper that the 'marked up' version of the 2025/26 Manual identifies all amendments to the Manual.¹⁴
- 2.12 In our draft report, we noted several tracking errors in Fonterra's marked up Manual for the 2025/26 season.¹⁵ Fonterra has subsequently provided a revised marked up Manual in which these errors have been corrected, which is published alongside this final report. The Manual amendments in this report reflect the corrected version of the tracking.¹⁶
- 2.13 In addition, we have reviewed the MPP's recommendations to Fonterra's Board.
- 2.14 For this review we have focused on the amendments Fonterra has made to the Manual for the 2025/26 season. We have grouped these into five categories:
- 2.14.1 amendments related to farmgate milk price costs;
 - 2.14.2 amendments related to the reference commodity basket;
 - 2.14.3 amendments related to replacement and incremental Standard Plants;
 - 2.14.4 amendments Fonterra has made in response to our recommendations from the 2024/25 Manual review; and
 - 2.14.5 other minor amendments to the 2025/26 Manual.
- 2.15 We do not consider there to be any unresolved issues to be carried forward from Manual reviews in prior seasons.

¹² Fonterra "[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) - 1 August 2025](#)" (26 August 2025).

¹³ Fonterra "[Reasons Paper in support of Fonterra's Milk Price Manual for the 2025/26 season - 1 August 2025](#)" (26 August 2025).

¹⁴ Fonterra "[Reasons Paper in support of Fonterra's Milk Price Manual for the 2025/26 season - 1 August 2025](#)" (26 August 2025), at page 3.

¹⁵ Commerce Commission "[Draft report - Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001](#)" (15 October 2025), at paragraphs 4.4, 4.12, 4.15, 4.25 and 4.133.

¹⁶ Fonterra "[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) - corrected version](#)" (21 November 2025).

- 2.16 For those parts of the Manual that have remained unchanged we have continued to rely on our previous conclusions. We are not aware of any other new information which would warrant reconsideration of our conclusions in previous Manual reviews.
- 2.17 We published our draft report on 15 October 2025. Fonterra acknowledged our draft report but did not provide a substantive submission.¹⁷ We did not receive submissions from any other parties.

¹⁷ Fonterra “[Fonterra – Submission on the draft report – review of Fonterra’s milk price manual 2025-26](#)” (17 November 2025).

3.0 Conclusions and recommendations

Purpose of this chapter

- 3.1 This chapter sets out our conclusions on the extent to which the 2025/26 Manual is consistent with the s 150A purpose.

Summary of conclusions

- 3.2 Based on the assessment we have undertaken, our overall conclusion is that the Manual is consistent with the statutory purpose set out in s 150A.
- 3.3 We have made some drafting clarity recommendations for Fonterra to consider. In Fonterra's submission on our draft report, Fonterra confirms that it will consider the Commission's suggested amendments as part of its 2026/27 Manual review process.¹⁸

Farmgate milk price costs

- 3.4 For amendments that we have categorised as related to farmgate milk price costs, our conclusion is that these changes are either consistent with the statutory purpose set out in s 150A, or do not impact on achievement of the s 150A purpose. Notwithstanding this conclusion, we recommend that Fonterra:
- 3.4.1 considers aligning the definition of Fixed Manufacturing Costs¹⁹ in section 1.3 "Definitions – Milk Price Costs" of the Manual more closely with the amended Rule 13, to remove any confusion; and
- 3.4.2 considers how it can more clearly set out the way in which lactose costs are calculated in the Manual.

Reference commodity basket

- 3.5 For amendments that we have categorised as related to the reference commodity basket, our conclusion is that these changes are either consistent with the statutory purpose set out in s 150A, or do not impact on achievement of the s 150A purpose. Notwithstanding this conclusion, we recommend that Fonterra:
- 3.5.1 considers aligning Rule 3 more explicitly with the requirements set out in DIRA s 150C(2)(a)(i) regarding the 'five-year time frame'; and

¹⁸ Fonterra "[Fonterra – Submission on the draft report – review of Fonterra's milk price manual 2025-26](#)" (17 November 2025), at page 1.

¹⁹ Fonterra "[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) – 1 August 2025](#)" (26 August 2025), at page 74.

- 3.5.2 considers how removing a product from the Reference Basket affects the Fixed Asset Base and whether this should be described alongside the amendment made to section 4.5 (Farmgate Milk Price Capital Costs).

Replacement and incremental Standard Plants

- 3.6 For amendments that we have categorised as related to replacement and incremental Standard Plants, our conclusion is that these changes are consistent with the statutory purpose set out in s 150A.

Amendments in response to the 2024/25 Manual review

- 3.7 For amendments arising from our 2024/25 Manual review, our conclusion is that these changes are consistent with the statutory purpose set out in s 150A, or do not impact on achievement of the s 150A purpose.

Other minor amendments

- 3.8 For the remaining minor Manual amendments, our conclusion is that these changes are consistent with the statutory purpose set out in s 150A, or do not impact on achievement of the s 150A purpose.

4.0 Assessment of amendments to the 2025/26 Manual

Purpose of this chapter

- 4.1 This chapter sets out our assessment of the extent to which amendments to the 2025/26 Manual are consistent with the s 150A purpose. Details of the changes can be found in Fonterra's marked up Manual for the 2025/26 season.

Farmgate milk price costs

- 4.2 Fonterra has made several amendments that we have categorised as related to farmgate milk price costs. This includes amendments to:
- 4.2.1 Rule 11 and 4.4 Farmgate Milk Price Cash Costs, which remove the requirements to maintain specific models.
 - 4.2.2 Rules 12, 13, and 14, which clarify when costs will be reviewed and under which rule costs are captured.
 - 4.2.3 Rule 18, which explicitly states that costs that are likely to vary in real terms are not inflation indexed between review years. These are instead adjusted based on a methodology prescribed in the review year. The rule will also now include costs associated with the 'social licence to operate' and costs needed to maintain access to markets.
 - 4.2.4 The Lactose Price definition, which now includes lactose cost, insurance and freight (**CIF**) costs (Lactose CIF costs).

Removing requirement to maintain specific models

- 4.3 Fonterra has amended Rule 11 as follows:²⁰

²⁰ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at page 40.

Farmgate Milk Price Cash Costs	
Objective	Costs taken into account in calculating the Aggregate Farmgate Milk Price should: • Reflect the Variable Manufacturing Costs and Fixed Manufacturing Costs that Fonterra could reasonably be expected to incur if it manufactured the Reference Commodity Products included in the Farmgate Milk Price Production Plan; and • Reflect the other cash costs, including Milk Collection Costs, Overhead Costs, and Supply Chain Costs, that would reasonably be incurred by Fonterra if it only manufactured Reference Commodity Products to the Farmgate Milk Price Production Plan for sale on GDT and for delivery to a New Zealand wharf.
Rule	The ~~Milk Price Group will maintain financial models at a level of specificity that enables the review and audit of the calculation of each~~ costs taken into account in calculating the Aggregate Farmgate Milk Price for a Year ~~shall:~~ ~~These models will:~~ • Reflect the Variable Manufacturing Costs of manufacturing Reference Commodity Products (comprising those costs which vary materially with changes in the amount of Milk collected, production volumes or Product Mix, where such changes are within the limits which Fonterra might normally expect to experience in the course of a four year period) given the allocation of Standard Plants to Regions and other Assets to Sites. • Reflect the indirect costs and overhead costs (excluding capital costs) that Fonterra could reasonably be expected to incur at each Site if the Site only manufactured the Reference Commodity Products. ~~The Milk Price Group will also maintain appropriate models for the calculation of the provisions for overhead costs (including corporate costs) and supply chain costs to be deducted in calculating the Farmgate Milk Price.~~

4.4 In addition, Fonterra has also amended a paragraph in the overview section relating to Farmgate Milk Price Cash Costs:²¹

Farmgate Milk Price Cash Costs
Farmgate Milk Price manufacturing costs will reflect the costs Fonterra would incur if it did nothing other than manufacture Milk sourced from within New Zealand into Reference Commodity Products, and if Fonterra’s manufacturing plants incorporated the technology incorporated in the Standard Plants. In summary, the approach involves the establishment of reasonable provisions for all variable and fixed costs incurred in the manufacture of Reference Commodity Products, ~~with the basis for these provisions contained in financial models maintained at a level of specificity that enables the review and audit of the calculation of each cost taken into account in calculating the Farmgate Milk Price.~~

²¹ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 21.

4.5 In its Reasons paper, Fonterra explains the rationale for the changes:²²

"The Manual does not specify recordkeeping requirements for any other inputs into the Milk Price, and these requirements are separately addressed through the governance and oversight arrangements (including oversight from Fonterra's internal audit function, the external auditor, and the Commerce Commission)."

4.6 We consider that the amendment does not impact on achievement of the s 150A purpose, as it does not affect the methodology or approach to calculating Farmgate Milk Price Cash costs. If the calculation approach were to change, Fonterra would still need to demonstrate consistency with s 150A, as the governance and oversight arrangements remain unchanged.

4.7 The amendment does not impact the Commission's review function under DIRA. Section 150T of DIRA requires Fonterra to provide the Commission with the "assumptions adopted and the inputs and process used" in the calculation and reasons for its consistency with s 150A. Additionally s 150ZF(2) provides the Commission with the ability to also require the creation and preparation of information, where this information is required by the Commission's functions.

Clarification of when costs will be reviewed, and under which rules costs are captured (Rules 12, 13, and 14)

4.8 Fonterra has amended Rule 12 as follows:²³

Variable Manufacturing Costs	
Objective	The Farmgate Milk Price Commodity Business may recover the Variable Manufacturing Costs that it could reasonably be expected to incur if it manufactured the Reference Commodity Products to the Farmgate Milk Price Production Plan.
Rule	...Allowable Unit Resource Costs will be set annually and will comprise whichever of the following that the Milk Price Group determines to be appropriate... ...The following categories of costs are included within the definition of Variable Manufacturing Costs: energy, water, chemicals, consumables, effluent, product testing, packaging, and product downgrade. However, to the extent Where any material portion of these costs does not vary significantly with production volumes, the Milk Price Group will establish an allowance using a method which the Milk Price Group determines will provide a reasonable estimate of the cost that portion is included in Fixed Manufacturing Costs would be incurred by an efficient commodity manufacturer.

²² Fonterra "Reasons Paper in support of Fonterra's Milk Price Manual for the 2025/26 season - 1 August 2025" (26 August 2025), at page 8.

²³ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at pages 40 - 42.

4.9 In its Reasons paper, Fonterra explains the rationale for the changes:²⁴

“Amended to increase clarity over which inputs are subject to annual review (both the variable and fixed portions of direct manufacturing costs) and which are subject to four-yearly resets (primarily resource usage assumptions, including direct manufacturing labour requirements, and labour costs), and to remove an element of double-up between rules (eg the reference to repairs and maintenance costs in both Rule 13 and Rule 14).”

4.10 The first part of the amendment aligns with existing calculation methodology. It clarifies that unit resource costs will be reviewed and updated annually (unlike usage rates which are updated at every Review Year).

4.11 The second part of the amendment seeks to remove confusion regarding classification of costs between Rules 12 and 13.

4.12 We consider that the amendments do not impact on achievement of the s 150A purpose, as the amendments do not affect the inclusion of costs in the milk price calculation.

4.13 Fonterra has amended Rule 13 as follows:²⁵

Fixed Manufacturing Costs	
Objective	The Farmgate Milk Price Commodity Business may recover the Fixed Manufacturing Costs that it could reasonably be expected to incur if it manufactured the Reference Commodity Products to the Farmgate Milk Price Production Plan.
Rule	In calculating the Aggregate Farmgate Milk Price a reasonable provision for Fixed Manufacturing Costs shall be deducted. This provision will be subject to review updated by the Milk Price Group in each Review Assessment Year or in the event of a Within-Period Review. The provision established in a Review Year or as a consequence of a Within-Period Review will be indexed for each remaining year in the Review Period to whichever of the Producers Price Index, and the Labour Cost Index, or the average increase agreed to by Fonterra in a relevant collective bargaining agreement is most appropriate. Fixed Manufacturing Costs comprise Direct Manufacturing Labour and Employee Related Expenses, ~~Repairs and Maintenance Costs and any material portion of costs that does not vary materially with production volumes and that would otherwise have been included in the definition of Variable Manufacturing Costs.~~

²⁴ Fonterra “Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025” (26 August 2025), at page 8.

²⁵ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 42.

- 4.14 We note the inclusion of average increases agreed by Fonterra in collective bargaining as an additional indexation method. It would not be unexpected for an efficient Notional Processor, given its scale, to achieve similar outcomes to Fonterra’s collective bargaining because it would be likely to employ a similar number of staff as Fonterra, in the same types of roles.
- 4.15 As such, we do not have any concerns that the inclusion of this indexation method detracts from the s 150A purpose.
- 4.16 However, we consider it important that the index selected for each direct labour or Employee Related Expenses cost component is applied consistently.
- 4.17 We also note the amendments to Rule 12, where the ability to reclassify material portions of costs that do not vary materially with production volumes has been removed. The costs will still be included in the milk price calculation, regardless of the amendment, therefore the amendment does not impact on achievement of the s 150A purpose.
- 4.18 However, we note that in 1.3 “Definitions – Milk Price Costs”, the Fixed Manufacturing Costs definition still includes *“the sum of ... Repairs and Maintenance Costs and any material portion of costs otherwise classified as Variable Manufacturing Costs that do not vary materially with production volumes”*.²⁶
- 4.19 We suggest that the definition is also updated to remove any confusion and ensure consistency with Rule 13.
- 4.20 Fonterra has amended Rule 14 as follows:²⁷

Repairs and Maintenance Costs	
Objective	The Farmgate Milk Price Commodity Business may recover a reasonable provision for the costs of repairing and maintaining the Farmgate Milk Price Fixed Asset Base to the standard implied in the Milk Price Group’s selection of economic lives for these Assets.
Rule	In calculating the Aggregate Farmgate Milk Price a reasonable provision for Repairs and Maintenance Costs shall be deducted, calculated as follows: For Maintenance Department Labour Costs, a provision calculated by reference to Fonterra’s ~~actual prior year~~ costs, adjusted where appropriate for inflation and differences in the characteristics of Fonterra’s fixed assets and the Farmgate Milk Price Fixed Asset Base;

²⁶ Fonterra “[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) – 1 August 2025](#)” (26 August 2025), at page 74.

²⁷ Fonterra “[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) – 1 August 2025](#)” (26 August 2025), at page 43.

- 4.21 The amendment does not impact on achievement of the s 150A purpose. The amendment aligns the rule with the definition of Maintenance Department Labour Costs and has no impact on the calculation of these costs in practice.²⁸

Prescribing methodology, recognition of additional cost types, and under which rules costs are captured (Rule 18)

- 4.22 Fonterra has amended Rule 18 as follows:²⁹

²⁸ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 74.

²⁹ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at pages 45,46 and 47.

Other recurring costs, including site overheads, general overhead costs, and R&D costs	
Objective	The costs of the Farmgate Milk Price Commodity Business will include ~~may recover a~~ reasonable provisions in respect of any ~~other costs that~~ recurring activities it could reasonably be expected to ~~incur if it only undertook the activities performed by~~ undertake given the scope of the Farmgate Milk Price Commodity Business, and which are not provided for under any other specific rule, including expenditure on Site Overheads, General Overheads, Information Systems, and Research and Development.
Rule	In calculating the Farmgate Milk Price reasonable provisions for recurring Site Overheads, Research and Development Costs, Information Systems costs and General Overheads that Fonterra could reasonably be expected to incur if Fonterra only undertook the activities performed by the Farmgate Milk Price Commodity Business, but which are not subject to ~~a~~any other specific rule, shall be deducted. These costs are to be apportioned into two categories, comprising costs which at an appropriate level of aggregation: - Costs that can reasonably be anticipated to be relatively constant in real terms across time. - Costs that are likely to vary across time to the extent that inflation-indexation is not appropriate. In a Review Assessment Year the MPG will determine reasonable provisions for costs falling in the first category for the following Review Year. Each initial provision will be indexed for each remaining year in the Review Period to whichever of the Producers Price Index and the Labour Cost Index is most appropriate. The MPG will determine provisions for costs falling in the second category in each Year during the Review Period ~~A provision for costs falling in the second category will only be deducted in the calculation of the Farmgate Milk Price where the Milk Price Group is satisfied as to the reasonableness of the provision.~~ In establishing ~~a~~provisions for costs falling in either category ~~Research and Development Costs~~, regard should be had to: - Fonterra's relevant actual costs. ~~research and development spend in respect of its Farmgate Milk Price Commodity Business;~~ - Differences in the scope and boundaries of the Farmgate Milk Price Commodity Business and Fonterra. ~~Any target efficiency improvements specified by the MPG; and~~ - Whether allowances for expenditure of a ~~The extent to which Fonterra's actual~~ research and or development (or similar) nature are commensurate with potential revenue gains, cost reductions, or productivity gains to the ~~expenditure can be expected to result in a reduction in the costs deducted in calculating~~ Farmgate Milk Price Commodity Business, or are otherwise of a nature and quantum which could be expected to be incurred by the Farmgate Milk Price Commodity Business to gain or maintain access to milk supply, customers, or markets. - The extent to which an efficient business with the characteristics and scale of the Farmgate Milk Price Commodity Business could reasonably be expected to incur expenditures of a 'social licence to operate' or similar nature without a direct nexus to earnings.

- 4.23 In addition, Fonterra has also amended a paragraph in the overview section relating to Farmgate Milk Price Cash Costs:³⁰

Farmgate Milk Price Cash Costs

The other overhead costs of the Farmgate Milk Price Commodity Business, including site overheads, research and development costs, general overheads and corporate costs, will be established in every Review Period, based on an assessment of the costs Fonterra could reasonably be expected to incur if it only manufactured the Reference Commodity Products and undertook the activities performed by the Farmgate Milk Price Commodity Business. In intervening years, these costs will be increased by the annual movement in an appropriate index, such as the Producers Price Index or the Labour Cost Index to the extent they can reasonably be anticipated to be relatively constant across time and will otherwise be updated annually.

- 4.24 One aspect of these amendments relates to how costs are treated when inflation indexation is not considered appropriate. Fonterra explains its rationale for these changes in the Reasons paper:³¹

“To make explicit the practice of determining whether costs fall in the ‘appropriate to inflation-index’ or ‘not appropriate to inflation-index’ categories at a reasonable level of aggregation. For example, it may be appropriate to provide an overall, inflation-indexed, provision for expenditure for on-farm environmental initiatives by reference to the current portfolio of initiatives, accepting that the composition of the actual portfolio (but not the total spend) may vary significantly over the Review Period.”

- 4.25 Under the amended Rule 18, costs that are not suitable for inflation indexation will now be reviewed and set annually by the Milk Price Group (**MPG**), rather than being determined only in Review Assessment Years and indexed for the years in between.
- 4.26 We consider that the amendment is consistent with the s 150A purpose. Where inflation indexation is not appropriate, the approach of determining these costs each year is likely to result in greater alignment with the costs an efficient processor would incur.
- 4.27 Some of the amendments made to Rule 18 expand the scope of the types of costs that should be considered for inclusion in the calculation. These include:

³⁰ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 22.

³¹ Fonterra “Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025” (26 August 2025), at page 7.

- 4.27.1 costs associated with research or development, if these costs potentially enable proportional gains to productivity or revenue, as well as an overall reduction in costs relevant to the farmgate milk price commodity business; or
 - 4.27.2 costs that may need to be incurred to maintain access to milk supply, customers or markets; or
 - 4.27.3 costs associated with the ‘social licence to operate’ or similar for a business with the scale and characteristics of the farmgate milk price commodity business.
- 4.28 Fonterra explains the rationale for this amendment in its Reasons paper:³²
- “To incorporate in the Manual in outline form the framework for assessing sustainability-related and ‘licence to operate’ costs which is applied in practice.”*
- 4.29 The amendment broadens the type of costs to be included in the calculation and aligns the Manual rule with current practice. We considered sustainability related costs in the 2023/24 calculation review, including an assessment framework that Fonterra outlined. This framework considered both sustainability costs and those associated with the social licence to operate.³³
- 4.30 The inclusion of these costs is likely to better reflect costs expected to be incurred by a commodity business of the Notional Processor’s scale.
- 4.31 Therefore, we consider that this part of the amendment is consistent with the s 150A purpose.
- 4.32 Another aspect of these amendments relates to clarifying the categorisation of costs between Rule 18 and Rule 19. Fonterra explains in its Reasons paper that the purpose of this is:³⁴
- “To better distinguish between Rule 18, which covers ongoing, or recurring, costs not governed by another rule from Rule 19, which covers non-recurring, one-off costs.”*
- 4.33 The amendment makes clear that costs that are subject to other Manual rules will not be included in the deduction arising from Rule 19. We consider that the amendment provides greater clarity and aligns Manual rules with their current application in the base milk price calculation.

³² Fonterra [“Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025”](#) (26 August 2025), at page 6.

³³ Commerce Commission [“Final report: Review of Fonterra’s 2023/24 base milk price calculation”](#) (16 September 2024), at pages 31 – 34.

³⁴ Fonterra [“Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025”](#) (26 August 2025), at pages 6 and 7.

- 4.34 Rule 18 has also been amended to remove a provision where the inclusion of costs in the calculation is contingent on their ‘reasonableness’. Fonterra has described the rationale for this change in their Reasons paper as follows:³⁵

“...to remove the unnecessary requirement that provisions for non-inflation indexed costs only be included where the MPG is satisfied with their reasonableness, noting this is a requirement for all amounts included in the Milk Price calculation.”

- 4.35 We do not have concerns with the removal of this provision and agree that this language is unnecessary for the reason Fonterra has indicated.
- 4.36 As these amendments do not affect the inclusion of costs in the base milk price calculation, we consider that they do not impact on achievement of the s 150A purpose.

Lactose price definition

- 4.37 Fonterra has also amended the definition of Lactose Price:³⁶

Definition
For each month in a Season, an estimate of a lactose price that is materially representative of the arm’s length prices a commercially astute New Zealand-based manufacturer of milk powders could be expected to pay for lactose used to standardise milk powders manufactured in that month, inclusive of Lactose CIF Costs .

- 4.38 We consider that the amendment is consistent with s 150A.
- 4.39 However, we consider that this amendment does not provide enough clarity, nor aid transparency of the base milk price calculation.
- 4.40 Our understanding has been that ‘Lactose Price’ as defined in the Manual does not include Cost, Insurance and Freight (**CIF**) costs, with those calculated separately. The overall lactose cost reported in the base milk price calculation is made up of ‘Lactose Price’ and ‘Lactose CIF Costs’.

³⁵ Fonterra “Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025” (26 August 2025), at pages 6 and 7.

³⁶ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 70.

- 4.41 The way in which the Lactose Price is determined is set out in Rule 16, which requires the Lactose Price to 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, as reported by Statistics New Zealand, for lactose imported into New Zealand over a 12 month period that reasonably approximates the period over which the Farmgate Milk Price Commodity Business could be expected to import its Lactose Requirements for the Season.”³⁷
- 4.42 We understand that Lactose CIF costs are not determined by the same process, although the exact process by which they are calculated is not specified in the Manual.
- 4.43 We recommend Fonterra considers how it can more clearly set out the way in which lactose costs are calculated in the Manual.

³⁷ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 44.

Reference commodity basket

4.44 Fonterra has made several amendments that we have categorised as related to the reference commodity basket. This includes amendments to:

- 4.44.1 Rule 3 regarding the provisions and criteria for introducing new Reference Commodity Products (**RCPs**) to the RCP basket, and in particular removing the consideration of whether competitors manufacture the same product.
- 4.44.2 Rule 2, Rule 32, and related definitions to maintain consistency with the amendments Fonterra has made to Rule 3.

Criteria for introducing new Reference Commodity Products

4.45 Fonterra has amended Rule 3 as follows:³⁸

Subsequent Revisions to Reference Basket	
Objective	The Reference Basket must be revised if it is identified that a combination of commodity products not currently included in the Reference Basket is sufficiently likely to be more profitable than the products currently included that an efficient commodity dairy processor could be expected to invest in the assets required to manufacture those products. ~~Fonterra faces an actual or likely material and sustainable level of actual or potential future competition for Milk in New Zealand from producers of other than Reference Commodity Products.~~
Rule	Additional or replacement Reference Commodity Products may be included in the Reference Basket. A Reference Commodity Product may only be: - Removed from the Reference Basket if: ~~Fonterra does not face a material and sustainable level of likely future competition for Milk in New Zealand from producers of the Reference Commodity Product; and~~ Removal of the product is expected to result in a higher Farmgate Milk Price on average over the remaining economic life of any associated assets that would be removed from the Farmgate Milk Price Fixed Asset Base, having regard to any adjustments required under Rule 32. - Added to the Reference Basket if: ~~Fonterra faces a material and sustainable level of likely future competition for Milk in New Zealand from producers of the Reference Commodity Product, and~~ Addition of the product is expected to result in a higher Farmgate Milk Price on average over the economic life of any additional assets required to manufacture the product. The combination of Reference Commodity Products included in the Reference Basket must be consistent with the conversion of all milk components collected by Fonterra into Reference Commodity Products.

³⁸ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at pages 35 and 36.

4.46 In its Reasons paper, Fonterra explains the rationale for the changes.³⁹

“The original rationale for Rule 3, which provides for amendments to the set of Reference Commodity Products (the Reference Basket) was that the Milk Price should reflect the ability of Fonterra’s competitors to pay for milk for the manufacture of commodity products, and that their ability to pay for milk would depend directly on the products they manufactured. Consequently, the Rule provided that additional commodity products could only be added to the Reference Basket if they were manufactured by other processors.

The corresponding DIRA provision (section 150C(2)(a)) requires that the reference basket comprise “the commodities that are likely to be the most profitable over a period not exceeding 5 years from the time when the portfolio is determined,” and does not contain any reference to the products manufactured by other NZ processors.

The amendments better align Rule 3 to DIRA by removing the references to other NZ processors, mitigating the risk that the Manual could prohibit changes to the Reference Basket which were clearly required under DIRA.

We have not included a reference to DIRA’s five-year time frame, which is much shorter than the economic life of any dairy plant, on the basis that (a) Rule 3’s ‘economic life’ test would be applied by an real-world processor, and is therefore implicit in the s 150A ‘practical feasibility’ requirement and (b) any product which satisfied the ‘economic life’ test in Rule 3 would also satisfy DIRA’s five year test.”

4.47 As referenced in the Reasons paper, DIRA requires the reference basket to be made up of the most profitable mix of commodity products. The language used to amend the objective of Rule 3 is reflective of the relevant DIRA provision s 150C(2)(a)(i).

4.48 However, the objective does not also reflect s 150C(2)(a)(ii), which requires that the portfolio of commodities utilises all components of the milk, although the rule itself does reflect this provision.

4.49 We consider that it is not strictly necessary for the objective to also reflect that the Reference Basket must utilise all components of the milk, given that this is reflected in the rule.

4.50 The remaining amendments to this rule relate to removal of the provisions to consider actual and potential competition from a processor making the same commodity product. This limits any addition to, or removal of, products from the Reference Basket to a consideration of what the most profitable mix of commodities is.

³⁹ Fonterra “Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025” (26 August 2025), at page 5.

- 4.51 A consideration of competition is not required under DIRA provision s 150C.
- 4.52 We consider that the competition related provisions that have been removed were an additional hurdle in any change of the commodities in the Reference Basket. It is difficult to argue that an efficient processor would not choose to adjust the product mix in the Reference Basket if it were more profitable to do so, on the basis of competition (or lack of).
- 4.53 It is also important to note that to add or remove a product based only on the profitability of the product, consideration would still need to be given as to whether doing so meets the s 150A purpose.
- 4.54 We consider that the removal of these provisions is therefore consistent with s 150C and consistent with the s 150A purpose.
- 4.55 Separately, Fonterra also noted that it has not referenced the DIRA five-year time frame, *“the commodities that are likely to be the most profitable over a period not exceeding 5 years from the time when the portfolio is determined,”*⁴⁰ on the basis that the ‘economic life’ test included in Rule 3 would be applied by a real-world processor and is therefore implicit in the s 150A practical feasibility requirement, and any product which satisfied the economic life test would also satisfy the five-year test.
- 4.56 We agree with Fonterra’s points that a real-world processor is likely to apply an ‘economic life’ type test and any product which satisfies this test is likely to also satisfy the DIRA required time frame.
- 4.57 However, the two tests are not the same and our concern would be where a product may satisfy the DIRA test but not the economic life test. DIRA would require such a product to be included in the Reference Basket, although the Manual would not.
- 4.58 We suggest Fonterra gives consideration to such a scenario, and how DIRA s 150C(2)(a)(i) could be better reflected in the Manual. We consider that the rule is still consistent with the s 150A purpose regardless of whether the DIRA five-year time frame has been directly referred to.

Other amendments relating to the reference commodity basket

- 4.59 Fonterra has also amended the overview section relating to Farmgate Milk Price Capital Costs:⁴¹

⁴⁰ DIRA s 150C(2)(a)(i)

⁴¹ Fonterra *“Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025”* (26 August 2025), at pages 24 and 25.

Farmgate Milk Price Capital Costs

....

~~For each Financial Year subsequent to F2008, the~~ The Farmgate Milk Price Fixed Asset Base will be adjusted:

- for the replacement of Reference Assets assumed to have reached the end of their economic lives in the preceding Financial Year;
- where the relevant tests are satisfied, for the removal or addition of assets to reflect changes in the need for production capacity (including where a new Reference Commodity Product is added to the Reference Basket) or the introduction of new technology.

....

- 4.60 An additional product in the Reference Basket may require a change in the Fixed Asset Base to reflect the appropriate production capacity that the Notional Processor would need.
- 4.61 However, Fonterra’s amendment does not reflect the converse situation where an RCP may be removed from the Reference Basket, although the rest of the provision considers the potential for removal of assets.
- 4.62 While we acknowledge that it is unlikely for a product to be removed from the Reference Basket currently, the Manual should recognise the potential for this situation. For example, Rule 3 (revisions to Reference Basket) considers both the removal and addition of RCPs.
- 4.63 This amendment does not impact on achievement of the s 150A purpose.
- 4.64 Fonterra has amended Rule 2 as follows:⁴²

Initial Reference Basket

Objective	The initial basket of Reference Commodity Products which is taken into account in deriving Farmgate Milk Price Revenue should reflect the Products that would be produced as a result of the likely investment decisions of an efficient near-term competitor to Fonterra for raw milk in New Zealand.
Rule	The Initial Reference Basket ~~will~~ comprises ~~standard specification commodity product manufactured from four ‘base’ milk powder streams, comprising four combinations of~~ WMP, ~~or~~ SMP, Butter, ~~or~~ AMF, and BMP.

- 4.65 The removal of the reference to four base milk powder streams does not present any obvious concerns.

⁴² Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 35.

- 4.66 The change to refer to only the base products, without reference also to ‘standard specification product’ makes the Reference Basket more generic, and so more likely to be practically feasible for an efficient processor.
- 4.67 It also improves consistency with other aspects of the Manual which discuss the products used in the Reference Basket, such as where Standard Specification Product is defined on page 63 of the Manual.
- 4.68 We consider this amendment does not impact on achievement of the s 150A purpose.
- 4.69 Fonterra has amended Rule 32 as follows:⁴³

Adjustments for amendments to Reference Commodity Products	
Objective	If the basket of Reference Commodity Products is adjusted, it will be necessary to identify new Standard Plants and to otherwise reconfigure the Farmgate Milk Price Fixed Asset Base.
Rule	If the basket of Reference Commodity Products is adjusted under Rule 3, then: - For each new Reference Commodity Product, a Standard Plant will be determined and the approaches and procedures set out in Rules 25, 26 and 27 with respect to Standard Plants and their allocation to Regions will be applied. - The allocation of Standard Plants and other Reference Assets to Regions and to Sites will be appropriately adjusted to reflect the new composition of the Reference Commodity Basket.

- 4.70 The rule has been amended to include a reference to Rule 26, which outlines the capacity that should be allocated to Standard Plants.
- 4.71 It is appropriate that the capacity that is required to manufacture a new RCP be allocated in the same way as capacity for existing RCPs. The three rules that are referenced in Rule 32 (Rules 25, 26 and 27) collectively determine how a Standard Plant is allocated in the model for the manufacture of a Reference Commodity Product.
- 4.72 It is practically feasible for an efficient processor to consider the capacity that is needed for manufacture of a new commodity and so we consider this amendment to be consistent with s 150A.
- 4.73 In addition, Fonterra has also amended the definition of Standard Specification Product.⁴⁴

⁴³ Fonterra “[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) – 1 August 2025](#)” (26 August 2025), at pages 53 and 54.

⁴⁴ Fonterra “[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) – 1 August 2025](#)” (26 August 2025), at page 63.

Definition

In respect of each Reference Commodity Product, a product specification from Fonterra's Specification Management System (or its successor system) which can reasonably be regarded as being representative of an undifferentiated commodity product and which Fonterra manufactures in material quantities. The Standard Specification Products ~~currently~~ **for the initial Reference Basket** comprise the following products sold by Fonterra on GDT:

- AMF Premium 210kg drum – NZ
- BMP UHT – NZ
- Butter Unsalted – NZ
- SMP Medium Heat – NZ
- WMP Regular – NZ

- 4.74 We consider this amendment is not a significant change and does not impact on achievement of the s 150A purpose.
- 4.75 However, we note that if the composition of the Reference Basket were to change, we would expect the definition of Standard Specification Product to also be updated. This may make the phrasing of the *initial* Reference Basket redundant.
- 4.76 In addition, Fonterra has also amended the Key Assumptions section:⁴⁵

Key Assumptions

The Farmgate Milk Price Methodology (and in particular the definition of the Farmgate Milk Price Commodity Business described in Section 1 of Part B and Section 1.1 of Part C of the Manual) assumes that Fonterra's efficient near-term competition for New Zealand Milk would be from new entrants who would construct ~~milk powder plants~~ **plants for the manufacture of Reference Commodity Products**.

- 4.77 This amendment is consistent with other amendments that have been made to specifically refer to plants for the manufacture of Reference Commodity Products.
- 4.78 The amendment does not impact on achievement of the s 150A purpose.

⁴⁵ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at page 13.

Replacement and incremental Standard Plants

4.79 Fonterra has made two Manual amendments that we have categorised as related to replacement and incremental Standard Plants. This includes amendments to:

- 4.79.1 Rule 31, which introduces reference to a specific accounting standard.
- 4.79.2 Rule 34, which removes the requirement for the Notional Processor to add Standard Plants in all instances where Fonterra has increased peak processing capacity.

Introduction of accounting standard IAS 16

4.80 Fonterra has amended Rule 31 as follows:⁴⁶

Replacement of Reference Assets	
Objective	In the Financial Year after the final year of a Reference Asset's deemed economic life, a replacement Reference Asset may be added to the Farmgate Milk Price Fixed Asset Base.
Rule	A replacement Reference Asset will be added to the Farmgate Milk Price Fixed Asset Base in the Financial Year after the final year of a Reference Asset's deemed economic life, subject to: • there not being surplus capacity in the region to which the asset is allocated; and • it being reasonable to assume the cost of the replacement Reference Asset would qualify for recognition as an asset under New Zealand Equivalent to International Accounting Standard 16 (Property, Plant and Equipment). A replacement Reference Asset will be assumed to have the same operating capacity as the asset it replaces.

4.81 In its Reasons paper in support of the Manual, Fonterra stated that the amendments to Rule 31 are to make it explicit that:⁴⁷

“(a) Milk Price capital costs should not include any allowance for the replacement of short-lived minor items which would be treated as repairs and maintenance [R&M] expenditure for accounting purposes, and which are therefore already provided for in the R&M allowance.

(b) replacement assets should be assumed to have the same functional capacity (eg litres of milk processing capacity for powder plants, or MWh of steam capacity for boilers) as the original asset.”

⁴⁶ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 53.

⁴⁷ Fonterra “Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025” (26 August 2025), at page 8.

- 4.82 Fonterra has stated that the accounting standard referred to here (IAS 16) is the same as that which governs Fonterra's decisions about whether to expense or capitalise outlays on replacing and maintaining its physical assets. Fonterra states that the milk price has always implicitly applied IAS 16 when determining its R&M allowance because this allowance is derived from Fonterra's relevant R&M expense.
- 4.83 The amendments to the rule are intended to demonstrate consistency in application of IAS 16 between Fonterra and the base milk price calculation. Further, Fonterra notes that it has always had regard to the principles in the standard when determining whether allowances for the replacement of shorter-lived assets should be included in replacement capex (and therefore be capitalised).
- 4.84 Fonterra has also detailed that capitalisable costs that are directly tied to the asset are included under Rule 31. R&M expenses will be recorded as operating expenditure under either Rule 14 or Rule 15.
- 4.85 Fonterra considers the amendment to Rule 31 will not have any impact on its approach. It has confirmed that all relevant costs associated with the replacement of a reference asset are captured either as a capitalisable cost or an expense within the base milk price calculation.
- 4.86 In light of Fonterra's reasoning, our view is that it is not unreasonable to refer to an accounting standard to assess the value of assets. However, it is unusual that Fonterra has introduced an accounting standard here, where they are not otherwise referred to elsewhere in the Manual.
- 4.87 It is also reasonable to assume that replacement assets have the same functional capacity as the asset that is being replaced. We therefore do not have any concerns with this part of the amendment.
- 4.88 We consider these amendments to be consistent with the s 150A purpose.

Removing the requirement to add Standard Plants in all instances where Fonterra has increased peak processing capacity

- 4.89 Fonterra has amended Rule 34 as follows:⁴⁸

⁴⁸ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at page 55.

Shortfalls in capacity	
Objective	Where peak Milk Supply in a Region has (or is reasonably expected to) increased by an amount that would result in the commissioning of an additional Standard Plant, the Farmgate Milk Price Fixed Asset Base will be adjusted accordingly.
Rule	An additional Standard Plant will be added to the Farmgate Milk Price Fixed Asset Base ~~if peak Milk Supply increases in circumstances where Fonterra has increased its actual processing capacity in a region, and~~ where a requirement for increased processing capacity is ~~otherwise~~ indicated by an increase in actual or reasonably foreseeable peak supply in the Region.

4.90 In its Reasons paper in support of the Manual, Fonterra stated that Rule 34 has been:⁴⁹

“Amended to remove the requirement for the Milk Price to add a plant if Fonterra has “increased its actual processing capacity in a region” – Milk Price processing capacity is not perfectly aligned to Fonterra’s, so there may be circumstances where an increase in Fonterra’s processing capacity does not imply that the Milk Price requires an additional plant.”

4.91 The amendment removes the requirement for a Standard Plant to be added to the Farmgate Milk Price Fixed Asset Base if Fonterra has increased its actual processing capacity in a region. This means this rule therefore only requires consideration of whether additional processing capacity is required due to an increase in peak milk supply in a Region (with Region being the North Island or South Island).

4.92 We would expect some differences in the Asset Base, even if Fonterra increases its processing capacity. Notional Processor capacity is not perfectly aligned to Fonterra’s. As Fonterra notes in its Reasons paper, this is because the mix of products manufactured by the Notional Processor differs from Fonterra’s range, and the Notional Processor must process the same volume of milk Fonterra collects into RCPs.

4.93 In addition, Rule 35 (site footprint) requires the Notional Processor’s Site Footprint to be aligned to Fonterra’s actual commodity product manufacturing site footprint, including when Fonterra adds a new commodity product manufacturing site, or closes a site, or ceases production of commodity ingredients at a site. The Notional Processor’s peak processing capacity must also be materially aligned to Fonterra’s under Rule 35. So while the amendment to Rule 34 removes an explicit requirement in this specific rule to consider changes to Fonterra’s processing capacity, Fonterra’s site-level commodity processing capacity must still be considered under Rule 35.

⁴⁹ Fonterra “Reasons Paper in support of Fonterra’s Milk Price Manual for the 2025/26 season - 1 August 2025” (26 August 2025), at page 9.

- 4.94 We consider this amendment is consistent with the s 150A purpose. It would only be practically feasible for an efficient processor to increase its plant numbers where available milk supply justifies doing so.

2024/25 Manual review recommendations

- 4.95 Fonterra has made several amendments based on recommendations from our 2024/25 Manual review, which were all drafting recommendations.

Clarification of 'Standard Plants' terminology

- 4.96 In our 2024/25 Manual review, we asked Fonterra to clarify what is meant by 'Standard Plants of Fonterra' referenced in the Key Assumptions section of the 2024/25 Manual.⁵⁰
- 4.97 Fonterra has made the following amendment:⁵¹

Key Assumptions

The Farmgate Milk Price Methodology (in particular the calculation of Farmgate Milk Price Capital Costs described in Section 4 of Part B of the Manual) assumes that the average processing capacity of ~~the Standard Plants of~~ Fonterra's plants for the manufacture of Reference Commodity Products is greater than (or at least equal to) the relevant average processing plant capacity of Fonterra's efficient near-term competitors. If this assumption is incorrect, the processing capacity of those Standard Plants used in the Farmgate Milk Price Methodology should be reviewed.

- 4.98 In its Reasons paper in support of the Manual, Fonterra noted that the 'standard plant' concept is only relevant to the Farmgate Milk Price Business (the Notional Processor), and not Fonterra, so the provision has been amended.⁵²
- 4.99 Fonterra's amendment is reasonable and addresses the clarification we requested in the 2024/25 review. The addition of reference to Fonterra's plants that manufacture RCPs aligns the text with how Fonterra's plant capacity is utilised in the base milk price calculation. Referring to 'relevant' average processing capacity of competitors also ensures that Fonterra is not obligated to consider competitor's capacity for non-RCP products. These amendments do not impact on achievement of the s 150A purpose.

Removal of unnecessary text

- 4.100 We recommended Fonterra also remove "For each Financial Year subsequent to F2008" from page 24, in line with the removal of "For each Financial Year subsequent to F2012" in the 2024/25 season's amendments to the Manual.⁵³

⁵⁰ Commerce Commission, "Final report: Review of Fonterra's 2024/25 milk price Manual" (15 December 2024), at paragraph 76.

⁵¹ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at page 14.

⁵² Fonterra "Reasons Paper in support of Fonterra's Milk Price Manual for the 2025/26 season - 1 August 2025" (26 August 2025), at page 7.

⁵³ Commerce Commission, "Final report: Review of Fonterra's 2024/25 milk price Manual" (15 December 2024), at paragraph 32.1.

4.101 Fonterra has made the following amendments to Part A section 4.5 of the Manual and to Rule 25:⁵⁴

Farmgate Milk Price Capital Costs	
~~For each Financial Year subsequent to F2008, the~~ The Farmgate Milk Price Fixed Asset Base will be adjusted:...	

Standard Plants and other Reference Assets	
Objective	The installation cost and specification of new and replacement Reference Assets, reflecting current and appropriate technology, will be determined in each Review Assessment Year.
Rule	~~As at 31 May 2008, and subsequently as at 31 May i~~ In each Review Year:...

4.102 Both amendments Fonterra has made are consistent with our recommendation and the similar amendments made in the 2024/25 Manual. These amendments do not impact on achievement of the s 150A purpose.

Consistency of use of ‘Standard Plants’ and ‘Reference Assets’

4.103 We recommended that Fonterra consider adjusting the wording of Rule 15, and elsewhere in the Manual if appropriate, to increase clarity and consistency regarding the use of the terms “Standard Plants” and “Reference Assets”.⁵⁵

4.104 Fonterra has made the following amendments to Rule 15:⁵⁶

Milk collection costs	
Objective	The Farmgate Milk Price Commodity Business may recover Fonterra’s actual Milk Collection costs, adjusted for any material differences between actual costs and the costs that would have been incurred by Fonterra if it only manufactured Reference Commodity Products according to the Farmgate Milk Price Production Plan and the allocation of Reference Assets to Sites.
Rule	In calculating the Farmgate Milk Price Fonterra’s actual milk collection costs for a Year shall be deducted, adjusted for any difference between the actual cost to Fonterra of diverting product between Sites and the diversion costs implied by the Farmgate Milk Price Production Plan and the ~~Site Footprint allocation of Reference Assets to Sites if the difference is material to either the Aggregate Farmgate Milk Price or to Fonterra’s earnings after paying for Milk at the Farmgate Milk Price.~~

⁵⁴ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at pages 24 and 50.

⁵⁵ Commerce Commission, “Final report: Review of Fonterra’s 2024/25 milk price Manual” (15 December 2024), at paragraph 93.

⁵⁶ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 44.

4.105 In its Reasons paper in support of the Manual, Fonterra stated the following:⁵⁷

“We have amended this rule to delete the reference to the ‘allocation of Reference Assets to Sites’, noting (a) Reference Plants are not in fact allocated to sites and (b) the relevant concepts for the purposes of this rule are site location and the volume of milk delivered to / processed at the site, and that these concepts are captured in the Rule 35 definition of Site Footprint.”

4.106 In the 2024/25 Manual review, we noted a drafting clarity concern over how Reference Assets and Standard Plants are allocated, with Rule 15 in particular leading to some confusion. We noted that Rule 15 could be read to imply that all Reference Assets are allocated to sites, while Rule 27 (allocation of Standard Plants to Regions) requires Standard Plants (which are included in the Reference Assets definition) to be allocated to Regions. Fonterra at the time indicated that the allocation of Reference Assets to sites in Rule 15 was intended to refer to assets which are allocated to sites under Rule 24 (Farmgate Milk Price Fixed Asset Base), such as ancillary assets.

4.107 We consider that the amendment to ‘Site Footprint’ is clearer and removes the confusion over how Reference Assets are allocated.

4.108 Separately, Fonterra also commented in the Reasons paper that it has amended Rule 15:⁵⁸

“to remove the requirement to test whether the difference between Fonterra’s actual inter-site diversion costs and the Notional Milk Price Business is material, noting (a) our historic experience is that the difference is always material and (b) the requirement to demonstrate the practical feasibility of the assumed diversion costs means it is always necessary to separately model them.”

4.109 Fonterra’s additional comment regarding the removal of the requirement to test whether the difference between Fonterra’s actual diversion costs and the Notional Processor’s diversion costs are material is also acceptable. Removing the requirement to consider whether the difference is material means that the difference will always need to be considered, regardless of the magnitude.

4.110 We consider these amendments are consistent with s 150A as the consideration of diversion costs is practically feasible for an efficient processor, and so consistent with contestability. The rule allows for notional costs and so is consistent with efficiency.

⁵⁷ Fonterra “Reasons paper in support of Fonterra’s 2025/26 milk price Manual – 1 August 2025” (26 August 2025), at page 7.

⁵⁸ Fonterra “Reasons paper in support of Fonterra’s 2025/26 milk price Manual – 1 August 2025” (26 August 2025), at page 8.

Consistency in wording regarding Standard Plant specification

4.111 In our 2024/25 review, we recommended that Fonterra consider whether the wording of the objective of Rule 26 could be adjusted to ensure that it will be read in a similar way as the detail of the rule.⁵⁹

4.112 We had stated that the way in which the objective of the rule was written seemed to imply that there is only one Standard Plant specification in the model, though the detail of the rule illustrated that this clearly isn't the case, as it specifies a Standard Plant added in a Review Year.

4.113 Fonterra has made the following amendment to Rule 26:⁶⁰

Capacity of Standard Plants	
Objective	The average processing capacity of ~~a~~ the Standard Plants ~~s~~ for each RCP should reflect Fonterra's weighted average processing capacity of plants used to manufacture the relevant Primary Reference Commodity Product.
Rule	The Standard Plant specified in a Review Assessment Year for each: • Primary Reference Commodity Product should have an average daily processing capacity that will result in the overall weighted average daily processing capacity of all Standard Plants for the manufacture of that Reference Commodity Product projected to be included in the Farmgate Milk Price Fixed Asset Base at the end of the subsequent Review Period being materially consistent with the overall weighted average daily processing capacity of the plants projected to be used (or able to be used) by Fonterra to manufacture the relevant Reference Commodity Product at that time. • Secondary Reference Commodity Product should have an average daily processing capacity that is consistent with the capacity of plants currently available from equipment suppliers, and, where these fall in a range, erring toward the average capacity of the plants currently included in the Farmgate Milk Price Fixed Asset Base.

4.114 Fonterra's amendment appropriately addresses the drafting concern we outlined in the 2024/25 Manual review. The amendment Fonterra has made this season improves consistency between the wording of the objective and the rule, and makes it clear that there is more than one Standard Plant type in the model.

4.115 These amendments do not impact on achievement of the s 150A purpose.

⁵⁹ Commerce Commission, "Final report: Review of Fonterra's 2024/25 milk price Manual" (15 December 2024), at paragraph 75.

⁶⁰ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at pages 51 and 52.

Error correction

4.116 We asked Fonterra to correct the glossary definition of Site Footprint to refer to Rule 35 instead of Rule 36.⁶¹

4.117 Fonterra has made the following amendment:⁶²

Glossary
Site Footprint has the meaning set out in Rule ~~36~~ 35 of Part B of the Manual.

4.118 Fonterra has made the requested correction. This amendment does not impact on achievement of the s 150A purpose.

⁶¹ Commerce Commission, “[Final report: Review of Fonterra’s 2024/25 milk price Manual](#)” (15 December 2024), at paragraph 113.

⁶² Fonterra “[Farmgate Milk Price Manual for the 2025/26 season \(marked up version\) – 1 August 2025](#)” (26 August 2025), at page 94.

Other minor amendments

4.119 Fonterra has made several other minor Manual amendments which we do not consider to be material.

4.120 Fonterra has amended the Executive Summary as follows:⁶³

Executive Summary

The Reference Commodity Products that inform the Farmgate Milk Price ~~typically~~ comprise around 70% a significant proportion of Fonterra's total New Zealand production. Both revenues and costs are scaled up to take into account all of Fonterra's actual collection, logistics and plant administration costs that are incurred to convert Fonterra's actual milk collection into manufactured products.

4.121 This amendment does not impact on achievement of the s 150A purpose. However, the removal of a measurable statement makes it difficult to know what a 'significant proportion' is, and our preference would be to continue to define this with a figure to maintain transparency.

4.122 Fonterra has amended the explanatory section relating to Farmgate Milk Price Revenue as follows:⁶⁴

Farmgate Milk Price Revenue

Prices from these supplementary sales will be derived under operating procedures advised to the ~~Board Panel~~ and ~~assuming having regard to sales which are contracted between one and five months prior to shipment. a contract profile for those sales that complies with policies set by the Board from time to time.~~

4.123 The section of the Manual where this amendment occurs covers how selling prices are determined, including in the instance where they are not determined from Global Dairy Trade (**GDT**) sales prices. The added text is more specific than the previous text, and is reflective of how selling prices are determined in the base milk price model in practice. That is, GDT sales that are contracted between one and five months prior to shipment are included in the calculation for the base milk price, and it is appropriate that this sales profile applies to sales made outside of GDT too. We consider this amendment to be consistent with s 150A.

4.124 The MPP is the appropriate entity for milk price related actions to be referred to, rather than the Board, as the MPP is responsible for governance of the milk price. It also ultimately reports to Fonterra's Board.

⁶³ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at page 6.

⁶⁴ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at page 20.

4.125 Fonterra has made the following three amendments relating to governance and reporting of the base milk price:⁶⁵

Governance
The Board will determine from time to time a policy governing the administration of the Manual. That policy will (among other things) set out the levels of authority of the Panel, the Milk Price Group, the Chief Executive Officer, the Chief Financial Officer and any other person or group having or requiring authority under the Manual as to any matter relating to the Manual, including without limitation, the determination (and publishing) of ~~projected and the actual~~ Farmgate Milk Prices, the exercise of discretions required with respect to the calculation of ~~the~~ Farmgate Milk Prices, and recommendations for the refinement and amendment of the Manual.
The Role of the Milk Price Group
The Milk Price Group will operate within the policy set by the Board referred to in Section 5.2. Within that policy, it will act to either undertake the following matters, or recommend to ~~the Board, the Panel, or the Chief Executive Officer or the Chief Financial Officer, as the case may require,~~ the appropriate course of action to be taken with respect to the following matters: a) The determination of ~~both projected and actual~~ the Farmgate Milk Prices ~~(and, where appropriate projected and actual Farmgate Milk Price ranges)~~ for provision to the ~~Board and the~~ Panel. b) The provision of such other information concerning the Manual or the Farmgate Milk Price requested by the Board, the Panel or any other committee of the Board, or any advisor to any such committee, or the Chief Executive Officer or the Chief Financial Officer. c) Where the Manual provides for a decision to be made, or an election or discretion to be exercised, the making of that decision, or the exercise of that discretion or election where that is within the authority of the Milk Price Group (with a requirement that the Panel is informed of any such exercise of a material election or discretion), or the making of recommendations to the appropriate decision-maker. d) To periodically validate (at intervals set by the Board, and being no less than once in every Review Period) the administration of the Manual, and the determinations of ~~actual and projected~~ Farmgate Milk Prices which have been made, against the Principles, to determine whether the Manual is satisfying (or could better satisfy) the Principles. The engagement of specialist external advisors to supplement the capability of the Milk Price Group in undertaking reviews mandated by the Manual and to otherwise ensure that inputs into the Farmgate Milk Price are established appropriately.
Assurance
Without limiting the preceding paragraph, the Milk Price Group will: a) undertake or arrange for reviews as required by, and at the times set out in, the Manual and report the results of those reviews to the ~~Board Panel;~~ and b) provide to the ~~Board Panel, at the same time as it provides to the Board Panel any recommendation as to the Farmgate Milk Price to be determined/published for any Season;~~ a certificate from the Milk Price Group confirming ~~that,~~ in the opinion of the Milk Price Group, ~~that~~ the Farmgate Milk Price has been calculated in accordance with the Manual. ~~This certificate shall be provided at the same time that the Milk Price Group provides to the Panel any recommendation on the Farmgate Milk Price for a Season.~~

⁶⁵ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at pages 28 and 29.

4.126 Fonterra stated in its Reasons paper⁶⁶ that these sections have been amended to remove the implication that the MPP or MPG has any formal responsibility with respect to forecast milk prices. Forecast milk prices are a management responsibility. They have also clarified that the MPG reports to the MPP, rather than the Board, CEO or Chief Financial Officer.

4.127 The preceding three amendments are all similar in nature, clarifying that the MPG reports to the MPP rather than the Board, and removing any responsibility for forecasting milk prices. We understand this to reflect how reporting lines and responsibilities already work in practice. The MPG's responsibility is for calculating the base milk price under DIRA, and it is not responsible for any milk price forecasts, nor does it report directly into Fonterra's management structure.

4.128 We do not consider these amendments impact on achievement of the s 150A purpose, and we do not have any other concerns relating to the clarifications from these amendments.

4.129 Fonterra has amended Rule 19 as follows:⁶⁷

Non-recurring costs	
Objective	The Farmgate Milk Price Commodity Business may recover a reasonable provision in respect of any nonrecurring costs that it could reasonably be expected to incur if it only undertook the activities performed by the Farmgate Milk Price Commodity Business, and which are not provided for under any other Rule.
Rule	In calculating the Farmgate Milk Price a provision for costs of a non-recurring nature shall be deducted where Fonterra could reasonably be expected to incur those costs if Fonterra only undertook the activities performed by the Farmgate Milk Price Commodity Business ~~those costs given the Farmgate Milk Price Production Plan, Farmgate Milk Price Sales Phasing and Site Footprint~~, to the extent that the costs are not otherwise provided for (whether on an ex ante or ex post basis) under any other Rule. By way of example only, costs that may be deducted under this provision include: - Costs (including foregone revenue) incurred as a result of actual milk supply in a Region exceeding the level of processing capacity for that Region provided for in the Farmgate Milk Price Fixed Asset Base. - Costs that could reasonably be expected to have been incurred by the Farmgate Milk Price Business as a consequence of a natural disaster.

4.130 In our view the amendment has the same meaning as the removed text but improves clarity. There is no impact on achievement of the s 150A purpose.

⁶⁶ Fonterra "Reasons paper in support of Fonterra's 2025/26 milk price Manual – 1 August 2025" (26 August 2025), at page 8.

⁶⁷ Fonterra "Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025" (26 August 2025), at page 47.

4.131 Fonterra has amended the definition for Advance Rate Schedule as follows:⁶⁸

Advance Rate Schedule
For a Year, the schedule specifying the percentage of the Farmgate Milk Price for the year that Fonterra will pay in any particular month for ~~share-backed~~ milk supplied prior to the month.

4.132 This amendment does not impact on achievement of the s 150A purpose and we do not have any other concerns with it.

4.133 Fonterra has added the glossary definition of Milk Price Panel as follows:⁶⁹

Definition
Milk Price Panel or Panel has the meaning set out in Section 5.2 of Part A of the Manual.
~~Panel has the meaning set out in Section 4.2 of Part A of the Manual.~~

4.134 The addition replaces the equivalent definition of ‘Panel’ on page 92 of the Manual, which referred to an incorrect section. Section 5.2 of Part A is the correct section setting out the responsibilities of the Milk Price Panel. There is no impact on achievement of the s 150A purpose.

4.135 Fonterra has amended the glossary definition of Review Year as follows:⁷⁰

⁶⁸ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at page 79.

⁶⁹ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at pages 91 and 92.

⁷⁰ Fonterra “Farmgate Milk Price Manual for the 2025/26 season (marked up version) – 1 August 2025” (26 August 2025), at pages 93 and 94.

Definition

Review Year means the first Financial Year in a Review Period, and for:

- The review by the MPG of the matters described in paragraph (d) of section 5.4 of Part A of the Manual, means the 2019/20, 2023/24 and 2027/28 Seasons.
- Rule 7 (Product Yields), Rule 12 (Variable manufacturing costs), Rule 25 (Reference assets), Rule 27 (Allocation of reference assets), Rule 33 (Surplus capacity) and Rule 38 (New technology) means the 2016/17, 2020/21, and 2024/25, and 2028/29 Seasons.
- Rule 13 (Fixed manufacturing costs) means the 2023/24 and 2027/28 Seasons.
- Rule 17 (Sales Costs) Rule 18 (Site overheads, general overhead costs & R&D costs) and Rule 20 (Certain supply chain costs) means the 2019/20, 2023/24 and 2027/28 Seasons, and
- ~~• Rule 7 (Product Yields), Rule 12 (Variable manufacturing costs), Rule 25 (Reference assets), Rule 27 (Allocation of reference assets), Rule 33 (Surplus capacity) and Rule 38 (New technology) means the 2016/17, 2020/21, and 2024/25, and 2028/29 Seasons.~~
- Rule 42 (Asset beta) and Rule 43 (Specific risk premium) means the 2020/21, ~~and~~ 2024/25, ~~and~~ 2028/29 Seasons.
- Rule 41 (Post Tax Market Risk Premium) means the 2021/22, ~~and~~ 2024/25, ~~and~~ 2028/29 Seasons.

4.136 These amendments simply adjust the review years and rearrange the items.
There is no impact on achievement of the s 150A purpose.

Attachment A Glossary

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.
Lactose CIF costs	Cost, Insurance and Freight costs, a provision for the customs, insurance and international sea freight costs that would be incurred in the course of importing Lactose into New Zealand, expressed in USD per MT of Lactose.
Dairy season	1 June to 31 May annually
DIRA	Dairy Industry Restructuring Act 2001
GDT	Global Dairy Trade, online auction platform used to sell dairy commodities
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
MWh	Megawatt hours, measuring energy
Notional Processor or Notional Producer or Notional Milk Price Business	The notional commodity business that is used to calculate the base milk price.
R&M	Repairs and maintenance expenses
RCP	Reference Commodity Product
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).
SMP	Skim milk powder
WMP	Whole milk powder