2026/27 Milk Price Manual reasons paper

1 August 2026

PUBLIC VERSION



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To: The Commerce Commission

1. Fonterra Co-operative Group Limited (Fonterra), certifies that:

   a. in terms of section 150L(d) of the Dairy Industry Restructuring Act 2001 (the Act), Fonterra considers that its milk price manual to be applied in calculating Fonterra's Farmgate milk price for the 2026/27 financial year is, in all material respects, consistent with the purpose of subpart 5A of the Act; and

   b. none of the circumstances set out in section 150G(1) of the Act have occurred with respect to the milk price manual to be applied in calculating Fonterra's Farmgate milk price for the 2026/27 financial year.

2. This certification is based on our interpretation of subpart 5A, and the other relevant assumptions, views and qualifications set out in the accompanying reasons provided pursuant to s 150L(e).

Signed by

Richard Whiteman
Group Director – Corporate Finance

Introduction

This paper provides the reasons in support of Fonterra's certification in respect of the Milk Price Manual to be applied in the calculation of Fonterra's Farmgate milk price in respect of Fonterra's 2026/27 Season (the F27 Manual), as required under section 150L of the Dairy Industry Restructuring Act 2001 (DIRA). The paper has been prepared under the oversight of the Milk Price Panel, and where relevant reflects the Panel's views.

Section 150L provides that Fonterra must:

- Provide the Commission with the milk price manual for the current season (i.e., the season commencing on 1 June 2026) (section 150L(a));
- Provide the Commission with any recommendations by the Milk Price Panel "in relation to the milk price manual" (section 150L(b));
- Notify the Commission of any change in the economic and business environment that, in Fonterra's view, requires a change to the milk price manual (section 150L(c));
- Certify to the Commission the extent to which Fonterra considers that the milk price manual is consistent with the purpose of subpart 5A of DIRA (section 150L(d)); and
- Provide the Commission with reasons for the view expressed in its certificate (section 150L(e)).

In addition, section 150G sets out the steps that Fonterra is required to take if it does not amend the Manual in accordance with a recommendation by the Panel, if it amends the Manual contrary to a recommendation by the Panel, or if it amends the Manual without having received a relevant recommendation from the Panel. We advise that none of these circumstances has occurred with respect to the F26 Manual.

The board of Fonterra has approved a number of amendments to the Milk Price Manual for 2026/7, all of which were recommended by the Milk Price Panel. These amendments are set out in 'mark up' form in the Milk Price Manual attached to this paper. Where not obvious given their context, we explain their rationale below. In all other respects, the F27 Manual is identical to the F26 Manual, in respect of which Fonterra submitted a certification and reasons paper on 1 August 2025. Consistent with that paper, the analysis underpinning the preparation of this paper has been confined to identifying areas where our views may have changed subsequent to preparing previous reasons papers, or where we wish to provide additional information. We have not identified any such areas. In all other respects, we request that this paper be read in conjunction with our reasons papers submitted in respect of the 2012 – 2026 seasons.

We have also provided to the Commission (in our 'reasons paper' in respect of the 2024/25 base milk price) our views on the appropriate interpretation of section 150A of DIRA (the purpose provision), and have not repeated these views in this paper.

The paper is intended to satisfy the section 150L(e) requirement to provide the Commission with the reasons for the view expressed in our certificate. The paper is organised as follows:

- In the first section below, we set out, and explain the rationale for, the amendments to the F26 Manual.
- In the final section, we explain that there have been no changes in the economic and business environment that are potentially of relevance to the calculation of the base milk price, and explain that consequently, no changes are required to Manual in response for the 2026/27 season.

The attachment to this paper comprises a 'marked up' version of the Milk Price Manual, identifying all amendments, and which satisfies the section 150L(a) requirement to provide the Commission with the manual for the current season.

We have separately provided to the Commission the recommendation by the Milk Price Panel in relation to the F27 Manual, consistent with our obligation under section 150L(b) of DIRA.

Amendments to the Manual for F27

We have not made any changes to the Manual which will have any effect on the calculation methodology or the quantum of the Milk Price for F27.

The amendments address minor matters of clarification raised by the Commerce Commission in its final report on the F26 Manual, published on 15 December 2025.

Amendments in response to Commerce Commission findings

In its Final Report on the F26 Manual, published on 15 December 2025, the Commerce Commission recommended we address the matters set out in the table below.

Manual reference	Commission's recommendation	Proposed amendment / comment
Rule 3 – Revisions to Reference Commodity Basket	Consider aligning Rule 3 more explicitly with the requirements set out in DIRA s 150C(2)(a)(i) regarding the 'five-year time frame.'	We have amended final paragraph of Rule 3 ~~"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~~ "The combination of the Reference Commodity Products included in the Reference Basket must be consistent with the requirements of s 150(C)(2)(a) of the Act."
Overview – 4.5 Farmgate Milk Price Capital Costs	Consider 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).	We have amended bullet point about the adjustment to the Farmgate Milk Price Fixed Asset Base as follows: "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 where a Reference Commodity Product is removed from the Reference Basket) or the introduction of new technology."
1.3 "Definitions – Milk Price Costs" – Fixed Manufacturing Costs	Consider aligning the definition of Fixed Manufacturing Costs in section 1.3 "Definitions – Milk Price Costs" of the Manual more closely with the amended Rule 13, to remove any confusion.	Amended section 1.3 definition of Milk Price Costs - Fixed Manufacturing Costs to align with Rule 13: "For a Year, the sum of Labour and Employee Related Expenses~~, Repairs and Maintenance Costs~~ and any material portion of costs otherwise classified as Variable Manufacturing Costs that do not vary materially with production volumes."

1.3 “Definitions – Milk Price Costs” – Lactose Price	Consider how it can more clearly set out the way in which lactose costs are calculated in the Manual.	We have removed amendment made in the F26 manual to section 1.3 definition of Milk Price Costs – Lactose: “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~~.” We have amended the second paragraph of Rule 16 (Lactose) as follows: “The Lactose Price for the Season will be set equal to either the volume weighted average price declared to New Zealand Customs by Fonterra or the volume weighted average price declared to New Zealand Customs by other New Zealand processors, 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. The MPG will determine which of these prices (and the related Lactose CIF series) will be used prior to the commencement of the Season, based on the MPG’s assessment of which volume weighted average price is likely to be lower.”

Changes in the economic and business environment

We confirm we are not aware of any changes in the economic or business environment that would in our view necessitate a change to the Milk Price Manual for the F27 Season. In arriving at this view, we have had regard to the following:

- None of the amendments to the Milk Price Manual were prompted by changes in the economic or business environment.
- As a general matter, our view is that changes in the economic or business environment will in most circumstances not necessitate changes to the Manual, though they may result in changes in the approach taken to applying existing provisions of the Manual. Among other things, the existing provisions of the Manual could accommodate the changes in approach required to reflect the impact of changes in relative demand for (and profitability of) different product streams that affect industry-wide patterns of new investment, of assets becoming ‘stranded’ due to a significant reduction in milk supply, and one-off costs associated with natural disasters.