

Proposed focus areas for our review of Fonterra's 2025/26 base milk price calculation:

Process paper

12 March 2026



Associated documents

Publication date	Reference	Title
1 August 2023	ISBN 978-1-99-101282-1	Our approach to reviewing Fonterra's Milk Price Manual and Base Milk Price Calculation - 2023
13 September 2024	ISSN 2382-0675	Review of Fonterra's 2023/24 base milk price calculation: Dairy Industry Restructuring Act 2001
15 September 2025	ISSN 2382-0675	Review of Fonterra's 2024/25 base milk price calculation: Dairy Industry Restructuring Act 2001
15 December 2025	ISSN 2382-1779	Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001

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Introduction

1. This paper provides interested parties with details of our proposed focus areas for our review of Fonterra’s base milk price calculation for the 2025/26 season (**the Calculation**) under the Dairy Industry Restructuring Act 2001 (**DIRA** or **the Act**). This paper also invites feedback and seeks relevant information on those focus areas.
2. Our primary role under the Act is to publicly report on the extent to which Fonterra’s milk price setting processes and calculations:
 - 2.1 provide incentives for Fonterra to operate efficiently; and
 - 2.2 are consistent with contestability in the market for purchasing farmers’ milk.
3. We undertake two separate reviews in relation to each dairy season:¹
 - 3.1 The first review concerns Fonterra's Milk Price Manual (**the Manual**). The Manual contains the specific methodology Fonterra uses to calculate its base milk price. This review assesses whether the rules and principles in the Manual for that season provide an incentive for Fonterra to operate efficiently and are practically feasible for an efficient milk processor, and as such are consistent with the purposes of subpart 5A of the Act.
 - 3.2 The second annual review we undertake is of Fonterra's base milk price calculation at the end of each dairy season (**Calculation review**). The Calculation review assesses whether the costs, revenue and other assumptions used in the base milk price calculation for the previous season are consistent with the purposes of subpart 5A of the Act.
4. The framework for our reviews is contained in our **Approach paper**.²

We are reviewing Fonterra’s 2025/26 base milk price calculation

5. This Calculation review is the second of the reviews that we are required to complete under the Act in relation to the base milk price for the 2025/26 dairy season.

¹ For a more detailed explanation of our monitoring role under DIRA see our [website](#).

² Commerce Commission “[Our approach to reviewing Fonterra’s Milk Price Manual and base milk price calculation](#)” (1 August 2023).

6. The first review for the 2025/26 season looked at the Manual. We published the final report on our review of the Manual for the 2025/26 season on 15 December 2025.³ We note that the Manual requires periodic reviews of various inputs to the base milk price calculation, normally on a four-yearly cycle.⁴
7. Each annual Calculation review includes key areas of focus for the review. We determine the focus areas for each Calculation review based on several considerations. We explain in the next section the basis for the proposed focus areas for this year's review.
8. For each proposed focus area in the Calculation review, we conclude on both the contestability⁵ and efficiency⁶ limbs within section 150A of subpart 5A (as we are required to do for the inputs, assumptions and processes underlying the calculation of the base milk price).
9. In addition to the specific focus areas, our annual Calculation review includes a 'fit for purpose' review of all revenue and cost components of the base milk price calculation. The fit for purpose review compares the component values against our previous reviews and relevant benchmark data of the same components, and reviews the assumptions, inputs and processes used for each of the components.
10. As required by the Act, we produce a draft report of our review of Fonterra's base milk price calculation for each season by **1 August** and a final report by **15 September**.⁷

³ Commerce Commission "[Review of Fonterra's 2025/26 Milk Price Manual: Dairy Industry Restructuring Act 2001 – final report](#)" (15 December 2025).

⁴ Fonterra "[Fonterra milk price manual for the 2025-26 season mark up version 21 November 2025](#)" (15 December 2025).

⁵ Commerce Commission "[Our approach to reviewing Fonterra's Milk Price Manual and base milk price calculation](#)" (1 August 2023), at pages 13, 14, and 22.

⁶ Commerce Commission "[Our approach to reviewing Fonterra's Milk Price Manual and base milk price calculation](#)" (1 August 2023), at pages 12, 20, and 21.

⁷ However, if either of these dates falls on a non-working day, the date may be extended to the next working day – see section 55 of the Legislation Act 2019.

Indicative timeline

Indicative date	Publication/event
12 March 2026	Proposed focus areas published
Midday, 27 March 2026	Final date for submissions on the proposed focus areas
3 August 2026	Final date for publication of the draft report on the review of the base milk price calculation
Midday, 17 August 2026	Final date for submissions on the draft report
15 September 2026	Final date for publication of the final report on the review of the base milk price calculation

Our proposed focus areas

11. Our process for selecting proposed focus areas is informed by:
 - 11.1 outstanding issues from previous Calculation and Manual reviews;
 - 11.2 Fonterra’s review⁸ of assumptions and components in accordance with its Manual;⁹
 - 11.3 Fonterra’s amendments to the current season’s Manual or any amendments to Fonterra’s approach to calculating the components that do not require a Manual amendment;
 - 11.4 any changes to the DIRA; and
 - 11.5 any new information/evidence which suggests that matters may have changed substantively since our previous reviews.
12. For the 2025/26 Calculation review, we are proposing to focus on the approach to calculating the lactose import price and associated import costs of lactose for the Notional Processor.

⁸ Fonterra “[Fonterra milk price manual for the 2025-26 season mark up version 21 November 2025](#)” (15 December 2025), at pages 93-94.

⁹ The summary calculation of the base milk price is broken down into various revenue and cost components. The Manual provides a timeline for Fonterra to review certain assumptions, revenue and cost components every four years (or when the Milk Price Panel chooses to complete a review).

Lactose

13. Lactose costs have been raised by **Independent Dairy Processors** (IDPs) as an area for further examination, most recently in their submission on the proposed focus areas for the 2024/25 Calculation review.¹⁰
14. In that submission, IDPs requested that we include a review of lactose costs, noting that lactose is the single largest cost in the base milk price calculation, and it is very volatile. They further commented that the process of translating lactose import costs into the lactose cost to the Notional Processor is not very transparent, with several assumptions and calculations that are not visible.
15. Lactose costs have been as high as NZ\$0.59/kgMS (in 2022/23) and as low as NZ\$0.19/kgMS (in 2015/16) over the past ten seasons.
16. Lactose costs are dependent on international price movements. Lactose is imported into New Zealand to use in standardising milk powder, as there is not enough lactose produced domestically.
17. There are many inputs associated with determining lactose costs for the Notional Processor. For this review, we anticipate focusing on the import price and associated import costs of lactose.
18. We do not propose to review the required volumes of lactose and lactose losses. We reviewed product composition and product yields in the 2023/24 Calculation review.¹¹

Other items

19. We will review other updates to inputs, assumptions and processes into the base milk price as part of our fit for purpose review.
20. This scope is not necessarily exhaustive and does not limit our ability to evaluate other relevant factors.

¹⁰ Miraka, Open Country Dairy, Synlait Milk and Westland Milk Products “[IDP Joint submission on the Commerce Commission process paper: “Proposed focus areas for our review of Fonterra’s 2024/25 base milk price calculation”](#)” (27 March 2025), at pages 13 and 14.

¹¹ Commerce Commission “[Review of Fonterra’s 2023/24 base milk price calculation: Dairy Industry Restructuring Act 2001 – final report](#)” (16 September 2025), at pages 14 to 29.

We invite your views on our focus areas for this year's Calculation review

21. We invite submissions on the following matters by **midday, 27 March 2026**:
 - 21.1 whether the proposed focus areas should form part of our review, and whether there are further focus areas that should be included; and
 - 21.2 any relevant information about our proposed focus areas.
22. Receiving submissions on these matters will:
 - 22.1 assist us to decide what the focus areas should be for our Calculation review; and
 - 22.2 provide us with information relevant to the proposed focus areas, so that we may take this information into account when examining the focus areas as part of our Calculation review.
23. Please address all submissions to:

Tony Marshall (Dairy Manager)

c/o dairy@comcom.govt.nz

Subject line: Proposed base milk price calculation focus areas paper 2025/26
24. We prefer submissions in both a format suitable for word processing (such as a Microsoft Word document), and a 'locked' format (such as a PDF) for publication on our website.
25. The protection of confidential information is something the Commission takes seriously. The process requires you to provide (if necessary) both a confidential and public version of your submission and to clearly identify the confidential and public versions.
26. When including commercially sensitive or confidential information in your submission, we offer the following guidance:
 - 26.1 Please provide a clearly labelled confidential version and public version of your submission. We intend to publish all public versions on our website.
 - 26.2 The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

27. Please note that all submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reason exists under the Official Information Act 1982 to withhold it. We would normally consult with the party that provided the information before any disclosure is made.

Attachment A Glossary of terms/abbreviations

Term/Abbreviation	Definition
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	Price per kilogram of milk solids that is set by Fonterra for that season
Calculation	Fonterra's 2025/26 base milk price calculation
Calculation review	Review of Fonterra's base milk price calculation
Dairy season	1 June to 31 May
DIRA, or the Act	Dairy Industry Restructuring Act 2001
IDP	Independent Dairy Processor
kgMS	Kilogram of milk solids
Manual review	Commission's review of Fonterra's Milk Price Manual.
Milk Price Manual or the Manual	Fonterra's Milk Price Manual
Notional Processor	The notional commodity business that is used to calculate the base milk price
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)