



Process Paper - Review of the Milk Price Manual for the 2014/15 dairy season

29 August 2014

Purpose of the process paper

1. The purpose of this process paper is to:
 - 1.1 set out the process for our review of Fonterra's Milk Price Manual (the Manual) for the 2014/15 season as required by the Dairy Industry Restructuring Act 2001 (the Act); and
 - 1.2 provide an opportunity for interested parties to comment on the information we have received from Fonterra in accordance with s 150L of the Act, prior to us making our draft report on the Manual.
2. Any comments on this process paper are due to us by 5 pm on 15 September 2014. They should be sent by email to: regulation.branch@comcom.govt.nz, for the attention of Patricia Jennings.

Process for our review of the Manual

3. Under s 150H of the Act, we are required to review the Manual for each dairy season and make a report on the extent to which the Manual is consistent with the purpose statement set out in s 150A of the Act.¹
4. This statutory review is concurrent with, but separate from, our review of Fonterra's 2013/14 base milk price calculation, which we will complete by 15 September 2014.
5. A summary of the process for our review of the Manual and our indicative timing is set out in Table 1 below.

¹ **Section 150A Purpose of this subpart**

- (1) The purpose of this subpart is to promote the setting of a base milk price that provides an incentive to new co-op to operate efficiently while providing for contestability in the market for the purchase of milk from farmers.
- (2) For the purposes of this subpart, the setting of a base milk price provides for contestability in the market for the purchase of milk from farmers if any notional costs, revenues, or other assumptions taken into account in calculating the base milk price are practically feasible for an efficient processor.

Table 1: Process and indicative timeline for review

Process step	Indicative timing
This process paper released	Friday 29 August 2014
Comments due on process paper Comments due on the information provided by Fonterra	Monday 15 September 2014
Draft report released to Fonterra and other interested parties for consultation	Wednesday 15 October 2014
Submissions due on draft report	Monday 17 November 2014 ²
Final report published	Monday 15 December 2014

Opportunity to comment on the information for the review

6. In order for us to review the Manual, s 150L of the Act requires Fonterra to provide us with the following information:
 - 6.1 the Manual for the 2014/15 season;
 - 6.2 any recommendations by the Milk Price Panel in relation to the setting of the base milk price;
 - 6.3 notification of any change in the economic and business environment that, in Fonterra's view, requires a change to the Manual;
 - 6.4 certification on the extent to which Fonterra considers that the manual is consistent with the purpose of s 150A; and
 - 6.5 the reasons for the views expressed in Fonterra's certification.
7. We received the above information and certification from Fonterra on 1 August 2014 and Fonterra's Reasons Paper containing the above is available on our website.³
8. We now invite interested parties to comment on the information provided to us by Fonterra. In particular, we welcome comments on:
 - 8.1 the reasons Fonterra has provided for why the Manual for the 2014/15 dairy season is consistent with the purpose in s150A of the Act; and
 - 8.2 any other information we should consider in our review of the Manual for the 2014/15 dairy season.
9. All comments are due no later than 5 pm on Monday 15 September 2014.

² The Act requires that submissions from Fonterra are due not later than 15 November. As 15 November 2014 is a Saturday, consistent with s 35(6) of the Interpretation Act 1999, this date is extended to Monday 17 November 2014.

³ <http://www.comcom.govt.nz/statutory-review-of-milk-price-manual/201415-season/>

Opportunity to comment on our draft report

10. Section 150M of the Act requires:
 - 10.1 us to provide Fonterra with a draft of our report to be made under section 150I by 15 October; and
 - 10.2 Fonterra to make a submission to the Commission on the draft report (or notify the Commission that it does not wish to make a submission) by 15 November.
11. In addition to this statutory process, we have decided to also provide an opportunity for other interested parties to comment on our draft report.

Amendments to the 2014/15 Manual

12. Fonterra has made four substantive amendments to its 2014/15 Manual:
 - 12.1 a new provision, section 2.6, relating to consistency of the Manual over time;
 - 12.2 amendment to Rule 15: Repairs and maintenance costs;
 - 12.3 amendment to Rule 30: Adjustments for amendments to reference commodity products; and
 - 12.4 amendment to Rule 40: Asset beta, and addition of new Rule 41: Specific risk premium.
13. Fonterra has made four technical amendments to its 2014/15 Manual:⁴
 - 13.1 new Rule 33: Site footprint;
 - 13.2 definition of benchmark selling price;
 - 13.3 definition of farm gate milk price tax depreciation; and
 - 13.4 definition of review year.
14. There has also been a change to Rule numbers between Rules 14-32. This change has occurred from an error in numbering in previous Manuals where there was no Rule 14.

How you can provide your comments

15. Any comments on this process paper are due to us by 5 pm on 15 September 2014. They should be sent by email to: regulation.branch@comcom.govt.nz, for the attention of Patricia Jennings.

⁴ Page 5 in Fonterra, *Milk Price Panel Paper: Amendments to Milk Price Manual for F15* attached in Fonterra's Milk Price Manual 2014/15 Reasons Paper, 1 August 2014.

Requests for confidentiality

16. While we discourage requests for non-disclosure of comments, we recognise that there may be cases where parties wish to provide information in confidence. We offer the following guidance:
 - 16.1 if it is necessary to include confidential material in your comments, the information should be clearly marked;
 - 16.2 both confidential and public versions of your comments should be provided;
 - 16.3 the responsibility for ensuring that confidential information is not included in a public version rests entirely with the party providing the comments.
17. Parties can also request that we make orders under s 100 of the Commerce Act in respect of information that should not be made public. Any request for a s 100 order must be made when the relevant information is supplied to us, and must identify the reasons why the relevant information should not be made public. We will provide further information on s 100 orders if requested. A key benefit of such orders is to enable confidential information to be shared with specified parties on a restricted basis for the purpose of making submissions. Any s 100 order will apply for a limited time only as specified in the order. Once an order expires, we will follow our usual process in response to any request for information under the Official Information Act 1982.