MILK
PURE AND SIMPLE
This is exactly what the dairy industry set out to achieve by creating Fonterra 10 years ago. We have earned our place as the world’s largest processor and exporter of dairy products.

Fonterra is big, but it is big for a reason. Our scale allows us to invest behind partnerships with the biggest food companies in the world and build valuable brands which bring returns back to New Zealand.

All New Zealanders benefit from a strong Fonterra. A $1 increase in our annual payout to farmers means $270 flows through to every New Zealander’s pocket. For every dollar a farmer earns, half goes back into the local economy. (Source: NZIER 2010)
Fonterra is not the only game in town, but our scale means we can add more value to farmers' milk than our competitors. Competitors don't like this and are pursuing strategies to make it harder for Fonterra to succeed on the world stage.

Competition is alive and well in the New Zealand dairy industry. Since 2004, four major new competitors have started up, joining Fonterra and the two other competitors already on the dairy scene.

Fonterra is doing what it does best – exporting at scale and bringing the returns home to New Zealand.
SO WHAT’S THE PROBLEM?

SOME OF OUR DETRACTORS HAVE WRONGLY ACCUSED FONTERRA OF INFLATING THE FARMGATE MILK PRICE BY AROUND 15 – 20 CENTS PER KGMS. THEY’RE SAYING THIS IS HURTING NEW ZEALAND CONSUMERS.

**This is simply not true.**

Fonterra’s farmgate Milk Price has been reviewed and endorsed as fair by international experts Compass Lexecon.

But, even if we used these numbers, a 15–20 cent drop in the farmgate Milk Price would reduce retail milk prices by only 1–2 cents a litre.

**It’s a smokescreen.**

These competitors want regulation to drive down prices paid to New Zealand farmers to increase their own earnings. These companies do not supply the domestic market so their motivation in stirring up this issue is to further their own interests, not to help New Zealand consumers.
All around the world food prices have increased

International dairy commodity prices (based on GDT) increased 30.1% in the 12 months to March 2011 and this was reflected in a higher farmgate Milk Price. But, the retail price (for a 2 litre bottle of blue top) increased by only 9.3% for the same period.

“Domestic prices have not increased in NZD as much as international prices.”
(Source: Commerce Commission 2011)
WE ARE a farmer-owned co-operative. Milk is our lifeblood. We want to ensure our hardworking farmer owners get a fair price for their milk, and that this money flows through the New Zealand economy.

Most of our competitors are corporates who just see milk as an input cost. Many want to use regulation to drive down payments to New Zealand farmers.

These corporates have their own milk supply but also purchase milk from Fonterra under rules established to ensure competition. The price they pay is essentially the same price we pay our farmers.

These competitors often buy milk tactically. They often seek supplies at the beginning and the end of the season. This keeps their plants full and reduces supplies to ours, reducing our efficiency.

IT’S ABOUT MORE THAN JUST THE PRICE OF MILK

APART FROM FON TERRA, SIX MAJOR DAIRY PROCESSORS IN NEW ZEALAND BUY MILK FROM THEIR OWN DAIRY FARMER SUPPLIERS.
SETTING THE PRICE OF MILK

FONterra pays its farmers in two ways: a farmgate milk price for every kilogram of milksolids (kgms) they produce in a year and a dividend on the shares they hold in the co-operative.

Because we export 95 per cent of the milk we produce, the prices our farmers get are based on international dairy prices. These prices are transparent via our twice monthly GlobalDairyTrade online auctions.

There is no mystery to the farmgate milk price.

Our farmgate milk price:

- Calculates the revenue if all Fonterra's milk was processed into basic dairy commodities and sold into world markets. The major factor here is global dairy commodity prices.
- Deducts what it would cost to make these same commodities in an efficient way, freight them to market and make a reasonable return on investment. Those costs have increased by 1.5% between 2009 and 2010.

Our farmgate Milk Price increased by 29% between 2009 and 2010. International dairy commodity prices (based on GDT) increased by 29.5% per cent over the same period.

It is clear that international prices are the driver of the farmgate Milk Price.

All this will be spelt out in more detail when Fonterra releases its Milk Price Manual and supporting detail with its annual results in September.
FONTERRA must supply up to 600 million litres of milk to competitors each year.

In addition to Fonterra, there are a total of six major dairy processors operating in New Zealand.

All of these companies have their own dairy farmers who supply them exclusively. Yet they still choose to buy milk from Fonterra. In the last three years, these companies have grown their own milk supply by an average 36% and bought an additional 100 million litres from Fonterra.

These same processors are complaining the Fonterra farmgate Milk Price is too high. If that was true, why are they buying more and more milk from Fonterra?
The processors also claim that Fonterra is making unfair profits on milk sold to New Zealand consumers. Yet, not one of these six major dairy processors is supplying milk to the New Zealand domestic market.

If the local milk market is so lucrative, don’t you think they’d supply it?
Our Dairy industry is the envy of the world and Fonterra is ensuring New Zealand dairy stays ahead of the game. We are continually investing in more efficient production, innovation and research as well as new technology to make our industry more sustainable.

Fonterra is working for all New Zealanders. That includes the 35,000 jobs it delivers, the income they earn and the taxes they pay. This flows right through New Zealand’s economy.

Every tonne of dairy exports helps reduce the current account deficit, bringing down interest rates and reducing mortgage payments for homeowners.

We all stand to lose if we weaken Fonterra’s position.

Every dollar Fonterra makes goes into New Zealand. The money we pay for milk – and our profits – go directly to our farmer shareholders. And our farmers spend 50 cents out of every dollar earned on locally produced goods and services.

Follow the money... into Kiwi pockets
FONTERRA IS DELIVERING FOR ALL NEW ZEALANDERS.

- COMPETITION IS ALIVE AND WELL IN THE DAIRY INDUSTRY.
- INTERNATIONAL PRICES ARE THE PRIMARY DRIVER OF MILK PRICES IN NEW ZEALAND.