

MPI FILENOTE: summary of key themes discussed with dairy industry commentators

Background information

1. On the 21 August 2018, the Minister of Agriculture held and chaired a meeting in his office with a group of dairy industry commentators, to discuss the Government review of the Dairy Industry Restructuring Act 2001 (DIRA) and its impact on the dairy industry.
2. The dairy industry commentators in attendance were:
 - Prof Hamish Gow (Director of Business Innovation & Strategy at Massey University);
 - Mr Arie Dekker (Head of Institutional Research at First New Zealand Capital);
 - Ms Lindsay Blake (Financial Director of Waikomou Valley Farms Ltd);
 - Mr Tony Baldwin (Independent Consultant);
 - Prof Keith Woodford (Professor of Agri-Food Systems at Lincoln University);
 - Mr Peter Fraser (Independent Consultant); and
 - Mr Lain Jager (Chair of the Primary Sector Council).
3. Officials from the Ministry for Primary Industries (MPI) who also attended the meeting were:
 - Ms Penny Nelson (Deputy Director- General, Policy and Trade);
 - Ms Annie Hindle (Manager, DIRA Review team); and
 - Ms Inna Koning (Principal Adviser, DIRA Review team).

Summary of key themes discussed

4. In summary, the dairy industry commentators' views on the DIRA and its impact on Fonterra and the wider dairy industry's performance were:
 - Fonterra was created to be a national champion for the benefit of dairy farmers and the wider New Zealand economy; and there was still a case for a national champion.
 - The DIRA regulatory regime was required to address the competition policy concerns, given Fonterra's dominance in the market for farmers' milk. The Government review of the DIRA should maintain a strong competition policy focus.
 - Fonterra's current market share, although lower than at the time of its creation, suggests that Fonterra is still dominant. This, in turn, suggests that the DIRA is still necessary.
 - While some aspects of the DIRA regulatory regime could benefit from review, by and large the regime is working well. Specifically, open entry and exit provisions are effective at preventing Fonterra from using its dominance to

prevent farmers from switching to other, potentially better performing dairy processors. These provisions enable dairy farmers to keep performance pressure on Fonterra; and should be maintained.

- Fonterra's key focus continues to be on pursuing large economies of scale in milk collection and processing, which is aligned with its natural competitive advantage, but does result in a supply-driven commodity processing model.
- Fonterra's governance, culture, and capital structure would need to change to enable a strategic shift towards a greater proportion of farmers' milk flowing to higher value-add production.
- Fonterra's financial performance is a matter for its shareholders. But, the shareholders need to be empowered by information and independent analysis to be able to hold the co-operative management to account. There is also a need for greater transparency of Fonterra's financial performance, and independent analysis of its underlying drivers.

Next Steps

5. It was agreed that the meeting provided a forum for a very constructive dialogue and that a follow-up meeting will be arranged following the release of the DIRA Review discussion document.

Additional information

6. Following the meeting, MPI officials continued the discussion with some of the attendees who were able to find the additional time. The discussion with officials focused on clarifying how some aspects of the DIRA regulatory regime worked (e.g. Fonterra's base milk price calculation and the Commerce Commission's monitoring of it), and what, if anything, should the role of Government be in ensuring that the dairy industry operates in the long term interest of New Zealand as a whole.