

3 July 2018

Ministry for Primary Industries
Pastoral House
25 The Terrace
WELLINGTON

By email: DIRA@mpi.govt.nz

Issues identification – Terms of Reference for the review of the Dairy Industry Restructuring Act 2001 and its impact on the dairy industry

1. This letter is sent by the Fonterra Shareholders' Council (**Council**) on behalf of Fonterra farmers. It is in response to the 9 May 2018 email from the Ministry for Primary Industries inviting initial thoughts on the questions set out in the Terms of Reference for the review of the Dairy Industry Restructuring Act 2001 (**DIRA**) and its impact on the dairy industry (**the Review**).
2. Fonterra is a co-operative owned by 10,000 New Zealand farmers and their families. Many are second and third generation New Zealand farmers and have a strong sense of being custodians and guardians of the land they farm.
3. Fonterra farmer shareholders have a significant amount of capital invested in their farms and shares in the Co-op. Farming involves high fixed costs, seasonal variability and yields volatile milk price returns. It requires year-round intensive work in an uncertain climate. Fonterra farmers rely on their farms and therefore Fonterra for their income. Profitability can be significantly impacted season to season due to factors beyond farmers' control. Fonterra farmers are key contributors in helping regions to thrive – including through employing staff, contracting local services and supporting their local communities.
4. The Fonterra Shareholders' Council is a national body elected to represent the interests of Fonterra's shareholders as suppliers, owners and investors.
5. There are 25 Councillors throughout New Zealand. Each Councillor is elected by shareholders and suppliers within the regional ward of farmers they represent.
6. As part of Fonterra's governance and representation structure the Council was established as contemplated under section 162 of the DIRA and is provided for under section 16 of Fonterra's Constitution.
7. While Council's responsibilities are distinct from those of the Fonterra Board of Directors, the Shareholders' Council works with the Board to promote the interests of supplying shareholders and the Co-operative.

8. Dairy farmers are the backbone of the New Zealand dairy industry. The New Zealand dairy industry cannot exist without dairy farmers. Fonterra farmers are keenly aware that not only is the dairy industry's performance of significant national interest, but so too is Fonterra's.
9. Fonterra farmers seek an efficient, competitive and transparent market which enables them, and all farmers, to run long term, enduring and sustainable businesses.
10. As the backbone of the industry and, as the Terms of Reference notes, *the owners of New Zealand's largest company and the only New Zealand based multi-national firm with significant global scale and reach*, the collective voice and views of Fonterra's farmers should be heard and given due consideration.
11. Council is aware that MPI has engaged directly with Fonterra management on the Review.
12. Council has made submissions on previous proposals to amend the DIRA and the Raw Milk Regulations. Council would welcome the opportunity to speak to MPI on the Review. Council's voice is independent of that of the Fonterra Board and Fonterra management.
13. The questions posed in the Terms of Reference are categorised between the domestic and export sectors – focusing on the interests of consumers and the nation's overall economic wellbeing. There appears to be little focus on the interests of dairy farmers themselves, the backbone of the industry.
14. Council suggests the following questions are also considered as part of the review:
 - i. Where are the imbalances of power at each level of the dairy supply chain that could cause inefficiencies? How could those imbalances be addressed – for example, improved transparency by all processors (not just Fonterra) of milk pricing and supply terms would enable farmers to make better comparisons between processors and will enhance competition and encourage longer term sustainability.
 - ii. What are the global mega trends that have impacted the industry since Fonterra's formation and what's expected to impact in the future? Recognising these trends, how will the industry need to adapt to ensure it continues to play a key role in New Zealand's economic success? To what extent will the current DIRA contestability regime assist or impede the industry's ability to adapt?
 - iii. To what extent has the DIRA contestability regime incentivised new processors to contribute, and to what extent have those new entrants contributed, to the development, reputation and sustainable growth of the New Zealand dairy industry and NZ Inc?
 - iv. To what extent has the DIRA contestability regime had a positive impact behind the farm gate – including in terms of encouraging, contributing to or driving best land use, sustainable productivity increases, improved animal health, improved on-farm environmental practices, and higher milk prices for farmers?

- v. Recognising the importance of the dairy industry to New Zealand's economic, environmental and social well-being, should regulation restrict or have oversight of overseas investment in the New Zealand dairy processing industry recognising the regime applying to foreign investment in sensitive land and housing?

Sincerely,

Duncan Coull

A handwritten signature in black ink, appearing to read 'D Coull', followed by a period.

Chairman, Fonterra Shareholders' Council

Fonterra Co-operative Group Limited

duncan.coull@fonterra.com

mobile 027 4727110