



**Fonterra Australia Pty Ltd**

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22 October 2009

John Hawkins  
Committee Secretary  
Senate Standing Committee on Economics  
Parliament House  
Canberra ACT 2600

Dear Mr Hawkins

Thank you for the opportunity to provide information to the Senate Economics Committee Inquiry into competition and pricing in the Australian dairy industry.

Fonterra is a leading food producer in Australia. We collect 1.8 billion litres of milk annually, or approximately 20 per cent of Australia's milk production, from around 1,500 suppliers in Victoria, Tasmania, Western Australia (WA) and New South Wales (NSW).

The attached information paper outlines Fonterra's business activities in Australia and describes in detail the milk supply arrangements we have with Australian dairy farmers. In addition to this paper, we would like to provide the following comments in terms of the specific terms of reference prepared for the Inquiry by the Senate Economics Committee:

*(a) The economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors*

Fonterra's business is based on dairy manufacturing and around two-thirds of the milk we collect in Australia is manufactured into products sold on highly competitive global dairy commodity markets. The returns we can generate on commodity markets determine the farmgate prices we can offer our milk suppliers.

Dairy commodity markets have experienced unprecedented volatility over the past three years. In 2008, the global financial crisis caused commodity prices to fall by more than 50%. Consequently, in early 2009 we were forced to reduce our farmgate milk price significantly. Since this price decrease, commodity prices have seen some improvement, which we have reflected in our milk price. However, the strength of the Australian dollar is limiting the opportunity for the Australian industry to share in improved commodity prices.

Fonterra is acutely aware many farmers are struggling to operate their businesses sustainably in the current market conditions, especially in the drought affected lower Murray-Darling Basin and the parts of Tasmania affected by the recent high rainfall. We have sought to provide assistance to our suppliers to manage these challenges and to date we have not experienced a significant number of exits among our supplier base.

*(b) The impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry*

Fonterra has a relatively small involvement in the market milk (also known as fresh or drinking milk) sector, accounting for less than five per cent of the market in Australia. Fonterra has three regional fresh milk brands (Brownes in WA, Riverina Fresh in NSW, and Norco in NSW and southern Queensland) and one national niche brand (Anlene, enriched with calcium and minerals). In our limited experience, the fresh milk market is highly competitive, both in terms of securing raw milk supply and at the wholesale level.

*(c) The impact of the consolidation of the ownership of the market or drinking milk sector with the manufacturing milk sector on milk market conditions in the dairy industry;*

There has been minimal consolidation in Australia between companies operating in the fresh milk and manufacturing milk sectors. Fonterra remains predominantly a manufacturing milk company, with limited involvement in the fresh milk market. Recently, National Foods, which is historically a fresh milk market player, has increased its presence in the Australian cheese market. However, this has been at a relatively low level and we have not experienced any significant impact on competition (either a heightening or a reduction) at the product or farmgate level as a result of this development.

*(d) The impact of the concentration of supermarket supply contracts on milk market conditions;*

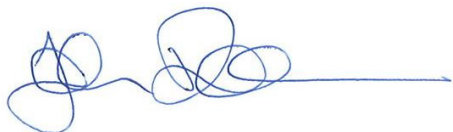
Fonterra's consumer products are sold through the major grocery retail and wholesale channels as well as convenience stores, cafes, bakeries and restaurants. Fonterra operates in highly competitive consumer dairy categories with a large number of competing brands offering a high level of choice to consumers. Fonterra considers there is currently a very competitive environment in place with the major grocery retailers and wholesalers around the key dairy consumer products categories we are involved in, namely cheese, dairy spreads, yoghurt and dairy desserts.

*(e) Whether aspects of the Trade Practices Act 1974 are in need of review having regard to market conditions and industry sector concentration in this industry;*

Fonterra is not in a position to comment on this item.

I hope the Committee finds this information useful. If you would like to discuss Fonterra's operations in Australia further, please contact me on 03 8541 1969.

Yours sincerely

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke extending to the right.

John Doumani  
Managing Director, Fonterra Australia & New Zealand

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