We have reviewed the information that we provided to you in 2011. The following update applies :

" First, the Commerce Commission carried out a review into the retail price of milk in 2011 and concluded that there was no valid basis for a price control inquiry under part 4 of the Commerce Act, as there is evidence of sufficient competition in the market place at the retail level;

Second, in 2012 the government introduced an independent price monitoring regime for the Fonterra farm gate milk price to improve transparency, given its dominance in the raw milk market : The Commerce Commission is now required to undertake annually a qualitative assessment of Fonterra 's milk price setting. The Commission is required to assess whether the approach taken by Fonterra in setting the farm gate milk price provides incentives for Fonterra to itself act efficiently ; and doesn't prevent efficient processors from potentially competing . Since the introduction of the regime the Commerce Commission has completed two reviews of Fonterra's farm gate milk price, on both occasions it has found that the price has been set in accordance with the above objectives. Details of the price reviews can be found on the Commerce Commission's website at www.comcom.govt.nz. "

The other information provide in the questionnaire response is still relevant.

In relation to the additional questions which you raise in your email our response is as follows:

1. **Is there a monitoring entity of food prices, food price transmission and/or of contractual arrangements along the chain in your country? What is its name? When was it established? Does it look specifically at certain products/sectors?**

The short answer is no, the Commerce Commission is only required to monitor the farm gate price of milk.

7. If you do not have such a monitoring entity, are data on food prices at different levels of the chain available publicly? Is food price transmission or transparency an important issue for your government, for consumers and for stakeholders along the chain? Is there a plan to set up a monitoring entity? Did you have one in the past and why did it stop operating?

Statistics New Zealand , a government department, collects information on retail prices for food , as part of the regular overall monitoring of consumer prices this information is available publicly and is provided to OECD as part of the Aglink exercise. Information on food prices at other levels of the food chain is not collected on a regular basis by the Government and public availability varies depending on the willingness of private companies to make their price data accessible.

The Government has no plans to set up a price monitoring entity for food prices. Prior to the economic reforms of the late 1980's there was heavy regulation of the whole New Zealand economy and in that context food prices , like all prices, were closely monitored ,with the adoption of a market economy such monitoring was not felt necessary or desirable and instead emphasis shifted to encouraging competitive markets within the context of general competition law, with oversight provided by the Commerce Commission.

8. Does the private sector have a demand for and willingness to provide greater transparency regarding price formation along the food chain according to your experience?

We can not provide a definitive answer to this question as responses vary: we would need to carry out an in depth survey to arrive at a considered response.

9. Have you identified impediments to price transmission along the food chain? What policies do you think might help mitigate those impediments? Have policy actions been taken? For example, have measures been taken to ensure that food markets are competitive and integrated in your country? What is your assessment of their effectiveness? Are any future policy initiatives affecting relationships along the food chain in the pipelines?

The short answer is no. Since the deregulation of the economy in the late 1980's food prices generally follow trends in international markets.

Survey of activities in food price formation, transparency and monitoring along the chain

The meeting of the Food Chain Network on September 13 2011 will focus on the issue of price formation and transparency along the food chain. The objective of this initial meeting is to exchange information and experiences with respect to new initiatives and ongoing activities in capitals on understanding and monitoring the issue of price formation and transmission throughout the chain from producers to consumers. It is the intention of the Network to be as inclusive as possible for this topic thus encouraging the participation of different stakeholders either directly or indirectly through their delegation.

To the extent possible the OECD secretariat will attempt to briefly summarize what Members consider to be the main economic policy issues in the price formation and transmission of food prices along the chain for the different stakeholders and how these being addressed in capitals. The attached survey is to provide the OECD secretariat with information for the summary to be distributed prior to the meeting.

I Are price formation, transmission and transparency issues along the food chain important and if so for which stakeholders and why?

Generally these issues have not been considered important since the major liberalisation of the economy in the late 1980's. The normal presumption is that market forces are sufficient to ensure efficient pricing along the food chain. Where there is evidence of a substantial lessening of competition, an independent body, the Commerce Commission, (set up under the Commerce Act), can act to remedy or prevent anticompetitive behaviour. This general framework enjoys widespread political support.

An exception is the milk market. Since the formation of Fonterra in 2001 it has accounted for a dominant share of the raw milk market. In 2010 for example its share was 90%. The creation of Fonterra was only made possible due to a special one–off exemption, at the time of its formation, from the normal provisions of the Commerce Act.

At the time of its creation it was recognised that Fonterra's dominant position in the raw milk market could potentially allow the exercise of near monopoly power in the wholesale markets for domestic dairy products and in the longer term lead to higher retail milk prices. This possibility was of concern to other independent dairy processors, independent downstream dairy manufacturing companies, who sourced milk from the wholesale market, consumer groups and the New Zealand government. To try and ensure that this does not occur pro-competition provisions were included in the Dairy Industry Restructuring Act (DIRA) which allowed for the creation of Fonterra. These provisions included a requirement that Fonterra divest New Zealand Dairy Foods (a wholesale supplier of consumer dairy products), now Goodman Fielder, and further required that the divested entity be able to access up to 250 million litres of milk at an agreed or default regulated price. Fonterra was also required to provide access to other dairy processors for up to 50 million litres of milk per processor at an agreed or default regulated price. In total Fonterra has had to make available up to 600 million litres of milk to independent dairy processors at a default regulated or agreed price.

In addition, to address concerns about the potential for lack of competition in the raw milk market, Fonterra has to provide farmers with open entry, exit, and re-entry terms.

When the DIRA was established in 2001 the pro- competition measures were seen as transitional measures which would automatically expire once certain competition thresholds in the raw milk market were reached. Fonterra's share of the national raw milk market has declined from over 96% in 2001 to 90% in 2010 as new competitors have emerged but the competition thresholds have yet to be met.

Over the last year some independent milk processors have raised concerns about the milk price. In addition a number of consumer groups have laid complaints with the Commerce Commission about the retail price of milk.

II. What are the three most important issues with respect to food prices that have raised concern over the recent period?

The formulae for setting the price of milk at wholesale level;

The retail price of milk;

III. Have you undertaken any institutional initiatives in recent years to improve your understanding of impacts of price formation, transmission and transparency on stakeholders in the food chain? These should include new working groups, new statistical units and special government offices and how they are administratively set up and operate.

At the time of writing the Commerce Commission is undertaking preliminary analysis to determine whether a price control inquiry into the retail price of milk is warranted.

The Ministry of Agriculture and Forestry is reviewing the raw milk regulations. MAF is also looking into the methodology Fonterra uses to set its farm gate milk price [price it pays its farmers for milk].

IV. Are there non-governmental institutions which are involved in the same activities? Please include trade unions , cooperatives, consumer groups or business associations

Nothing to report

V. Please describe briefly statistical and analytical activities undertaken on a regular or ad hoc basis? Please include special studies and research projects, databases development , statistical analyses and other relevant activities.

Nothing to report