



Dairy Farmers Milk Cooperative
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Dairy Farmers Milk
Cooperative

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Tasked by
Clove Hill Dairies
10 March 2011

23 July 2010

Dear DFMC Supplier,

CENTRAL NSW REGION ANNOUNCED MILK PRICES 2010/11
FOR SUPPLIER CONTRACTS WITH AN INITIAL TERM ENDING 30 JUNE 2010
AND FOR SUPPLIERS WITH NO SUPPLY CONTRACT

On behalf of the Board I am pleased to announce Dairy Farmers Milk Co-operative's (DFMC) opening milk pricing for the new season commencing 1st July 2010. Suppliers on these contracts will be subject to the policies of the supply management (AFD) scheme.

This announced base milk pricing is for all Central Regions Suppliers (NSW) for contracts with an initial term ending 30th June 2010 or who are supplying milk to DFMC without a supply contract.

Our announced Tier One (T1) base milk price is a weighted average of 47.00 cents per litre at the reference litre of 3.95% Butter Fat and 3.15% Protein (\$6.62 per kilogram milk solids equivalent). **This is a decrease on last year's Base Price for milk of 7%.**

Suppliers achieve increments above the announced base milk price from the DFMC incentive payments. Last year the regional average incentives paid was approximately 5 cpl above the base price.

It is important that you carefully read this letter as it provides a detailed overview of the two payment options available to you, including the Milk Payment Schedule for the financial year 2010/11.

Please Note

All milk supplied from the 1st of July will be paid at the announced monthly base price (plus incentives). Suppliers will be required, with the assistance of the Regional Managers and support staff, to choose a contract option (VP or FP – see below for additional information). You will initially be paid as if you were on a VP contract and the milk payment will later be adjusted for those who chose a FP contract to comply with the milk payment that you would have received as if you had supplied under that contract from July 1st. The Board appreciates that it will be a busy time for yourselves and the DFMC management team to work through your contract options, and we apologise for the delay in this announcement.

The Board has used its best endeavours to offer these contract choices and these milk prices and believe that we have achieved a favourable outcome to this very challenging time of formulating the AFD supply management policy. The most notable change from the original model is that suppliers will not have to move immediately to a flat line AFD volume, that they can choose the VP contract option. However this will have a two year transition to flat line (FP) contract volume per farm. Suppliers can of course in the future choose to supply on a seasonal curve but that could well mean T2 price on milk supplied above the flat monthly contract volumes.

The week starting the 26th July, DFMC will forward to you the following:

- Income Estimates for your farm based on the two DFMC payment options;
- DFMC Milk Supply contracts for consideration; and
- DFMC Milk Policy Document.

Your Regional Manager will then make a time to meet with you and discuss the contracts supply options.

DFMC Payment Options

DFMC suppliers will have two contract and payment options.

1. Variable Monthly Volume, Variable Monthly Price Contract (VP Contract)

- DFMC will offer suppliers an annual allocation based on the relevant regional AFD allocation model (please refer to Milk Policy Document for additional information).
- Based on your individual annual allocation (see your Regional Manager for additional information), you will be able to enter into a new contract with a monthly allocation relative to the same seasonality supply pattern as in the 2009 calendar year.
- Milk produced up to this monthly allocation will receive a T1 milk price. Milk produced over this monthly allocation may attract a Tier Two (T2) milk price (please refer to the Milk Policy Document for additional information).
- This supply model will attract a monthly variable (the Announced T1) Base Milk Price.
- At the time you are notified of your annual allocation, you may, at your discretion, choose to decrease your annual allocation or change your contracted supply pattern to a flatter line.

2. Flat Monthly Volume, Flat Monthly Price Contract (FP Contract)

- DFMC will offer suppliers an annual allocation based on the relevant regional allocation model (please refer to Milk Policy Document for additional information).
- This will be allocated as a flat year round supply i.e. a monthly average.
- At the time you are notified of your annual allocation, you may, at your discretion, choose to decrease your annual allocation.
- This supply model will attract a Flat Milk Base Price which will be the variable (Announced T1) Base Milk Price averaged over 12 months.
- Milk production may exceed the flat monthly allocation by up to 10% and will receive a Flat Milk Base Price. Any milk produced over this may attract a T2 Milk Price (please refer to the Milk Policy Document for additional information).

DFMC Milk Payment Schedule

Opening T1 Base Milk Price 2010/11

The following table (1) details our announced base milk price for all milk purchased within your monthly allocation as T1 milk for financial year 2010/11

Table 1

Announced T1 Milk Base Price							
Month	Variable Monthly Volume, Variable Monthly Price			Flat Monthly Volume, Flat Monthly Price			
	Cents per Litre	Fat \$/kg	Protein \$/kg	Cents per Litre	Fat	\$/kg	Protein \$/kg
Jul-10	47.65	4.02	10.08	47.18		3.98	9.98
Aug-10	46.75	3.95	9.89	47.18		3.98	9.98
Sep-10	44.78	3.78	9.48	47.18		3.98	9.98
Oct-10	43.65	3.68	9.24	47.18		3.98	9.98
Nov-10	43.65	3.68	9.24	47.18		3.98	9.98
Dec-10	44.65	3.77	9.45	47.18		3.98	9.98
Jan-11	45.55	3.84	9.64	47.18		3.98	9.98
Feb-11	47.05	3.97	9.96	47.18		3.98	9.98
Mar-11	50.35	4.25	10.66	47.18		3.98	9.98
Apr-11	51.25	4.33	10.85	47.18		3.98	9.98
May-11	51.25	4.33	10.85	47.18		3.98	9.98
Jun-11	49.55	4.18	10.49	47.18		3.98	9.98
WT/Price	47.00						

With regard to the above table you should note the following:

1. The announced T1 base milk price for a month is the base price for milk purchased as T1 milk.
2. In addition to the announced base milk prices detailed above, DFMC suppliers will receive a payment above the base milk price for Contract Consideration on all milk purchased as T1 milk. Location Incentive (where applicable), Productivity Incentive (formally called Volume) & Milk Quality Incentive will be paid on all milk supplied.
3. Milk supplied above your monthly allocation may attract a T2 milk price (see Table 2 for T2 milk price).
4. There will not be a "New Milk" payment.
5. DFMC Contract Consideration, Location, Quality Incentive Payments and Gate Charges applicable to your region will not change from that of 2009/10.
6. The "Volume Incentive" will be known as the "Productivity Incentive" from 2010/11.
7. The milk component payment model will change in 2010/11 from one of compositional adjustment for components above or below the reference litres of 3.95 Fat / 3.15 Protein, to a straight value on kilograms of butterfat and protein supplied.

Opening T2 Base Milk Price 2010/11

The following table (2) details our announced T2 milk prices.

Table 2

Month	Announced T2 Milk Base Price				
	Cents per Litre	Fat	\$/kg	Protein	\$/kg
Jul-10	30.99		2.62		6.56
Aug-10	22.95		1.94		4.86
Sep-10	20.35		1.72		4.31
Oct-10	20.35		1.72		4.31
Nov-10	20.35		1.72		4.31
Dec-10	20.35		1.72		4.31
Jan-11	22.95		1.94		4.86
Feb-11	24.13		2.04		5.11
Mar-11	25.32		2.14		5.36
Apr-11	30.99		2.62		6.56
May-11	32.17		2.72		6.81
Jun-11	33.36		2.82		7.06
WT/Price	25.06				

With regard to the above table (2), T2 milk prices will be paid for milk supplied in excess of the contracted monthly volumes. However you should note the following:

1. The monthly T2 payments are applied to an individual supplier's milk only when the regional milk pool exceeds the monthly regional AFD. Milk supplied above the regional AFD will be pro-rated for those suppliers who exceed their individual monthly allocation volumes.
2. A flat price contract supplier (FP) has 10% headroom above the monthly contracted volumes before T2 might come into effect.
3. These prices are base prices only, additional incentive payments will be made for Productivity, Quality and Location. The past Compositional Adjustment will be replaced by a straight butterfat and protein payment (as referred to above).
4. Note that Contract Consideration will not be paid on T2 milk.
5. The flat payment option is not offered on T2 milk.

Future Pricing

You should also be aware that the following Guarantee Minimum Base Milk Prices (please refer to the Milk Supply Contracts for details) are available to suppliers who enter into a 1 or 2 year supply contract. These are as follows:

- 2010/11 financial year – 47 cents per litre
- 2011/12 financial year – 45 cents per litre

Please note that if you have any questions or concerns regarding the above options available to you, please do not hesitate to contact your Regional Manager Helen Whitelaw on **0429 061 280** or via email helen.whitelaw@dfmc.org.au or discuss with your local Director.

DFMC is committed to providing our members a milk price and policies that are competitive with market forces within your region. We will continue to monitor milk pricing paid to our suppliers along with the competitive market that influences the price paid to farmers.

On a personal note I would like to wish you all, a successful and prosperous year ahead.

Yours Sincerely on behalf of the DFMC Board



Ian Zandstra
Chairman
Dairy Farmers Milk Co-operative