



Dairy Farmers Milk Cooperative

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Dear DFMC NSW Supplier,

Don't let Parmalat undermine the value of market milk in NSW

As you are aware, the contract to supply Woolworths' house brand products recently shifted from Lion (formerly National Foods) to Parmalat. This contract covers about 110 million litres of raw milk and Lion had previously drawn on significant volumes from Dairy Farmers Milk Co-operative (DFMC) in order to supply Woolworths.

We had been hopeful Parmalat would come to an agreement with Lion to continue to source milk through DFMC. This would have created stability and certainty in the NSW market. However, we have been informed the negotiations between Lion and Parmalat have broken down. We continue to push for these negotiations to recommence but in the meantime we understand Parmalat will now be out in the market trying to convince NSW dairy farmers to supply them directly without the support and assurance of working through a Co-operative. Potentially, Parmalat could also begin drawing on milk supplies in Victoria and bringing it into NSW.

We believe Parmalat's move is a negative development that could potentially undermine the farmgate value of market milk in NSW and will create uncertainty in the industry around the right contract terms and price for milk supplied to the local consumer market.

It is important that our members carefully assess any alternative supply arrangement from Parmalat or anyone else and make an informed decision about their future rather than hasty choice which may not be in their long term interests.

DFMC's position is that any direct supply offer from Parmalat must be at or above DFMC's Tier 1 price, otherwise Parmalat are undermining the value of market milk in NSW. Parmalat could try to take advantage of the fact that since Lion (i.e. National Foods) lost the Woolworths contract, DFMC suppliers in NSW face reduced Tier 1 volumes and their returns reflect a higher proportion of Tier 2 milk. This does not mean the value of DFMC's members' milk has fallen but rather it simply reflects the fact Tier 1 market milk volumes have switched to Parmalat.

All DFMC suppliers should realise what the market value is for their milk in NSW. The recently announced opening DFMC Tier 1 Base Milk Price is 47.00 cpl, (or \$6.65 per kilogram milk solids equivalent), plus average incentives of approximately 4.0cpl. This is a competitive and fair price given current market conditions and we believe that our suppliers should not accept anything less from Parmalat.

If Parmalat try to attract new milk for the Woolworths contract at a price below the DFMC Tier 1 Base Milk Price, we believe the company will be exploiting the position DFMC NSW farmers find themselves in through no fault of their own. Indeed, given Coles and Woolworths continue to retain a \$1 per litre retail price point the incentive for Parmalat to try and undermine Tier 1 prices is even greater. Farmers must recognise if Parmalat are able to achieve this, we believe it will be to the detriment of the long-term farmgate returns of all NSW dairy farmers.

As another alternative, Parmalat could seek to draw on milk purchased at lower commodity prices in Victoria to supply Woolworths in NSW. If this is Parmalat's intention, it represents a grave risk to the future of the NSW dairy industry and would deprive NSW consumers of milk produced by local farmers. We believe such a move would also signal that Parmalat is an opportunist player in the dairy industry in NSW.

We urge any DFMC member who is approached by Parmalat to first contact their DFMC Regional Manager or local Director to discuss their options prior to making any major supply decision.

Additionally, until DFMC knows the outcome of supplier movement, we are not in a position to provide annual T1 allocations beyond the end of August. All NSW suppliers have been provided T1 allocations for July and August.

It should also be noted that suppliers coming off contract have an additional 90 day period through to the end of September. DFMC will extend this period until such time that annual allocations have been provided.

DFMC local Directors and Executive will be holding supplier meetings in the coming weeks in order to provide a clear understanding as to the options available to our suppliers. We will continue to do everything possible to work with all parties associated with the Woolworths contract to ensure that our suppliers, receive a fair and competitive price for their milk.

Yours sincerely on behalf of the DFMC Board

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal line extending to the right.

Greg Griffith
Executive Officer
Dairy Farmer Milk Cooperative.