

Milk Policy

2016/2017



Effective: July 1st 2016

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Glossary

Organisational	
DFMC	Dairy Farmer's Milk Co-operative
LDD	Lion Dairy and Drinks
RM	Regional Manager
FSO	Farm Services Officer
DFL	Dairy Farmers Limited
MG	Murray Goulburn
ACF	Australian Co-operative Foods

Regions	
Northern	Comprises Far North Queensland, South East Queensland and New South Wales (excluding Riverina)
Southern	Comprises Victoria, Riverina and South Australia
FNQ	Far North Queensland
SEQ	South East Queensland
NSW	New South Wales (excludes Riverina)
VIC	Victoria (includes Riverina)
SA	South Australia

General	
\$ per kg Fat	Dollars per kilogram of fat
\$ per kg MS	Dollars per kilogram of milk solids
\$ per kg Protein	Dollars per kilogram of protein
AFD	Anticipated Full Demand refers to the milk supply required to align DFMC's milk intake with the commercial needs of LDD
BMCC or SCC	Bulk Milk Cell Count or Somatic Cell Count refers to the concentration of white blood cells in the bulk milk and is measured as cells/ml
Cfu	Colony forming unit
Cpl	Cents per litre
DMI	Domestic Milk Incentive
MRL	Maximum Residue Levels
MS	Milk solids
MSA	Milk Supply Agreement
Reference litre	For comparative purposes, a reference litre comprises 4% Fat and 3.2% Protein
RAM	Ruminant Animal Material
Simply Perfect	LDD Farm Quality Assurance Program
TPC	Total Plate Count is the concentration of viable micro-organisms in a sample such as bacteria and is measured as cfu/ml

Our core purpose is to look after our farmers by providing value and security.

- Duncan McInnes, DFMC Chairman

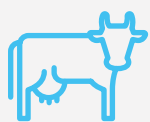


1.

Introduction

This Milk Policy Guide explains to Dairy Farmers Milk Co-operative (DFMC) Members the terms under which they supply milk to DFMC. This Milk Policy Guide can change from time to time. For clarity, in this document we refer to all milk quality standards and factory procedures as DFMC standards, and all pricing information as DFMC pricing.

Our co-operative is made up of



217

Farms



334

Members



14

WRAC
Members



5

Regions



4

Staff
Members



8

Board
Members

Long Service Members

Region	Over 50 years	Over 75 years	Over 100 years
FNQ	4	3	4
SEQ	1	4	2
NSW	5	3	3
VIC	2	6	-
SA	5	2	-
Total	17	18	9

2015-16 Milk Production Overview

Region	No of farms	Litres (000,000)
FNQ	46	47m
SEQ	51	38m
NSW	52	67m
VIC	37	79m
SA	31	41m
Total	217	272m



2 ■ Standard Milk Payment Terms

2.1. Milk Pricing

Please refer to your separate regional pricing information letters for full details on current pricing, and incentives in each region. Please also refer to the Defined Volume Fixed Term Contract (Contract) with your monthly contracted volumes for full details on the conditions associated with your contract.

A pricing offer set out in a pricing letter to a prospective supplier to the Milk Co-operative is open for acceptance by that prospective supplier for a period of 90 days from the date of the letter, unless:

- The supplier is a new supplier to the Milk Co-operative; and
- The offer is extended to the prospective supplier more than 90 days after 1 July in relevant year, in which case the offer is only open for acceptance for a period of 30 days.

2.2. Defined Volume Contracts

Members in NSW and SEQ will be able to apply for one (1), three (3) and five (5) year Fixed Term contracts. Members in FNQ will be able to apply for one (1), two (2) and three (3) year. Members in VIC and SA will be able to apply for one (1) and three (3) year Fixed Term contracts. Contact your DFMC Regional Manager or DFMC Executive Officer to go through the contract system in detail.

Members acknowledge that the current Milk Supply Agreement (MSA) between Australian Co-operative Foods (ACF) and DFMC is due to expire in 2019. As such, where a member elects to enter into a contract that extends beyond the term of the MSA, Lion Dairy & Drinks (LDD) is not obliged, and there should be no expectation that LDD will purchase milk in any period after the expiry of the express Term of the MSA.

Features of Contracts include:

- The annual allocation will be represented as a flat line i.e. your defined contract volumes will be the same for each month taking into account the number of days in the month.
- In all regions, the contract represents a Tier 1 contract i.e. all milk for the term of the contract will be paid at the announced value; there will be no Tier 2 valued payments for the term of the contract.
- In all regions (except suppliers in Southern region who have elected to take Variable price agreement), a 'Guaranteed Minimum Base Milk Price' (at the reference litre) is set for each region for the whole 2016/17 financial year for contracted milk. For those suppliers in the Southern region who have elected to take a Variable price agreement, there will be no minimum price, i.e. if Murray Goulburn (MG) announce a step down during the season, this may be passed onto suppliers.



Please see Section 2.5 (Southern Guarantee) and your 2016/17 pricing letter for additional information.

- All suppliers (except for the Southern regional farmers who signed a 3-year fixed term supply contract) can apply to DFMC to enter into a replacement contract at the end of any 12 month period and have 90 days from the time the Base Milk Price is announced or from the start of the financial year (whichever is the latest) to make an application to do so. Such applications must first be approved by DFMC. Members will be required to terminate their existing contract and then, enter into a new contract. Members can use this feature to gain a different Guaranteed Minimum Base Milk Price or contractual terms if offered by the Co-operative from time to time.
- Contracts shall continue for the Initial Term and thereafter unless and until terminated by either party giving to the other party not less than 3 months' notice ("Notice Period"), which cannot expire until on or after the end of the Initial Term. The Notice Period must expire on the last day of a month. For example, if a supplier give notice on 1st June, they are required to continue supplying the Co-operative until 1st September. Please refer to Section 7 (a) of your supply contract for additional information.

2.3. Component Payment System

Payments to Members are made in terms of \$ per kg Fat and \$ per kg Protein. DFMC quotes prices based on a reference litre for comparative purposes in both Cpl and \$ per kg MS and for 2016/17 is set at a ratio of 1 part Fat is to 1.5 parts Protein.

Each month milk prices will be expressed as \$ per Kg Fat and \$ per Kg Protein on your milk statement and will apply to all milk supplied, except for suppliers who are on the Productivity Extension Incentive Policy whose milk price will be expressed as a Cpl and applied to all milk supplied please refer to section 3.1.3 (Productivity Extension Incentive) for further information.

2.4. Anticipated Full Demand (AFD) Model

The overarching requirement of the AFD is to maintain the appropriate milk price signals for All Financial Year Supply and to align DFMC milk intake to the commercial needs of LDD and its subsidiaries. In all regions where the AFD applies, individual allocations are subject to the general proposition that the contracts volumes of all DFMC suppliers (within that region) do not exceed the regional AFD. Consequently, every DFMC member has an annual allocation. The key principles of this allocation are as follows:

- In FNQ and SA a supplier's current Defined Volume is recognised as the minimum qualifying volume upon which to base their new AFD allocation prior to any adjustment (including a pro-rata adjustment) based on the agreed regional AFD for the financial year.
- › The qualifying milk from those who have left the industry or leave DFMC to supply another processor (i.e. ceased contracts) will go back into the pool and be re-distributed on a pro-rata basis to suppliers whose actual supply exceeds their defined volume for a 12-month production period from April to March. Please note the DFMC Board reserves the right to re-distribute ceased contracts in the best manner that it sees fit.

Please note that apart from the allocation of surrendered litres, as LDD's commercial requirements matched suppliers 2015/16 supplier allocations, there was no change to a suppliers AFD allocation for 2016/17.

- In VIC, SEQ and NSW, AFD volumes will be calculated and offered on an annual basis, based on the following rules:
 - › Actual production was taken from 2015 calendar year;
 - › Where actual supply for 2015 less than 90% of contract volumes, suppliers received an AFD equal to their current contract;
 - › Where actual supply for 2015 was between 90% and 100% of contracted volumes, suppliers received an AFD equal to their current contract plus a 10% increase;
 - › Where actual supply for 2015 was greater than contracted volumes, suppliers received an AFD equal to their 2015 actual production plus a 10% increase.



DFMC ensures that Southern variable price will not fall below the MG DMI guarantee.

2.5. Southern Guarantee

DFMC ensures that Southern suppliers, who are on a variable price option, will not have that variable price fall below the MG DMI guarantee. However the variable price can move up and down compared to the MG DMI model farm, which is based on 1.8m litres, Flat Supply with a SCC of up to 250,000 at the reference litre (see pricing letters for additional information).

2.5.1. Step-up and Step-downs for Active Suppliers

A step-up or step-down occurs where a certain price is announced which is above or below the MG guarantee. A step-up or step-down only applies to active suppliers and is paid retrospectively. An active supplier is a supplier who has sold milk to the Co-operative one month prior to the time of an announced step-up, or step-down. As such, a step-up or step-down only applies to suppliers who are deemed active suppliers at the time a particular step-up or step-down is announced.

2.5.1.1. Step-Up

In the event of a MG step-up above the safety net pricing, the following will occur:

- If the step-up payment is announced before the end of a calendar month, payment will be made in the next payment run; and
- If a step-up payment is announced post the end of a calendar month, payment will be made in the following month's payment run.

For example, if in a particular year:

- a DFMC supplier issues the Co-operative with a 90 day notice of termination;
- and that notice falls due at the end of the initial period (i.e. 30th June of a Financial Year);
- and that supplier then ceases supply on the 30th June;

Then:

if MG announces a retrospective step-up in July of that year that is above DFMC safety net resulting in the DFMC needing to pay a step-up to those farmers on a variable price contract, those suppliers who have left DFMC for any reason after 30th June will NOT be entitled to the retrospective step-up announced by DFMC.

2.5.1.2. Re-forecasted Closing Position or Step-down

If MG re-forecast their closing position or announce a step-down during the 2016/2017 year, then the DFMC variable price may be adjusted down based on the following circumstances and conditions:

- a) When MG publically announces a negative change to their forecasted closing price; OR
- b) When MG officially announce a step-down from their current announced price (this will include the opening announced price plus any step-ups).
 - › In this clause, an “official announcement” means when MG makes a public written announcement that is freely obtainable in the public domain;
- The variable price must always maintain the current minimum price guarantee e.g. a 1 Cpl premium above the announced step-down if the current total payable price is below 45 Cpl (“the Safety Net”);
- Any step-down in the DFMC variable price will only occur from the 1st day of the month following the official MG announcement of a step-down;
- The DFMC announced price, from time to time, which is paid to suppliers is non-refundable i.e. the amount paid to a supplier prior to any announced step-down cannot be clawed back by DFMC;
- Further, apart from the Safety Net set out above, for the 2016/2017 year farmers should note there will be no guaranteed floor price offered.

2.5.2. Forward Payment Plan (Southern Suppliers)

All Southern suppliers are entitled to the DFMC/LDD ‘Forward Payment Plan’, which is designed to allow a farmer to be paid a ‘Flat’ Milk price. This is based on a weighted average ‘Announced Base Milk’ price when applied to the individual’s annual kg butterfat (less 0.06 \$ per kg) and protein (less 0.09 \$ per kg) levels – this equates to -0.5 Cpl. Suppliers should note that -0.5 Cpl discount is only an interim measure to allow for variations in supply patterns compared to expectations. Suppliers will receive the full rate entitled to them based on an end of year ‘balance up’ calculation – see below for more information.

For example: based on DFMC announced one-year Fixed Base Milk price applied to the farmer’s kg butterfat and protein (for the previous year), this farmer would be paid a \$ per kg flat rate for every month of the year that is equivalent to an annual milk payment 33.20 Cpl.

	\$ per kg Butterfat	\$ per kg Protein	Cpl
Weighted average	3.83	5.74	33.70
Less	0.06	0.09	00.50
Announced Flat price	3.77	5.65	33.20

The rates above are only an example. Individual farmers seeking to have a Flat Monthly Milk price will need to complete an individual income estimate to determine their own weighted average base milk price.

A farmer should note that whilst the butterfat and protein rates are paid flat, they will not get a flat Cpl rate each month of the year as it varies with composition – in the example above, this farmer’s payment is a flat \$ per kg rate each month that is equivalent to 33.20 Cpl across the year, however even on the flat rate, the price can vary between 31.80 Cpl and 33.00 Cpl (based on this farm’s composition, size, etc.). Note: at the end of the financial year i.e. the June milk cheque payable in July, DFMC will do a ‘balance up’. That is we will do a full year’s calculation based on actual supply (kg butterfat and protein) of the announced variable rate versus the flat rate that was paid and we will either pay a top-up payment or take a deduction based on what you would have received on the variable rate.



Payments are generally made on the fifteenth day of the month following collection.

2.6. Milk Price Applicable at the End of a Financial Year

The milk price to be paid on milk sold to DFMC after the end of a financial year will be the Announced Base Milk Price (in all regions) announced by the Milk Co-operative from time to time; or should the Announced Base Milk Price not be announced prior to the beginning of the financial year, the Milk Co-operative shall pending the determination of the Announced Base Milk Price (as the case may be) pay you in respect of each geographical area, the lower of:

- The commercial price payable by LDD during the corresponding period in the previous year for that geographical area; or
- The commercial price proposed by LDD for that geographical area.

2.7. Non-Contracted Milk

DFMC Members are able to supply milk to DFMC other than pursuant to a Contract however for members to receive allocated AFD milk volumes and receive the Contract Consideration Incentive must enter into Fixed Term supply Contract. Members who have provided their 90 day notice of their intent to cease supply are uncontracted after their due date (i.e. 90 days after the notice was given).

2.8. Payment Date

Payments are generally made on the fifteenth day of the month following collection. If the fifteenth day of the month is a Saturday or Sunday, payments will occur on the immediately on the preceding business day e.g. Friday. If the fifteenth day of the month is a public holiday or bank holiday, payments will occur on the nearest business day prior to the fifteenth day of the month. Milk Statements are available on Milkline <https://milkline.lionco.com> on the evening of the fifteenth of each month.



3



DFMC Payment
Differentials

3.1. Productivity Incentive

3.1.1. For suppliers in FNQ and Southern Regions

The Productivity Incentive is based on kgs milk solids (fat plus protein) supplied per month and starts at 5,000 kg MS which is capped at \$0.28 per kg MS. This Productivity Incentive is only available to FNQ and Southern members who have signed a 'One, Two or Three Year Defined Volume Contract'. The formula to calculate the Productivity Incentive (from 5,000 kg MS per month onwards) is \$0.01 per kg MS per 1000 kg MS supplied during a month (from 5,001 kg MS).

The Cpl price is quoted at the reference litre.

The Productivity Incentive is paid on a sliding scale for all milk solids within a month i.e. the more milk solids a farmer sends the higher up the payment scale is the value for all those milk solids.

The following table provides an example of the payment rate compared for the **monthly** Milk Solids supplied:

Productivity Incentive VIC and FNQ

Total Kgs (Butterfat & Protein)	Rate	Cpl	Payment (Dollars)
5,000	0.05	0.36	\$250.00
6,000	0.06	0.43	\$360.00
7,000	0.07	0.50	\$490.00
8,000	0.08	0.57	\$640.00
9,000	0.09	0.64	\$810.00
10,000	0.10	0.72	\$1,000.00
11,000	0.11	0.79	\$1,210.00
12,000	0.12	0.86	\$1,440.00
13,000	0.13	0.93	\$1,690.00
14,000	0.14	1.00	\$1,960.00
15,000	0.15	1.07	\$2,250.00
16,000	0.16	1.14	\$2,560.00
17,000	0.17	1.22	\$2,890.00
18,000	0.18	1.29	\$3,240.00
19,000	0.19	1.36	\$3,610.00
20,000	0.20	1.43	\$4,000.00
21,000	0.21	1.50	\$4,410.00
22,000	0.22	1.57	\$4,840.00
23,000	0.23	1.64	\$5,290.00
24,000	0.24	1.72	\$5,760.00
25,000	0.25	1.79	\$6,250.00
26,000	0.26	1.86	\$6,760.00
27,000	0.27	1.93	\$7,290.00
28,000	0.28	2.00	\$7,840.00
29,000	0.28	2.00	\$8,120.00
30,000	0.28	2.00	\$8,400.00

3.1.2. For Suppliers in SEQ and NSW

For suppliers entering into **1 year** contracts:

The Productivity Incentive is based on kgs milk solids (fat plus protein) supplied per month and starts at 3,000 kg MS (for SEQ) and 5,000 kg MS (for NSW) which is capped at \$0.14 per kg MS.

The formula to calculate the Productivity Incentive is **\$0.01 per kg MS per 1000 kg MS supplied during a month (from 3,001 kg MS for SEQ and 5,001 kg MS for NSW)** (about 1,370 litres per day or 500,000 litres pa for SEQ or about 2,283 litres per day or 833,000 litres pa for NSW);

The Cpl price is quoted at the reference litre.

The Productivity Incentive is paid on a sliding scale for total milk solids within a month i.e. the more milk solids a farmer sends the higher up the payment scale is the value for all those milk solids, e.g.:

- 5,000 kg MS is paid at a rate of 0.050;
- 5,500 kg MS is paid at a rate of 0.055

Productivity Incentive - One Year Contracts (NSW & SEQ)

	SEQ			NSW		
Total Kgs (Butterfat & Protein)	Rate	Cpl	Payment (Dollars)	Rate	Cpl	Payment (Dollars)
3,000	0.03	0.21	\$90			
4,000	0.04	0.29	\$160			
5,000	0.05	0.36	\$250	0.05	0.36	\$250
6,000	0.06	0.43	\$360	0.06	0.43	\$360
7,000	0.07	0.50	\$490	0.07	0.50	\$490
8,000	0.08	0.57	\$640	0.08	0.57	\$640
9,000	0.09	0.64	\$810	0.09	0.64	\$810
10,000	0.10	0.72	\$1,000	0.10	0.72	\$1,000
11,000	0.11	0.79	\$1,210	0.11	0.79	\$1,210
12,000	0.12	0.86	\$1,440	0.12	0.86	\$1,440
13,000	0.13	0.93	\$1,690	0.13	0.93	\$1,690
14,000	0.14	1.00	\$1,960	0.14	1.00	\$1,960
15,000	0.14	1.00	\$2,100	0.14	1.00	\$2,100
16,000	0.14	1.00	\$2,240	0.14	1.00	\$2,240

For suppliers entering into **3 year** contracts:

The Productivity Incentive is based on kgs milk solids (fat plus protein) supplied per month and starts at 3,000 kg MS which is capped at \$0.28 per kg MS (for SEQ) and 5,000 kg MS (for NSW) which is capped at \$0.40 per kg MS.

The formula to calculate the Productivity Incentive is **\$0.02 per kg MS per 1000 kg MS supplied during a month (from 3,001 kg MS for SEQ and 5,001 kg MS for NSW)** (about 1,370 litres per day or 500,000 litres pa for SEQ or about 2,283 litres per day or 833,000 litres pa for NSW);

The Cpl price is quoted at the reference litre.

The Productivity Incentive is paid on a sliding scale for total milk solids within a month i.e. the more milk solids a farmer sends the higher up the payment scale is the value for all those milk solids, e.g.:

- 8,000 kg MS is paid at a rate of 0.160;
- 8,500 kg MS is paid at a rate of 0.170

Productivity Incentive - Three Year Contracts (NSW & SEQ)

	SEQ			NSW		
Total Kgs (Butterfat & Protein)	Rate	Cpl	Payment (Dollars)	Rate	Cpl	Payment (Dollars)
3,000	0.06	0.43	\$180			
4,000	0.08	0.57	\$320			
5,000	0.10	0.72	\$500	0.10	0.72	\$500
6,000	0.12	0.86	\$720	0.12	0.86	\$720
7,000	0.14	1.00	\$980	0.14	1.00	\$980
8,000	0.16	1.14	\$1,280	0.16	1.14	\$1,280
9,000	0.18	1.29	\$1,620	0.18	1.29	\$1,620
10,000	0.20	1.43	\$2,000	0.20	1.43	\$2,000
11,000	0.22	1.57	\$2,420	0.22	1.57	\$2,420
12,000	0.24	1.72	\$2,880	0.24	1.72	\$2,880
13,000	0.26	1.86	\$3,380	0.26	1.86	\$3,380
14,000	0.28	2.00	\$3,920	0.28	2.00	\$3,920
15,000	0.28	2.00	\$4,200	0.30	2.15	\$4,500
16,000	0.28	2.00	\$4,480	0.32	2.29	\$5,120
17,000	0.28	2.00	\$4,760	0.34	2.43	\$5,780
18,000	0.28	2.00	\$5,040	0.36	2.57	\$6,480
19,000	0.28	2.00	\$5,320	0.38	2.72	\$7,220
20,000	0.28	2.00	\$5,600	0.40	2.86	\$8,000
21,000	0.28	2.00	\$5,880	0.40	2.86	\$8,400
22,000	0.28	2.00	\$6,160	0.40	2.86	\$8,800

For suppliers entering into **5 year** contracts:

The Productivity Incentive is based on kgs milk solids (fat plus protein) supplied per month and starts at 3,000 kg MS which is capped at \$0.35 per kg MS (for SEQ) and 5,000 kg MS (for NSW) which is capped at \$0.50 per kg MS.

The formula to calculate the Productivity Incentive is **\$0.025 per kg MS per 1000 kg MS supplied during a month (from 3,001 kg MS for SEQ and 5,001 kg MS for NSW)** (about 1,370 litres per day or 500,000 litres pa for SEQ or about 2,283 litres per day or 833,000 litres pa for NSW);

The Cpl price is quoted at the reference litre.

The Productivity Incentive is paid on a sliding scale for total milk solids within a month i.e. the more milk solids a farmer sends the higher up the payment scale is the value for all those milk solids, e.g.:

- 8,000 kg MS is paid at a rate of 0.2000;
- 8,500 kg MS is paid at a rate of 0.2125

Productivity Incentive - Five Year Contracts (NSW & SEQ)

	SEQ			NSW		
Total Kgs (Butterfat & Protein)	Rate	Cpl	Payment (Dollars)	Rate	Cpl	Payment (Dollars)
3,000	0.08	0.54	\$225			
4,000	0.10	0.72	\$400			
5,000	0.13	0.89	\$625	0.13	0.894	\$625
6,000	0.15	1.07	\$900	0.15	1.073	\$900
7,000	0.18	1.25	\$1,225	0.18	1.251	\$1,225
8,000	0.20	1.43	\$1,600	0.20	1.430	\$1,600
9,000	0.23	1.61	\$2,025	0.23	1.609	\$2,025
10,000	0.25	1.79	\$2,500	0.25	1.788	\$2,500
11,000	0.28	1.97	\$3,025	0.28	1.966	\$3,025
12,000	0.30	2.15	\$3,600	0.30	2.145	\$3,600
13,000	0.33	2.32	\$4,225	0.33	2.324	\$4,225
14,000	0.35	2.50	\$4,900	0.35	2.503	\$4,900
15,000	0.35	2.50	\$5,250	0.38	2.681	\$5,625
16,000	0.35	2.50	\$5,600	0.40	2.860	\$6,400
17,000	0.35	2.50	\$5,950	0.43	3.039	\$7,225
18,000	0.35	2.50	\$6,300	0.45	3.218	\$8,100
19,000	0.35	2.50	\$6,650	0.48	3.396	\$9,025
20,000	0.35	2.50	\$7,000	0.50	3.575	\$10,000
21,000	0.35	2.50	\$7,350	0.50	3.575	\$10,500
22,000	0.35	2.50	\$7,700	0.50	3.575	\$11,000

3.1.3. Productivity Extension Incentive

Suppliers who produce over 20,000 Kg Solids for every month of the year may apply to the Co-operative to receive the Productivity Extension Incentive of a flat Cpl rate for all milk supplied.

As an example for the 2015/16 financial year, DFMC Cpl Base Milk rate was calculated at 55.2 Cpl in NSW and 55.7 Cpl in SEQ for all milk supplied (note this includes contract consideration and maximum production incentive). In addition to this Cpl rate, there are quality adjustments and logistics charges. This Cpl rate replaces the payments to suppliers made in terms of \$ per kg Fat and \$ per kg Protein.

This is only available to all farms producing more than 20,000 kg MS i.e. they achieve a minimum production rate of 20,000 kg MS for every month of the year). Eligible farmers must apply to receive the Productivity Extension incentive within 90 days of 1 July in a particular year.

Suppliers should note that there are Cpl penalties if composition falls below the following levels:

For FY2016/17

Milk Composition - adjustments (c/l)			
		Protein	
		≥3.0%	<3.0%
Butterfat	≥3.4%	0.0	-2.0
	<3.4%	-1.3	-3.3

From FY2017/18

Milk Composition - adjustments (c/l)			
		Protein	
		≥3.0%	<3.0%
Butterfat	≥3.4%	0.0	-3.0
	<3.4%	-2.0	-5.0

Members who do not supply the minimum composition for two consecutive months will be advised in writing and DFMC will revert back to the component payment system quotes prices based on a reference litre. Please note DFMC may re-coup payments based on a supplier falling short of the component threshold, this will be calculated based on the monthly average composition (i.e. kgs of Butterfat and kgs of Protein supplied by the volumetric litres supplied over the course of the month).

Note that the Milk Co-operative will set-off any amounts payable by you to the Milk Co-operative against any amount payable by the Milk Co-operative to you.

Note that a new supplier to the Milk Co-operative seeking to be paid on the Productivity Extension Incentive flat Cpl rate model for all milk supplied will be required to provide 12 months documentary evidence that they have produced the minimum kg MS necessary to qualify for this incentive.

For additional information on the Productivity Extension Incentive and to see if this applies to your dairy operation, please contact your Regional Manager. Note the 2016/17 rates will not be determined until after the Base Milk Price is announced.

3.2. Defined Volume Incentive

3.2.1. Southern Regional Contracts Only

DFMC will pay suppliers a Cpl incentive for entering into a one (1) or three (3) year milk supply contract.

Annual Defined Volume	Contract Consideration rate
0 to 1,999,999 litres	1.00 Cpl
2,000,000 to 4,999,999 litres	1.25 Cpl
5,000,000 to 9,999,999 litres	1.50 Cpl
10,000,000 litres and over	1.75 Cpl

3.2.2. FNQ Contracts Only

DFMC will pay suppliers a Cpl incentive for entering into a one (1), two (2) or three (3) year milk supply contract.

Annual Defined Volume	Contract Consideration rate
0 to 1,999,999 litres	2.00 Cpl
2,000,000 to 4,999,999 litres	2.25 Cpl
5,000,000 to 9,999,999 litres	2.50 Cpl
10,000,000 litres and over	2.75 Cpl

3.2.3. SEQ and NSW Contracts Only

DFMC will pay suppliers a Cpl flat rate incentive for entering into a one (1), three (3) or five (5) year milk supply contract.

Flat Rate	Contract Consideration rate
On all litres supplied	2.00 Cpl

3.3. New Milk

For 2016/17, the new milk incentive program will not be applied. However from time to time, new milk incentive payment may be required in one or more regions and as such will be notified within relevant milk payment letters.

3.4. Quality Payment System

Quality payments are made in Cpl and are the same in all regions throughout the year. The table below sets out the quality payment rates.

Demerit points per month	Cpl
0	2
1	1.4
2-4	1
5-9	0
10-14	-1
15-17	-4
18-23	-8
24-29	-12
30-60	-16
61+	No payment

3.5. Gate Charge

The Gate (or Stop) Charges in the FNQ and Southern Regions are as follows:

Gate Charge	\$10.00 (first collection per day) \$50.00 (for any additional collections on that day, where multiple pick-ups per day are agreed by the Milk Co-operative)
Under minimum volume of 22,500 litres per month	\$40.00 (per pick up)
Under minimum volume of between 22,500 and 27,500 litres per month	\$30.00 (per pick up)

The Gate (or Stop) Charges in the SEQ and NSW are as follows:

	2016/17	2017/18
Gate Charge	No charge	NSW \$20.00 (first collection per day) SEQ \$15.00 (first collection per day) Both regions \$50.00 (for any additional collections on that day, where multiple pick-ups per day are agreed by the Milk Co-operative)
Under minimum volume of 22,500 litres per month	\$40.00 (per pick up)	\$40.00 (per pick up)
Under minimum volume of between 22,500 and 27,000 litres per month	\$30.00 (per pick up)	\$30.00 (per pick up)

3.6. Location Differential

In the SEQ Regions, the following Location Charge will apply from the 1st July 2016:

SEQ Logistics	2016/17	2017/18
Moreton/Lockyer	-1.20	-0.85
Darling Downs - Dalby	-2.80	-2.45
Darling Downs - North/South	-2.20	-1.85
Darling Downs - Warwick	-2.70	-2.35
Nth Coast - Conondale/Kenilworth	-2.50	-2.15
Nth Coast - Gympie	-2.70	-2.35
Nth Coast - Lower Sunshine Coast	-1.60	-1.25
Nth Coast - Maleny	-2.00	-1.65
Nth Coast - Esk/Toogoolawah	-1.70	-1.35

In the NSW Regions, the following Location Charge will apply:

NSW Logistics	2016/17	2017/18
Central West - Bathurst	-3.00	-2.75
Central West - Cowra-Forbes	-3.30	-3.00
Central West - Orange	-3.00	-2.70
MNC - Gloucester	-2.50	-2.70
MNC - Taree	-3.80	-3.50
Lower Hunter - Dungog	-3.00	-2.70
Lower Hunter - Maitland/Paterson	-3.00	-2.70
South Coast	-2.30	-2.00
Southern Highlands	-1.60	-1.30
Sydney Basin	-0.80	-0.50
Upper Hunter	-3.00	-2.70

In the SA Region the following Location Differential will apply from the 1st July 2016 (note this is unchanged from the previous financial year):

SA Logistics	2016/17
SA Central (For suppliers within 100 km from GPO only)	+0.50

No Location Charges apply in FNQ or VIC.



4. Milk Quality

4.1. Poor Quality Milk

Members with consistently poor quality milk (i.e. high TPCs, high BMCCs, low fat, low protein and high temperature etc.) will be advised in writing, and collection may be suspended until DFMC are satisfied that a suitable milk hygiene program has been put in place. Milk collection may cease entirely if poor milk quality persists.

Suspension: Suppliers should note that whereby a farmer who is suspended for quality issues three times in a rolling 12-month period will permanently suspended from pick up and a new supply contract will not be offered.

After recommencing pick up, suspension from supply will recur should minimum requirements not be met.

4.2. Bulk Milk Cell Count

The maximum allowable BMCC level on a monthly average basis is 400,000 cells per ml which brought DFMC into line with Australian Quarantine and Inspection Services (AQIS) export requirements. AQIS export requirements are for BMCC to be reported as a geometric mean, which is generally lower than a straight average. If the occasional test goes over the 400,000 limit, Demerit Points will apply, bearing in mind that the highest 10 day period average result is removed each month. Please refer to Section 6.7 (Results) for additional information in relation to the availability of test results.

Where after two consecutive 10-day periods over 400,000 SCC, a farmer is given another 10 days to rectify before suspension occurs. Members will be advised by DFMC RMs or LDD FSOs, and collection may be suspended until DFMC is satisfied that a suitable mastitis control program has been put in place and SCC results have improved. After recommencing pick up, suspension from supply will reoccur should the SCC exceed 400,000 averaged over a 10-day period, within 90 days of recommencing. Note DFMC/LDD will use reasonable endeavours to provide test results in 48 hours.

4.3. Milk Fat % and Milk Protein %

DFMC requires suppliers to supply milk with a Fat % no less than 3.2% and a Protein % no less than 2.9%. Suppliers should note that for the 2017/18 financial year, the minimal Protein % will increase to no less than 3.0%.

Where, after two 10-day periods with low results, the supplier will receive a letter outlining the suspension warning notice. The supplier then has 20 days from the warning notice to have composition above the minimum levels or they may be suspended. After recommencing pick up, suspension from supply will recur should minimum requirements not be met.

4.4. Extraneous Matter (Sediment)

This test is done on tankers initially and individual samples are only taken when there is a problem with the tanker. Farmers will be contacted regarding problems as they arise.

4.5. Freezing Point

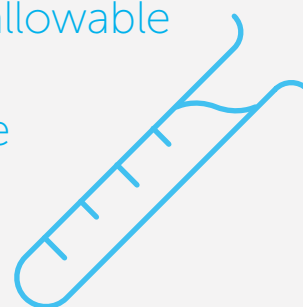
This test is to detect added water. Nutritional problems can cause freezing points to rise, but not generally above -0.5°C . With payments for composition, there is no incentive to add water to milk. We still test for 'Added Water' however as it can occur and is a risk to overall milk quality at the factory. Members will be notified of issues as they arise. If suppliers are found to have water in their milk, they may be subject to suspension until the issue is resolved.

4.6. Oestradiol

All members are advised that the use of Oestradiol is not permitted on farm except in non-lactating heifers. Please check with your local vet for advice on products that are suitable for use.

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The maximum allowable
SCC level on a
monthly average
basis is 400,000
cells per ml.



4.7. Animal Feedstuffs

4.7.1. Suitability of Feed for Animal Use

Vendor declarations must be sought for all feedstuffs as part of each member's On Farm Quality Assurance Program. The Vendor Declarations should identify the supplier of the feed, give a description of the stockfeed and date of supply, and should guarantee that the feedstuffs are suitable for use for dairy cows in line with current Dairy Industry Standards including free from chemical residues and Ruminant Animal Material (RAM).

4.7.2. Aflatoxins

Aflatoxin is a substance produced by fungal contamination of feeds. Dairy cows consuming aflatoxin contaminated feeds can transfer some of this toxin into milk. Aflatoxin, when consumed by humans through contaminated milk from dairy cattle who consumed contaminated feed can have adverse health effects. DFMC farmers must fully comply with all regulations relating to aflatoxins within both the domestic Australian market and within individual export markets where it sells milk and milk products.

In the event that a farm result exceeds the acceptable level for aflatoxin during routine testing of milk, the member shall be notified by the DFMC RMs or LDD FSOs, and assistance provided to investigate and correct the problem. Various feedstuffs such as copra meal, peanut hay etc. have been shown to contain dangerous aflatoxin levels on occasion, and must be managed on farm to reduce the possibility of contamination.

4.7.3. Genetically Modified Organisms

DFMC's policy is to avoid the use of genetically engineered or genetically modified (GE/GM) materials whenever possible. In the case of milk, its preference is that members avoid GE/GM feed for their cows whenever possible and seek warranties (vendor declarations) at all times in regard to the GE/GM status of purchased feeds. However, it recognizes that there are times when feed of non-GE/GM status is either in extremely short supply or that the cost of non-GE/GM feed is prohibitive, given economic realities. In such times, especially in periods of drought, we accept that feed containing GE/GM may have to be used. When situations return to normal availabilities of feed, DFMC expects that farmers will do all in their power to avoid the purchase of feed containing GE/GM materials.

To ensure the integrity of its products, LDD checks that its milk products do not contain any novel proteins. Raw milk must not be sourced from cattle that have been genetically modified via either recombinant or other direct DNA technology, including cloning and the offspring of cloned cattle, however generated.

4.8. Enzootic Bovine Leucosis (EBL) and Bovine Johnes Disease (BJD)

Members must comply with individual state legislation relating to EBL and BJD testing. It is the aim that all members' milk supplied to DFMC shall be EBL free (Monitored Free). If a breakdown occurs, members shall follow the state EBL Testing Protocol. For herds over 200 cows sub-sampling will be used in line with State statutory guidelines. DFMC has the right to ask members to supply evidence of what their current EBL status is.

All members must provide evidence of EBL status to DFMC.



5. Adulterated Milk

5.1. Antibiotics and Other Inhibitory Substances

These substances, especially antibiotics, can have extreme effects on manufacturing processes. Inhibitory substances can include: antibiotics, pesticides, herbicides, detergents (especially quaternary ammonium compounds (QACs)) and nonyl-phenol ethoxylates (NPEs), blood and colostrum. LDD policy states it does not knowingly process milk that has been shown to be positive for inhibitory substances by any valid test.



Please refer to Section 5.1.2 (Demerit Points Related to Antibiotics) regarding costs associated with contaminated tankers and 'Demerit Point' penalties.

All tankers are tested on arrival at a LDD processing facility with subsequent additional testing for individual member's milk if there has been a positive result. There are also regular random tests on individual member samples throughout the month. The penalty for supplying milk not suitable for human consumption is non-payment for that collected milk volume; please refer to Section 5.2 (Supplying Milk) for full details. Three samples will need to be taken from the vat for testing prior to resumption of collection. Farms with recurring problems will be suspended from supply until steps are in place to supply quality milk that meets DFMC policy requirements.

All tankers are tested by rapid testing methods on arrival at the processing facility. Should a positive result be detected on the tanker, the milk is segregated while further testing is conducted. Each member's vat sample is then checked for the presence of inhibitory substances and the offending member will be notified.

It is the offending member's responsibility to have the next consignment of milk tested before the next tanker collection; please refer to Section 5.2 (Supplying Milk) for additional information regarding official test kits. Positive milk tanker results are reported to the relevant State Food Authority immediately. Where a member has tested positive for antibiotics through routine testing procedures, DFMC reserves the right to have an audit conducted of the On Farm Quality Assurance Program to assist with improving the farm management system.

5.1.1. Antibiotic Test Kits

It is the supplier's responsibility to provide milk that is free from Antibiotic contamination. Private on-farm Test Kits will **not** be recognised as an official test kits and should be used as a **guide only**. If DFMC members have their own test kits, they are responsible for the maintenance, operations and results of the use of those kits. Please see Section 5.1.2 (Demerit Points Related to Antibiotics) regarding policy and penalties associated with supplying milk which has tested positive at factory for antibiotics.

LDD factories and tanker contractors have approved test kits that can be used to determine whether a contamination from antibiotics has occurred on farm. It is the supplier's responsibility to make contact with the RM, FSO, or Tanker Company to arrange for the sample to be tested. Tankers may be diverted to pick up samples off farm. Supplier must deliver them to the tanker or the testing facility. Testing will not be performed on individual cow samples, as test kits are not calibrated to test samples other than bulk milk samples.

5.1.2. Demerit Points Related to Antibiotics

DFMC encourages its members to minimise at all times the chances of contaminated milk entering the factory system. Thus, it **strongly** encourages members to discuss with DFMC RMs or LDD FSOs any suspect milk before pick up and take advantage where necessary of the preliminary testing if advised to do so.

Accordingly, if a member supplies milk which tests positive for antibiotics or other inhibitory substances at the LDD factory (and has not used an antibiotic test kit that tested negative on farm) they will receive three (3) demerit points as well as being penalised with non-payment for milk and incurring associated costs as per Section 5.2 (Supplying Milk).

If a member uses an official antibiotic test kit that provides a negative result (e.g. no antibiotics) and as such has his milk picked up by the milk tanker, if that milk is subsequently deemed positive for antibiotics at the factory, the member will not receive any demerit points.

5.1.3. Prior Notification Tests (Antibiotics, Blood in Milk, Sour Milk)

Members will be entitled to One (1) paid 'prior notification exemption for each financial year commencing 1st July 2016. Please also refer to Section 8.3 (Insurance Cover) on the importance of having adequate farm insurance.

Prior Notification is defined as the member notifying a DFMC RM, LDD FSO and/or milk cartage contractors that they have milk unsuitable for pickup at any time prior to the milk entering the milk tanker. Please note: in order to ensure maximum collection efficiencies, members are requested to notify the tanker company, RM or FSO prior to the tanker arriving.

If the member suspects that they have milk unsuitable for pickup because of possible antibiotic contamination and seeks time to test their milk prior to collection, LDD will use its 'best endeavours' to allow enough time for the member to have the milk tested by a relevant inhibitory substances screening test before determining if they will supply the milk to the tanker or elect prior notification.

If the member applies for prior notification at any time, the member is obliged to make every effort to inform relevant DFMC RM, LDD FSO and/or milk cartage contractors. The milk will not be picked up by the tanker and the member is expected to dump their milk according to relevant Environmental Protection Agency (EPA) guidelines.

Milk should not be picked up while milking is in progress. If for some reason milk is to be picked up while milking is still in progress; the milk tanker driver must on all occasions seek approval from the member or the milker at the dairy before he begins pumping the milk into the tanker. If the driver does not obtain approval to begin pumping whilst milking is still underway and there is a problem with the milk supplied, the member will not be liable and will be paid for the milk supplied.

5.2. Supplying Milk

5.2.1 Anti-biotics

If a member elects to use their prior notification, milk dumped (as per EPA guidelines) will be paid for at their current milk price unless entitled prior notifications have been used. The member must inform relevant DFMC RM or Lion FSO regarding the volume of milk discarded as soon as possible.

If a member has not used an official test kit from the tanker company or from the Lion Dairy & Drinks factory and supplies milk which subsequently is tested positive at the factory, the member will not be paid for their milk and will be responsible for the cost of the milk in the tanker including:

1. The total cost of all the milk in the tanker at the current value of the milk from other farmers (if any) that is in the tanker (less the members own milk that is included in the pickup).
2. Freight costs.
3. Disposal costs.

Lion Dairy & Drinks will send an invoice to the member for the above mentioned costs. Lion Dairy & Drinks will begin deductions from your monthly milk cheque in the next pay period. Lion Dairy & Drinks will deduct the amount owing in four (4) equal instalments.

If however any milk supplied by a farmer is deemed by the processor suitable for human consumption, the member will be paid for the milk supplied. Please note that it is Lion Dairy & Drinks policy that any milk suspected of being contaminated by antibiotics will not be accepted.

If antibiotic milk is supplied by more than one member for that tanker run, milk will not be paid for and the costs will be applied on a litre pro-rata basis across those members who supplied antibiotic milk to that tanker.

5.2.2 Milk which is otherwise not fit for human consumption

Notwithstanding clause 5.2.1, if a member supplies milk which is otherwise adulterated or not fit for human consumption, the following process will apply during the 2016/2017 season:

- a) The tanker driver who picks up the milk on behalf of Lion Dairy & Drinks must also grade that milk organoleptically (which can include one or more of taste, sight, smell, and touch);
- b) If the tanker driver determines that the milk is not in fact satisfactory based on that organoleptic assessment, the milk will not be collected from the member's arm, the member will not be paid for that milk and the member will be responsible for disposing of that milk at their own cost;
- c) If the tanker driver determines that the milk is satisfactory based on their organoleptic assessment but the milk in the tanker is subsequently rejected at the factory, the member will not be paid for their milk;
- d) Should 5.2.2(c) occur, the member will not be paid for the cost of their own milk which has been rejected at the factory, however, they will not be liable to pay the costs of any other milk which has been contaminated in the tanker, or within a vat at the factory, or associated disposal costs.
- e) Members must use their reasonable endeavours to cooperate with tanker drivers when such an organoleptic assessment is taking place, and also use their reasonable endeavours to accurately address any questions the tanker driver may have in relation to the quality of the milk to be collected.

DFMC may set off any amount which a member owes DFMC in relation clause 5.2.2, against any amount it owes the member.



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Milk should not be picked up while milking is in progress.



6 ■ Milk Supply System



Raw milk must be cooled to less than 4°C within 3.5 hours after the commencement of milking and held below 4°C.

6.1. Temperature

Raw milk must be cooled to less than 4°C within 3.5 hours after the commencement of milking and held below 4°C. This is in line with LDD's 'Simply Perfect' Quality Assurance Program Guidelines.

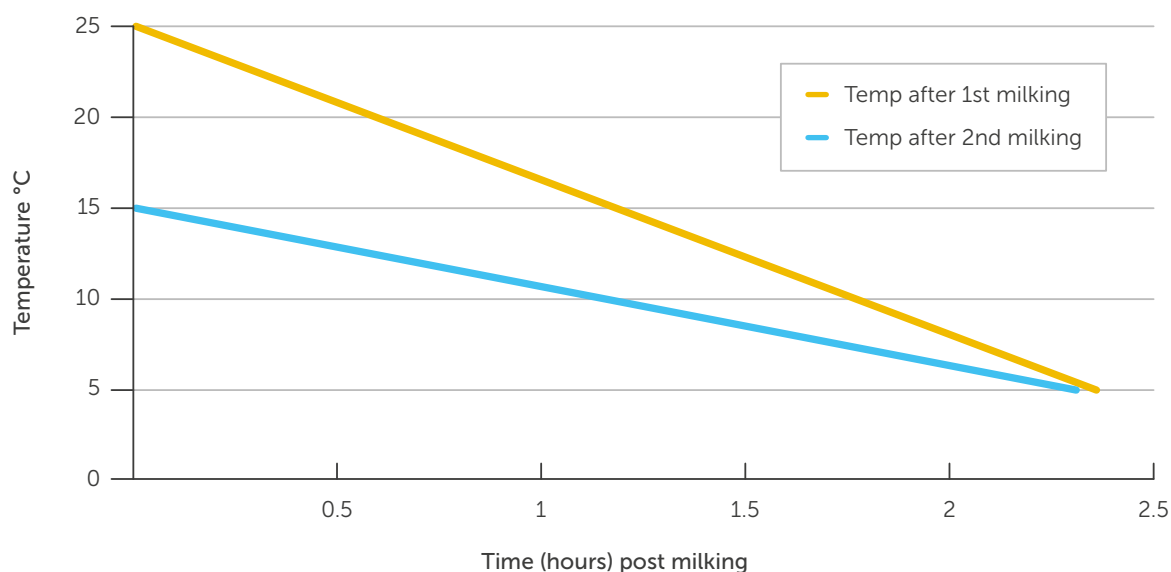
Milk may be accepted and paid for if it is supplied at higher temperatures (above 4°C), provided it complies with Early Milk Collection Index (EMCI) or milk cooling curve (see graph below). Milk that does not comply with the milk cooling curve will not be accepted or paid for unless a farmer has received prior written approval from the DFMC RM or LDD FSO who will evaluate the situation and suitability of the milk for pick up.

Milk must be stored in accordance with relevant Commonwealth and State legislation. Milk will not be collected from non-refrigerated vessels.

All suppliers will be provided with a DFMC/LDD Milk Cooling whiteboard that must be hung adjacent to the milk vat. The whiteboard is to be filled in for temperature and time at the completion of each milking. Tanker drivers will, as part of their duties, clean the whiteboard after milk has been collected.

Farmers who persistently exceed collection temperature requirements will be monitored. Milk cooling systems must comply with the requirements of 'Simply Perfect'. Any supplier that has regular issues with temperatures in excess of 4°C will undergo an audit of their cooling system. Suppliers that do not comply with 'Simply Perfect' requirements may have their Farm Quality Assurance accreditation revoked (after being given an opportunity to correct the problem).

POST-MILKING COOLING CURVE



6.2. Minimum Volumes and Pick-Up Arrangements

In an effort to keep the ever-increasing cost of milk cartage at reasonable levels, the Minimum Monthly Level for collection of milk is as follows:

Litres on Skip a day basis	Minimum litres monthly supply	Collection fee
1500	22,500	-\$40.00 (per pick up)
Between 1500 and 1800	27,500	-\$30.00 (per pick up)

Please note: If a farmer fails to meet the Minimum Monthly Volume after one month, they will first be informed in writing to allow the farmer to rectify the issue. If however the farmer fails to increase production above the minimum monthly volume levels as tabled above in the second month, the collection fee will be applied and continue until minimum monthly volumes are reached and maintained.

Exception may be given by DFMC to members on a truly seasonal supply pattern either at the start or end of their seasonal calving period.

Other collection requirements include:

- Collection on a daily or skip-a-day basis except in emergencies;
- The tanker must empty the vat;
- No segregation of the milk is allowed on the basis on any compositional or quality parameter.

DFMC (including LDD and subsidiary companies that collect the milk) have no obligation to collect milk more frequently than once per day.

In order to guarantee the safety of members, drivers, animals and property and to facilitate the efficient collection of milk, DFMC requires all farms to have acceptable dairy access.

The minimum suitable standard includes:

- An all-weather access road to provide safe access for the milk tanker.
- Truck access gates to and within the property must remain open at all times.
- Towing of trucks will not be permitted under any circumstance.
- No reversing of tankers into a farm from a public road. Clear visibility at the entrance to the farm that is free from trees or other obstructions.
- No cows are permitted to walk on tanker access tracks. This is essential for OH&S reasons but also for Biosecurity on farm.
- Drivers must be given safe, clear and well-lit access to the vat room and vats at all times.



For further information on DFMC milk collection tanker safety and access standards please contact your local DFMC Regional Manager or LDD Farm Services Officer.

There are times of the year when milk production may exceed the member's storage capacity, even on daily collection. Members may also be unfortunate enough to have a refrigeration failure that is not immediately repairable. In these types of situations, the member may request additional pickups each day. At its absolute discretion, DFMC will attempt to assist the member by providing an additional daily collection. Any additional collections may incur an additional fee of \$50. In any event, milk must meet temperature provisions as the additional collection is at the election of the Member and not DFMC, unless DFMC has agreed to assist a member with a refrigeration problem.

Where the member's volume of milk exceeds the capacity and ability of DFMC milk collection arrangements, additional fees and Gate Charges will not be charged or will be reimbursed if charged incorrectly. Also, where milk is collected more frequently than required by the member for the cartage contractor's or DFMC's convenience, no Gate Charges or additional charges will apply for the additional collections.

The following are the contact numbers for current transport carriers:

Region	Area	Transport Carrier	Contact	Numbers
FNQ	All	McColls	Neville Moseley	0458 754 057
SEQ	Gympie, Brisbane Valley	BLU Logistic Solutions	Rochelle Conroy	0409 836 522
	Darling Downs, Ipswich and Lockyer	BLU Logistic Solutions	Marc Anderson	0409 302 923
	West Moreton	BLU Logistic Solutions	Steve Fraser	0438 105 502
NSW	Hunter, Mid North Coast	SRH	Scott Harvey	0409 326 163
		SRH	Jim Ridley	0439 326 163
	Central West	McColls	David Favelle-Toovey	0428 522 296
	Southern Highlands / South Coast	McColls	David Woolley	0458 044 840
SA and VIC	SA Central	BLU Logistics Solutions	Craig Dixon	0438 956 149
	Riverina, North Victoria	Head Office Tongala	Riverina, North Victoria	03 5859 3333
	South West Victoria	Warrnambool Cheese & Butter	Kirk Dolton	0400 985 282

6.3. Consistency of Supply

All members must supply milk on a consistent basis throughout the week either on a daily or skip-a-day basis, with the variation on a two-day basis not to exceed 20%. For example, if the combined total of milk supplied on a Monday and Tuesday is 1000 litres, the milk available for collection on Wednesday and Thursday must be between 800 and 1200 litres. This does not apply to seasonal members at the start and end of the season.

6.4. Splitting Milk on Compositional and Quality Differences

DFMC will not accept milk that has been segregated on the basis of composition or quality.

6.5. Road Access

Members are reminded that they must have 24-hour all weather access and safe road access for milk tankers under all weather conditions to the dairy (see transport section for further details), specifically lack of adequate road access due to weather conditions. This includes ensuring that any bridges on or leading to the farm are structurally sound and can bear the load of a milk tanker.

6.6. TPC Retesting

The DFMC TPC retest regime was put in place in order to recognise those with good quality TPC records. The use of re-test results are according to a strict set of guidelines outlined below:

A 'Re-test List' of farmers will be produced every 10 days. This is made up as follows:

- Members whose initial period TPC is greater than 10 (thousand)

For any farms from this re-test list, we will then use the lower of the re-test result and/or the initial test result for the period as the official result. Any subsequent re-tests for that period will only be treated as advisory tests and only farmers on the re-test list will have their results adjusted. Results will also be adjusted if an investigation by the laboratory or farm services team have identified that an entire batch of TPC samples has been compromised. Your local DFMC Regional Manager or LDD Farm Services Officer can also authorise advisory TPC tests to help members determine the results of revised cleaning and sanitising regimes.

It is the members' responsibility to contact their Farm Services Officer to obtain their results, or use the other methods – the SMS/email system or by fax or Milkline <https://milkline.lionco.com>. Samples may be tested for them but will not be used to adjust existing results.

As a matter of reference, initial tests (rather than any adjusted results after a re-test) are used in calculating the averages against which decisions are made.

Where, after two 10-day periods over 50,000 cfu/ml, a farmer is given another two 10 days to rectify before suspension occurs. Members will be advised by DFMC RMs or LDD FSOs, and collection may be suspended until DFMC is satisfied that a suitable control program has been put in place and results have improved.

6.7. Results

All milk test results are generally available within 48 hours from collection via the following, except in exceptional circumstances:

- SMS, email and fax
- Milkline website on <https://milkline.lionco.com>

Members are reminded that the tanker docket system may not always be available, and it is recommended that they use one of the methods above for regular results retrieval. The SMS, email and fax system is designed to notify you immediately when your results become available and is the most efficient way of getting your results. Please contact your local DFMC RM or LDD FDO to ensure you are registered on this system.



If you feel that a TPC, SCC or BMCC result is not representative, please contact your Regional Manager.



All milk test results are generally available within 48 hours from collection.



7

■ Animal Welfare and Compliance

7.1. Animal Health

The Australian dairy industry has in place a National Dairy Industry Animal Welfare Strategy (NDIAWS). The NDIAWS supports the Australian Animal Welfare Strategy which was developed by the Federal Government with the vision that the welfare of all animals in Australia is promoted and protected by the adoption of sound animal welfare standards and practices.

DFMC and LDD work closely with Dairy Australia and other industry bodies to ensure that our members are fully aware of any welfare issues, and recommended best practice on farm. Its members are expected to have on farm animal health and welfare practices of the highest standard.

On the ground in their local regions farm services officers are actively working with farmer members, State Food Authorities, local vets and DPI personnel to ensure the highest possible milk quality is delivered, and that animal welfare standards are maintained on our individual farms.

DFMC's rigorous monitoring of milk quality standards ensures that we have the best possible standards on farm. DFMC RMs and LDD FSOs help farmers with daily practical advice on nutrition, agronomy and animal health issues in order to ensure that milk supply comes from healthy well cared for animals.

The safety of milk for consumers is essential. Cows must be managed in a manner that prevents the introduction of hazards to the milk and the wellbeing of livestock. If members notice unusual symptoms such as dramatic shifts in production, skin lesions, sudden deaths, downer cows, etc.; they should immediately remove and isolate any suspect cows showing unusual signs or symptoms from the milking herd.

It is the farmer's responsibility to contact their veterinary officer and if necessary report any incident of concern to DFMC RMs or LDD FSO immediately. Pick up may be suspended while any investigation is ongoing if recommended by either a veterinary officer or the State Food Authority. Compensation for any or all of the milk dumped in such a situation is at the discretion of DFMC.

Members are reminded that they should have insurance to cover any milk lost in circumstances such as this. Milk will not be picked up from herds infected with notifiable diseases unless it is deemed safe by the State Food Authorities.

Issues that may affect our ability to pick up milk include but are not confined to:

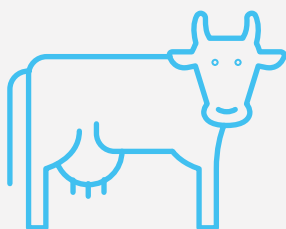
- Pesticide and chemical poisoning;
- Botulism, anthrax;
- Foot and mouth disease.

Vaccinations for diseases such as botulism, three day sickness, leptospirosis; etc. are recommended as best practice in order to minimise the occurrence of such diseases on farms.

In the event that a member does not notify or delays notifying DFMC of an incident we may cease milk collection immediately and DFMC reserves the right to cease collection on a permanent basis.



The safety of milk for consumers is essential. Cows must be managed in a manner that prevents the introduction of hazards to the milk and the wellbeing of livestock.



DFMC and LDD have no tolerance for animal cruelty. It is each supplier's responsibility to ensure they meet and comply with animal welfare laws, standards and practices.

7.2. Animal Welfare

Good animal health and welfare is central to successful and sustainable dairy farming. Customers and consumers are increasingly interested in knowing that a high standard of animal welfare is maintained throughout the supply chain of products they purchase.

DFMC and LDD are committed to ensuring responsible animal welfare practices are maintained by its suppliers in accordance with the relevant laws, regulations, industry guidelines and animal welfare codes of practice.

The Australian dairy industry, through Dairy Australia, Australian Dairy Farmers (ADF) and the Australian Dairy Products Federation (ADPF) has identified the following priority areas to enhance animal welfare outcomes:

- Calf management – calves need to be managed across the supply chain to meet agreed industry codes of practices and welfare standards;
- Tail docking – the Australian dairy industry does not support tail docking. Equally, DFMC does not condone tail docking. If any supplier is reported to be tail docking DFMC reserves the right to suspend milk collection immediately pending an investigation, and reserves the right to cease collection on a permanent basis;
- Disbudding – disbudding of calves' horns should be practised in preference to dehorning older cattle. Disbudding is best done under the age of 8 weeks using methods approved under industry guidelines and welfare codes of practice;

- Lameness – farmers should seek to minimise lameness through adoption of practices for prevention, early detection and effective treatment on-farm. DFMC recommends that all suppliers have a written lameness improvement plan. Examples, tools and assistance can be found on the Dairy Australia website; and
- Calving induction – sound farm management practices reduce any perceived requirement for calving induction. Induction drugs should only be used if necessary for animal health/welfare reasons and under the supervision of a vet, rather than a practice to regulate milk production. DFMC suppliers should ensure this practice is maintained under strict industry guidelines and welfare codes of practice.

More information on animal welfare standards and practices can be obtained from Dairy Australia at www.dairyaustralia.com.au.

7.2.1. Animal Welfare Concerns

DFMC and LDD have no tolerance for animal cruelty. It is each supplier's responsibility to ensure they meet and comply with animal welfare laws, standards and practices.

DFMC may suspend the collection of milk if it reasonably suspects that there may be material animal health or welfare issues with respect to the supplier's milking herd or other livestock.



8 ■ General

8.1. Dairy Industry Licence

DFMC requires that all milk sourced comes from Licensed and Food authority approved farms. Failure to hold a Dairy Licence may result in suspension until an appropriate Licence is produce.

In addition, you agree to provide DFMC permission for each relevant state food authority to grant access to audit result.

8.2. Refrigeration and Generator Rebate Scheme

LDD and DFMC's Refrigeration and Generator Rebate Scheme program will not be available to members post 30th June, 2016.

8.3. Insurance Cover

All members should have adequate insurance to cover any incidences of milk loss, contamination or damage to other farmer's milk in the milk tanker. It is recommended that farmers should also check their policy to cover restricted access to farm from public road or bridge failure. Should a member require a letter for an insurance claim please contact your local DFMC RM or LDD FSO.

DFMC will not be responsible for payment of milk not collected due to:

- Adverse weather conditions,
- Where the farm has restricted access due to safety, or notified public health reasons, such as animal disease (botulism, FMD, Anthrax) etc.

8.4. On Farm Quality Assurance Program

It is the member's responsibility to ensure that their 'Simply Perfect' (On Farm Quality Assurance) Manuals are compliant with relevant State Authority requirements, and that recording sheets and Manuals are kept updated. All States require dairy producers to have an approved and audited Food Safety Program. They must comply with individual State legislation and DFMC requirements with regards to auditing of these systems, by or for the relevant State Authorities. Any member that fails an audit could be immediately suspended from supply until the cause of the failure is rectified. Members who have a minor or major non-conformance entered on their audit may receive time to demonstrate rectification of the non-conformance. DFMC RMs and LDD FSOs are available for assistance in implementing an on farm quality system. Please note 'SIMPLY PERFECT' is the name of the LDD Farm Quality Assurance program. All forms and manuals are available for down loading from www.dfmc.org.au or through <https://milkline.lionco.com> or from your local DFMC RM and LDD FSO.



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All members should have adequate insurance to cover any incidences of milk loss, contamination or damage to other farmer's milk in the milk tanker.

8.5. Use of Quaternary Ammonium Compounds (QACs) and Nonylphenol Ethoxylates (NPEs)

8.5.1. New Requirements from 2016/2017 Onwards

Members must cease using sanitisers containing Quaternary Ammonium Compounds (QAC or QATs) from 1 July 2016. From 1 December 2016 suppliers must also ensure that the use of teat sprays or teat dips are free from the surfactant Nonylphenol Ethoxylates (NPEs).

The removal of QACs and NPEs are necessary in order to meet the strict supply chain requirements of domestic and export customers.

The Dairy industry has been working closely with chemical companies and farm equipment retailers to make them aware of these changes, and to ensure they have suitable alternative products available for the dairy industry to use on farm. It is anticipated that a greater range of products will be registered for use by the Australian Pesticide and Veterinary Medicine Authority.

8.5.2. Quaternary Ammonium Compounds (QACs)

QACs are a group of chemicals widely used as biocides and disinfectants in the home, industry and in food manufacture. Products containing QACs are used to clean and sanitise the milking machine and/or vat on some dairy farms. Benzalkonium Chloride (BAC) is the specific type of QAC of most concern, and is present in a number of products registered for use on dairy farms. In some cases, residues have been found in dairy products.

Routine testing for the presence QACs will be conducted by the processor in the first half of the 2016/2017 season – as such there should be no presence of QACs on farm from 1 July 2016.

8.5.3. Nonylphenol Ethoxylates (NPEs)

NPEs are surfactants used in many industrial chemicals, pesticides, and herbicides. However, from the Dairy industry's perspective it is their use in most iodine-based teat sprays that is of greatest concern. NPEs are used in the spray formulations to solubilise iodine. Over the past few years concerns have emerged globally about the effects of NPE in the environment and, in particular, toxicity in aquatic environments. But more importantly, residue testing in Australia has identified that teat sprays containing NPEs can cause positive residue test results.

Pre-milking teat spray and teat dip are of the most concern. As such there should be no presence of NPEs on farm from 1 July 2016. Testing for the presence of NPEs will commence from December 2016 onwards.

8.6. Abusive Language

It is DFMC policy to provide a safe work place that provides an environment that is free from abusive, offensive or threatening behaviour, for all people associated with our business.

If DFMC believes that such behaviour has occurred (this will be determined at DFMC Board discretion), you will be suspended from milk pick up for five days or until DFMC believes the behaviour has been rectified.

8.7. Relationship with LDD

The prices and policies in this document are the same that are applied between the DFMC and LDD (owners of Dairy Farmers Limited (DFL)(formerly Australian Co-operative Foods (ACF)). DFL is responsible for the collection, cartage and testing of the milk.

If, under the terms of DFMC's Milk Supply Agreement with DFL, DFL may validly refuse to purchase a member's milk from DFMC (for example, because the member fails to continuously supply milk to DFMC), then DFMC shall not be obliged to purchase that member's milk from the member.



9 ■ Questions

9.1. Questions

Broader policy issues should be addressed to your regional DFMC Director or DFMC Executive Officer. Contact can be found on the DFMC website www.dfmc.org.au/contacts.

Please contact your local DFMC RM with queries relating to the payment or quality systems. Please note that any extra sampling must be approved prior to testing by your local DFMC RM or LDD FSO.



10. Contact Lists

10.1. Contact Lists

Dairy Farmers Milk Co-Operative Limited (ARBN: 108 690 384)

Business	5 Murray Rose Avenue Sydney Olympic Park, NSW 2127
Postal	PO Box 72 Lidcombe, NSW 1825
Phone	(02) 8120 4431
Fax	(02) 8244 4635
Email	info@dfmc.org.au
Website	dfmc.org.au

DFMC Directors

Far North Queensland	James Geraghty	0427 773 907 james.geraghty@dfmc.org.au
South East Queensland	Duncan McInnes (Chairman)	0418 198 349 duncan.mcinnnes@dfmc.org.au
	Andrew Burnett	0419 773 907 andrew.burnett@dfmc.org.au
New South Wales	John Bywater (Independent Director)	0418 788 466 bywater2@bigpond.net.au
	Steven Downes	0402 202 804 steven.downes@dfmc.org.au
	Grant Sherborne	0427 482 702 grant.sherborne@dfmc.org.au
Victoria, Riverina	Cameron Hodge	0448 437 007 cameron.hodge@dfmc.org.au
South Australia	Rick Gladigau	0429 807 682 rick.gladigau@dfmc.org.au

DFMC Team

Head Office	Greg Griffith	Executive Officer	0458 487 228 greg.griffith@dfmc.org.au
	Caroline Tunnell-Jones	Communications Manager	0427 897 633 caroline.tunnell-jones@dfmc.org.au
Northern	Tony Burnett	Regional Manager	0428 632 148 tony.burnett@dfmc.org.au
Southern	Andrew Cleland	Regional Manager	0419 711 663 andrew.cleland@dfmc.org.au

LDD Milk Sourcing Team

Northern	Daniel Dickeson	Farm Services Manager	0407 282 944 daniel.dickeson@lionco.com
Southern	Paul Rees	Farm Services Manager	0404 036 300 paul.rees@lionco.com
Far North Queensland	Howard Smith	Senior Farm Services Officer	0409 965 948 howard.smith@lionco.com
South East Queensland	Cameron Whitson	Senior Farm Services Officer	0418 195 891 cameron.whitson@lionco.com
New South Wales	Kathrine Colaci	Farm Services Officer	0402 200 526 Kathrine.colaci@lionco.com
Victoria, Riverina	Travis Parcsi	Farm Services Officer	0438 491 259 travis.parsci@lionco.com
South Australia	Julian Manowski	Farm Services Officer	0408 391 855 julian.manowski@lionco.com



Appendix

Appendix – Demerit Points for Milk Quality Effective 1 July 2016

Test	Result	Demerit Points	Test Application
Antibiotic	Clear (<.003 ug/ml)	0	Per test (minimum one per month)
	Notified first time per year	0	Per occurrence/consignment
	Notified after this	0	Per occurrence/consignment
	Not notified – collected	3	Per consignment. There will be no payment for milk and the member will be invoiced for costs associated with contamination.
Blood In Milk	No Blood in Milk	0	Graded each consignment
Sour Milk	Clear (<0.15 acidity)	0	Graded each consignment.
	Note: Only one (1) Prior Notification is allowed in each calendar year for these three above tests combined		
Extraneous Matter Advisory test	Tanker tested first Individual Member tested if tanker > Disc 1	0	Warning if Disc 3 or higher. No demerit points.
Extraneous Matter Penalty test (next 10 day Disc 3 or higher)	In an area where a product defect occurs – this test may be carried out immediately.		
	Discs 1 & 2 (AS)	0	Continue testing until tanker tests Disk 2.
	Discs 3 (AS)	1	Repeat test next period.
	Discs 4 & 5 (AS)	5	Repeat test next period. Individual members with a Disc 3 or higher will continue to be tested until they receive three consecutive discs <3.
	This follows on from the Advisory Test where a Disc 3 or more occurs. Demerit Points follow from this test only.		
Simply Perfect	Loss of certification or accreditation	15	Immediate suspension from supply until accreditation is restored.

Appendix continued – Demerit Points for Milk Quality Effective 1 July 2016

Test	From	To	Demerit Points	Test Application
Total Plate Count (Units 000cfu/ml)	0	15000	0	Highest Official Test per month excluded. Then demerit points (if any) are applied to each other official test. There are normally three official tests each month.
	15001	24000	1	
	24001	39000	2	
	39001	64000	4	
	64001	And over	8	
	Repeat offenders over 50,000 cfu/ml and 400,000 SCC may be suspended.			
Somatic Cell Count or Bulk Milk Cell Count (Units '000/ml)	0	200	0	Average per 10 day Period is calculated. Highest average for the month is excluded. The points are applied to each remaining average. There are normally three weighted averages/month. Milk is not accepted from herds with a recurrent BMCC of 400,000 per ml or more based on current DFMC Milk Policy Guidelines (which is based on EU requirements).
	201	250	1	
	251	300	3	
	301	350	6	
	351	400	10	
	401	And over	15	
Temperature	Milk should be collected at 4°C.			
	Milk may be accepted and paid for if it is supplied at higher temperatures (above 4°C), provided it complies with the milk cooling curve. Milk that does not comply with the milk cooling curve will not be accepted or paid for unless a farmer has received prior written approval from the DFMC RM or LDD FSO who will evaluate the situation and suitability of the milk for pick up, except in an emergency. A second visit fee may apply if a tanker has to return to collect milk that did not meet temperature guidelines.			
Freezing Point (Units °C)	No penalties apply where DFMC decides to collect milk more frequently than normal practice.			
	≤0.517		0	Per Test following a 'high' tanker.
	-0.516 to -0.500		0	Warning per test following a "high" tanker.
	>-0.499		0	1st occurrence in any rolling three month period.
			4	2nd and further occurrences in rolling period.
Repeat occurrence at higher than -0.5°C will lead to suspension of pick up.				

Dairy Farmers Milk Co-operative

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