



Dairy Farmers Milk Cooperative
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Dairy Farmers Milk
Cooperative

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1st September 2012

Dear DFMC Supplier,

SA CENTRAL REGION ANNOUNCED MILK PRICES 2012/13

This letter is to announce Dairy Farmers Milk Co-operative's (DFMC) opening milk pricing for the new season commencing 1st July 2012. Included in the correspondence is the revised DFMC Milk Policy document and I will also refer to some policy changes in this letter.

This announced base milk pricing is for all suppliers covering the South Australia Central Region.

Our announced Tier One (T1) base milk price is 32.39 cents per litre at the reference litre of 3.95% Bf and 3.15% protein (\$4.56 per kilogram milk solids equivalent). This price is a decrease of 11% from last financial year.

Suppliers receive adjustments to the announced base milk price from the DFMC incentive payments. Last year the regional average adjustments paid was approximately 5.0 cpl above the base price.

Changes to milk policy and adjustments include:

1. The quality criteria will change and there will not be an end of year bonus. In general, top quality milk will receive 2 Cpl on a monthly basis and lower quality will be more heavily penalised.
2. The productivity payment will now commence at 5,000 Kgs MS per month (approx. 840,000 litres p.a) rather than 4,000 Kgs. The commencement rate will be \$ 0.05 / kg MS
3. It should be noted that the Protein to Fat ratio has changed from 1:2.5 to 1:2 effective from 1st July 2012. This means that payment rates for protein and fat have decreased the weighting for the payment of protein.

Our announced monthly price plus average adjustments should provide suppliers with an average total price of \$5.12 per kilogram milk solids equivalent. At the reference litre this is approximately 36.7 Cpl.

Central South Australia will receive an additional 1 Cpl as locational payment; bring the inclusive price to \$5.26 per kilogram MS equivalent.

Excess milk above contracts, T2 milk, will be at the T1 milk price. As such ALL milk supplied in excess to your contracted litres will be purchased by DFMC and paid at the T1 base milk price plus adjustments.

In addition all suppliers will be on a flat allocation and will be offered a FP contract only. As such, suppliers with an initial term ending 30th June 2012 will be required, with the assistance of the Regional Manager, to enter into a FP contract.

DFMC MILK PAYMENT SCHEDULE

The following table (1) details our announced base milk price for all milk purchased for the financial year 2012/13

Table 1: Announced T1Base Milk Price

Announced Milk Base Price			
Month	Flat Monthly Volume, Flat Monthly Price		
	Cents per Litre	Fat \$/kg	Protein \$/kg
Jul-12	32.39	3.16	6.32
Aug-12	32.39	3.16	6.32
Sep-12	32.39	3.16	6.32
Oct-12	32.39	3.16	6.32
Nov-12	32.39	3.16	6.32
Dec-12	32.39	3.16	6.32
Jan-13	32.39	3.16	6.32
Feb-13	32.39	3.16	6.32
Mar-13	32.39	3.16	6.32
Apr-13	32.39	3.16	6.32
May-13	32.39	3.16	6.32
Jun-13	32.39	3.16	6.32

With regard to the above table (1) you should note the following:

1. In addition to the announced base milk prices detailed above, DFMC suppliers will receive a payment adjustment on the base milk price for Contract Consideration, location Incentive (where applicable), Productivity Incentive & Milk Quality Incentive;
2. DFMC Location incentive (where applicable), Quality Incentive Payments and Gate Charges applicable to your region may have changed from that of 2011/12. I encourage all suppliers to refer to your Milk Purchasing Policy for additional information; and
3. DFMC Contract Consideration incentive applicable to your region will not change from that of 2011/12.

RECALCULATION OF MILK PAYMENTS

DFMC previously announced that there could possibly be a back pay adjustment if the current Announced Base Price was different than the interim paid price of July. Those DFMC suppliers on FP contracts in this region are receiving the Lion offered price of 32.39 cents per litre. As this does differ slightly to the announced price there will be an adjustment in the September milk statement to reflect the announced base milk price.

Changes to the Milk Policy took effect from 1 August meaning there will be no recalculation related to policy changes (quality and productivity incentives) for the July milk month.

An adjustment will be made for suppliers who were on a VP contract to reflect the difference in the variable base milk price to that of the announced Flat price.

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 on your next milk statement for any monies owing.

Guaranteed Minimum

Please note that the prices referred to in the tables above through to June 2013 are confirmed minimum prices. This means that, in this region, those prices will not fall below these amounts.

DFMC pricing in these regions for 2012/2013 is underpinned by the Murray Goulburn traditional price for the 6 months January to June. It has been agreed that the following formulas (calculated on a MG farm model, traditional payment, of 1.8m litres flat supply with 3.15% protein and 3.95% fat and band 1 quality) will apply to DFMC prices if the MG price moves as a result of Step-up's.

- **MG price <45cpl: Premium 6cpl**
- **MG price 45-50cpl: Premium 4cpl**
- **MG price >50cpl: Match MG**

Future Pricing

DFMC and Lion have agreed to a formula that future pricing (i.e. for the financial year 2013/2014) will be based on the Murray Goulburn full year payout for that financial year, for all year round supply but with 2nd half premium.

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 Ron Page on **0439 137 202** or via email ron.page@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