



Farmers representing farmers

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20 June 2016

Dear Supplier,

RE: Update from BSC on the 2016 milk price and other activities

The recent developments in the Australian Dairy Industry have resulted in a very challenging and distressing time for you as farmers.

I wanted to take this opportunity to give you an update on the activities that BSC has been undertaking on your behalf over the last 6 weeks, as a result of the unprecedented late season pricing changes and varying approaches by the major processors in response to this.

BSC has continued to work as hard as it can to deliver outcomes that are as fair and as equitable as possible. Immediately upon being informed of the revised Fonterra milk price, the BSC Board met to consider our options and our position on a number of issues, and how we could work with Fonterra to best represent you all. We have also been active in talking to you as suppliers and ensuring your messages are passed onto Fonterra.

The key issue that we immediately highlighted to Fonterra after their first announcement was the clear inequality of the proposed process of the implementation of the step down on autumn calvers. Fonterra responded to this, and endeavoured to address this inequality with their autumn calving offset, though unfortunately this did not go anywhere near as far as what BSC desired.

In conjunction with these activities, we have also conducted a detailed review on both ours and Fonterra's rights and obligations under the Milk Supply Agency Agreement, with a focus on the benchmark price.

As you will be aware, there are many questions currently being asked at the moment on the benchmark arrangement overall, and the interpretation of the relevant benchmark price for 2016 season.

Our position after consulting with independent legal advisors, is that the benchmark, based on Murray Goulburn's final farmgate milk price, **will be in the range of \$4.75 to \$5.00**. This is the headline price announced by Murray Goulburn (currently \$5.49) less the Milk Supply Support Payment "MSSP" (amount still to be determined – to range from \$0.49 to \$0.74).

The most recent announcement by Murray Goulburn on 30 May 2016 made the following statements:

"..... the Board has announced a revised forecast 2016 final farmgate milk price (FMP) of between \$4.75 to \$5.00 per kilogram milk solids (KGMS)." And "Under the MSSP suppliers will receive a milk support payment above the final FY16 FMP (Final FY16 FMP) so that they receive the equivalent of \$5.49 per kgms for the whole FY16 season."

MG has also noted that "the final MSSP amount will not be known until the Final FY16 [final milk price] is determined after MG's full year accounts for FY16 have been finalised".

Fonterra has already committed to a minimum of \$5.00 for the current season.


It is also important to note, as per Fonterra's letter to you all on 9 May 2016, "Next season Fonterra will continue to pay a minimum benchmark milk price, as per the BSC Agreement, **excluding** the deductions that Murray Goulburn is using to recover repayments from its farmer support package ...". ie your milk price will be higher than MG's payments by at least the level of the Murray Goulburn supplier's MSSP repayments¹.

This letter is to also reaffirm to you BSC's commitment under the Milk Supply Agency Agreement, to ensure that for the current season, and for future seasons, the Milk Price paid by Fonterra is not less than the Benchmark Price (the milk price paid by the volume leading milk processor in Victoria).

BSC will continue to work closely with Fonterra on opportunities and products that will support your businesses. BSC is committed to our farmers having profitable and sustainable businesses, and continues to act on co-operative principles representing your interests with a collective independent voice.

Should you have any questions or require any further clarity, please contact your regional BSC Board member.

Yours sincerely,



Tony Marwood
Chairman
Bonlac Supply Company

¹ This refers to MG's payments to an MG supplier who does not take up the option to repay before 30 June 2016 their portion of the MSSP in FY16.