



Press Statement

3 March 2014

Price increase for farmers on Dairy Crest/DCD formula contract and new contract options

Dairy Crest and Dairy Crest Direct (DCD) have jointly announced the launch of two new contract options for the start of the milk year. Delivering on Dairy Crest's commitment to offer farmers flexibility and choice, both contracts will allow farmers to choose the contract best suited to their individual farm business model.

In 2013, Dairy Crest was the first processor to launch a formula price for farmers on standard contracts and from April it will offer farmers a re-based and enhanced financial offer, based on market conditions. The 'Core Formula Contract' will deliver a milk price for April of 32.75 ppl on a standard basis*, which represents a 2.5 ppl increase against the current formula prediction.

Dairy Crest continues to take the lead in contract options and is the first processor to offer farmers a new 'Simplified Formula Liquid Contract'. The ground-breaking contract has been developed in response to farmers asking for straightforward, simple contract terms. The key focus for this contract will be volume. The start price for April is 32.56 ppl on a standard litre basis.*

Available to farmers supplying milk on liquid contracts, both options use the innovative DC/DCD formula mechanism developed by Stephen Bradley last year.

Dairy Crest's Group Procurement Director, Mike Sheldon stated: "This is a really positive step from Dairy Crest and DCD and shows our commitment to deliver a fair, competitive milk price as well as a wide choice of contract models to our farmers.

"Our Core Formula Contract has been successful in delivering complete price transparency and building trust in the pricing process, and we want to extend it and expand the number of farmers signed up. We were really proud to be the first to deliver this model last year which has reflected the movements in both dairy market and farm cost indices. However, the market environment for milk supply is different to last year and we have agreed with DCD that we will re-base it from April to ensure we remain competitive.

“We have committed to continually develop a relevant portfolio of contracts to meet the needs of our different supplying farm businesses. Having listened to our farmers, I am confident that the new Simplified Formula option will be a real benefit to some of our farmers and deliver a very competitive offer in the marketplace.”

DCD Chairman David Herdman welcomed the new contracts, “We’re pleased to have worked closely with Dairy Crest to re-base the formula and to develop the new liquid contract options for our members. We remain committed to our joint Formula initiative, which provides a transparent pricing mechanism. I am delighted that we have also been able to deliver against requests for a more straightforward milk supply contract and extend contract choice”

The application process for both new contracts will open later this month after regional meetings across the Dairy Crest milk field.

- Ends -

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Editor's Notes:

* Standard litre basis uses *milkprices.com* definition.

Core Formula & Simplified Formula Liquid Contract options – 1 April 2014

- The headline, standard litre, prices for both options is 32.56 ppl. However, on the Core Formula contract there is an additional 0.19 ppl premium for farmers who make a commitment from 1st April 2014.
- Both contract options are voluntary and are available to farmers supplying Dairy Crest on Standard Liquid contracts and the current Formula contract.
- The movements in the base price for both contract options will be determined by the re-based Dairy Crest/DCD Formula mechanism.
- The new contracts start on 1 April 2014 and are evergreen.
- Farmers can place 25%, 50%, 75% or 100% of their milk supply on the Core Formula contract. The Simplified contract requires 100% of milk supply.

Formula Pricing

- Dairy Crest was the first dairy processor to commit to the terms of the Voluntary Code of Best Practice for Dairy Contracts.
- The Dairy Crest/DCD Formula Contract was developed by independent consultant Stephen Bradley and launched for April 2013. This has been re-based for April 2014 onwards.
 - The objective of a Formula Contract was to develop a pricing process that is: simple & transparent, responsive, robust for the future & trusted by farmers.
- The Formula models uses 5 published indices:
 - Dairy Markets: Bulk Cream & Retail Liquid Milk Price
 - Farm Costs: Feed, Fertiliser and Fuel.

Unlike the formulae used by most dairy groups, this is not a ‘cost of production’ model, as it incorporates both dairy market returns and farmer costs.