

New Dairy Crest Liquid Contract Options – April 2014

Q&A from Regional Meetings

Contract Options

How does the new Core Formula contract differ from the existing Formula contract?

The Formula pricing mechanism is the same but the April 2014 start price has been re-based - which has delivered in a 2.5ppl price increase, compared to the milk price that would have been delivered on the current Formula contract.

What is the new Simplified Formula contract – how is this different from the new Core Formula contract?

The Simplified contract is a more straightforward contract and is focused on volume. The base price movement for both contract options will be determined through the Formula model however, the Schedule 4 terms are different for the two contract options.

- The Core Formula contract has the same terms as the standard Liquid contract.
- The Simplified Formula contract has fewer pricing elements: for example, there is no profile payment and the seasonality payment schedule is different.

Can I opt out of Seasonality on both the Core & Simplified Formula contract options?

Yes – provided you meet the qualifying criteria for annual weighted average profile payment. (Although there is no profile payment within the Simplified contract, a 'shadow' calculation is carried out for the purposes of seasonality opt-out).

Why does the new Core Formula contract have a higher starting price?

The Core Formula includes a 0.19 ppl premium available to farmers who sign up from 1 April 2014. This will remain part of the Core Formula price. The 'early sign up' premium will not be available for those that commence supply on the Core Formula contract at a later date.

Are the new contracts available to everyone supplying Dairy Crest?

The new contract options are available to anyone supplying Dairy Crest on a standard Liquid contract. This includes farmers on a Farm Business Contract - although if they want to supply on the Simplified Formula contract they would need to transfer off their FBC agreement.

Can I move to the Simplified Formula contract but without the Formula element?

No - the Schedule 4 terms for the Simplified contract are only available with the base price movement being determined by the Formula. The Formula element is part of the contract package and cannot be separated out or replaced.

Milk Supply %

Can I split the % of my milk supply across different contract options?

You can place either 25%, 50%, 75% or 100% of your milk supply volume to be priced on the Core Formula contract. The Simplified contract requires 100% of your milk supply to be priced via the Formula.

Why do I have to place 100% of my milk on the Simplified Formula contract when I could alternatively place just a proportion on the Core Formula?

The Simplified Formula contract has different Schedule 4 terms and therefore it has to be 100% priced by the Formula, as we are not able to apportion milk supply to different payment criteria, for example compositional & hygienic quality payments.

How much volume is Dairy Crest making available for the new contract options – is this capped?

The total combined volume for both the new contract options is 175 ml for the 2014/15 milk year. If all the volume is not 'taken up' in April 2014, further volume 'lots' up to 175 ml may be offered later in the milk year. This is likely to be on a quarterly basis – so for effect from July 2014, October 2014 and January 2015. The initial combined capped volume of 175 ml will be assessed using your latest forecasted data.

Application Process

What happens if you receive applications for more than this volume in April 2014?

Applications received during the stated application period (opening 24 March at 10:00, closing 31 March at 23:59) will be processed on a first come first served basis. There will be no scale-back of applications from individual farmers. Farmers who currently supply all or a proportion of their milk on the current Formula contract will have first option to place their current Formula volume % on the new contract options.

What happens if I miss the closing deadline for the application period?

Applications received after 23.59 hours on 31 March will be excluded from the current process for 1 April 2014, but if the total volume has not been exceeded, applications will be considered for future rounds.

Contract Terms & Notice Period

Why is the notice period for the new contract options 12 months?

A 12 month notice period for contracts with Formula pricing is compliant with the Voluntary Code of Best Practice for Dairy Contracts. The Voluntary Code reduced the notice period to 3 months for contracts with discretionary pricing. The first opportunity to supply 12 months' notice to Dairy Crest on either Formula contract option will be 30 June 2014.

How long will the new contract options operate for?

Both the new contract options are evergreen. You can change your contract option or change the % of your milk supply on the Core Formula contract on the 12 months anniversary of the contract start date. Any requests should be notified to The Farm Business Centre a minimum of 30 days before the anniversary date.

Can farmers exit the formula contracts before the end of the contract period?

No, farmers who commit to supplying their milk on the Core Formula or Simplified Formula contract will remain on the current 12 month notice period and would not be entitled to terminate their milk supply agreement with Dairy Crest with 3 months' notice. This is consistent with the Voluntary Code.

What would happen if a farmer supplying milk on a formula based contract had an opportunity to join an added value pool?

Supplying milk on the Formula Contract would not prevent a farmer being included in an added value pool if an opportunity was identified.

How can I evaluate properly and easily which contract is the best for me – there are a lot of options now?

Your FBM or the FBC will be very happy to talk to you about the new contract options. We are also developing a 'what-if' calculator spreadsheet, which will be available on Farm Connect.

For further details reference the information circulated by Dairy Crest on 28 February 2014, plus the Formula Contract Options booklet.

The 'Formula Scenarios' shared at all of the Regional Liquid Meetings will be posted on the Formula tab on www.dairycrestdirect.co.uk

Next Steps

1) For farmers currently supplying on the Formula contract

to supply the same % on the new Core Formula contract	You do not need to do anything, however we would appreciate that you confirm this position by email via core.formula@dairycrest.co.uk
to supply a higher % on the new Core Formula contract	Apply via the core.formula@dairycrest.co.uk email address stating the total % of your volume you wish to place on the Core Formula
to supply a lower % on the new Core Formula contract	Apply via the core.formula@dairycrest.co.uk email address stating the total % of your volume you wish to place on the Core Formula
to apply for the Simplified Formula contract	Apply via the simplified.formula@dairycrest.co.uk email address
to revert to a standard Liquid contract	Confirm reversion via the core.formula@dairycrest.co.uk email address

2) For farmers currently supplying on a Standard Liquid contract (including FBC)

to apply for the Core Formula contract	Apply via the core.formula@dairycrest.co.uk email address stating the total volume you wish to place on the Core Formula
to apply for the Simplified Formula contract (NB: not available to farmers on a FBC)	Apply via the simplified.formula@dairycrest.co.uk email address

Please contact one of the following for further information:

- Farm Business Centre
- Your FBM
- DCD office

Thank you.

Dairy Crest Farm Business Team