



Liquid Contract

Options 2014

From 1st April 2014

Launched from March Member Meetings

to those supplying via

Liquid Contracts

featuring

Review of current 2013 Formula Contract

New Revised Core Formula Contract

New Simplified Formula Contract

Liquid Contract Options - from 1st April 2014

Following the launch last April of a choice of contractual terms by which DCD members' milk was priced, 'by Formula' or 'by discretion', DCD with Dairy Crest has reviewed the operation of the current 2013 Formula, and developed a new rebased **Core Formula Contract**. We are also introducing a new **Simplified Formula Contract**, with both of these options available from 1st April 2014.

If you are supplying all, or a proportion of your milk on the current Formula contract, you will need to determine your milk pricing arrangements from 1st April 2014. You have the choice of one of the two new contract options or to revert to a Standard Liquid Contract.

This booklet details the background and operation of the revised Core Formula Contract and Simplified Formula Contract options available. These new options will also be discussed at the Liquid meetings (dates and venues on the back page.)

1. Review of current Formula Contract (April 2013)

As detailed within the last DCD Newsletter, the UK market place in which the existing Formula Contract is now operating is very different to the market place during the previous nine years when the Formula was tested against comparator UK milk prices. DCD therefore presented a case to Dairy Crest to review and rebase the start point for the Core Formula from April 2014. This 'rebasing' has now been approved and integrated into both of the new contract options.

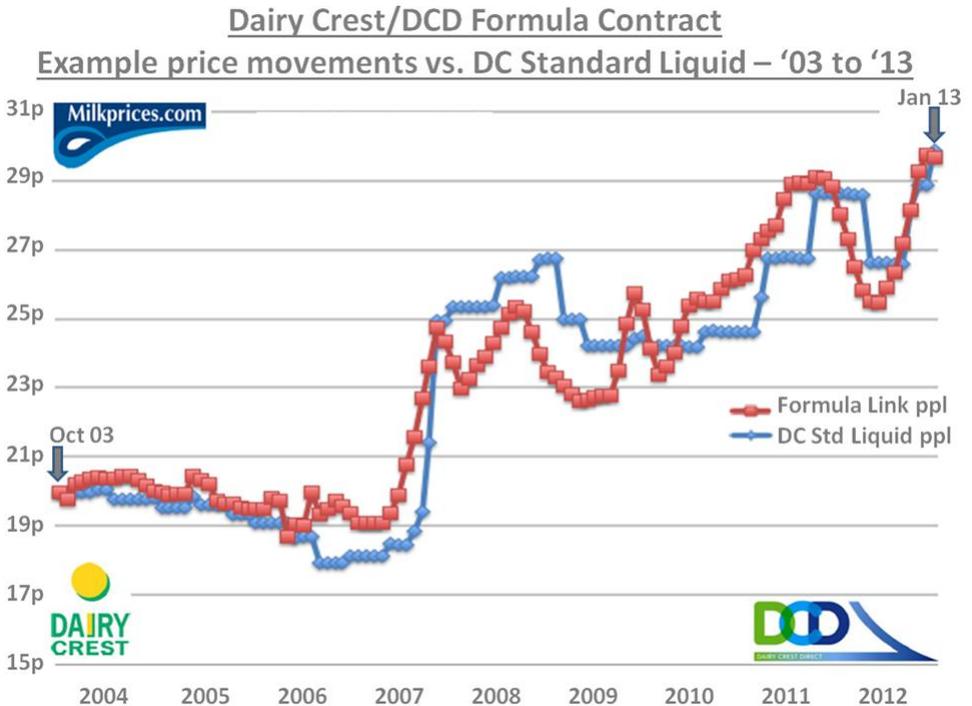
The rebased Core Formula Contract from April provides a **+2.486p/l*** uplift to the milk price, compared to the position for April if the existing basis for the Formula had remained.

<u>Formula Rebasing - Impact:</u>		<u>Std Litre</u>
March 2014	Formula Standard Litre	30.947p
<i>(*April 2014 if non rebased Standard Litre - estimate</i>		<i>30.264p)</i>
<u>New Core Formula Contract:</u>		
April 2014	Rebased Standard	32.560p
	April sign up premium	+0.190p
	Core Formula Standard Litre	32.750p
<u>Rebasing Difference:</u>		<u>+2.486p*</u>

**estimate 'Feb for April' Dairy Co data for the 5 Formula parameters.*

To provide a broader context as to the enhanced value of this important **+2.486p/l** rebasing of the **Core Formula Contract**, please see the following illustration provided by the developer of the Formula, Stephen Bradley (milkprices.com) that was published last year.

Within this comparison, Stephen Bradley detailed the comparison data from October 2003 to January 2013. This demonstrated the close correlation to historic milk prices under market conditions prevailing at the time, and Formula.



If you re-assess the same graphic, but apply the rebased **+2.486p/l** to the above Formula link price example, which now is the basis determining the **Core Formula Contract** standard litre price, this demonstrates the importance of this new contract opportunity for members to consider against a much higher starting Standard Litre price of **32.75p/l**.

The same is also true with the new **Simplified Formula Contract**, although this contract does not attract the +0.19p/l April sign up premium, so in this example the rebasing is worth **+2.296p/l**, standard litre price **32.56p/l**.

2. New Core Formula Contract

Operation Terms

Availability: Voluntary option available to all supplying via Standard Liquid and Liquid FBC contracts from 1st April 2014.

- ✓ **% of Milk Supply:** Option for farmers to select 25%, 50%, 75% or 100% of their milk to be priced by the Core Formula contract. All other Liquid Schedule 4 conditions remain as existing.
- ✓ **Base Price Determination:** Operation of the Core Formula milk price monthly movement mechanism to continue from April rebased position. For example, May price determined from the March Dairy Co data for the 5 Formula parameters, on a '*month after next basis*' - as current.
- ✓ **Start Price:** An additional premium of **+0.19p/l** to be paid on proportion of litres priced on the Core Formula Contract, if commitment made from 1st April 2014.
- ✓ **Contract Start Date:** 1st April 2014. Additional entry points to join the Core Formula Contract from 1st July 2014, 1st October 2014, 1st January 2015; although volume supplied from these additional quarter dates **will not** attract the +0.19p/l premium.
- ✓ **Contract Term:** 'Evergreen', with options to vary proportion committed to the Core Formula at the 12 month anniversary of initial commitment made. Also an opportunity to transfer across to Simplified Liquid contract at sign up anniversary, for all except those supplying via FBC contracts, unless exiting FBC arrangements at transfer.
- ✓ **Notice Period:** Consistent with the "Voluntary Code of Best Practice in Contractual Relationships", as milk price is set by Formula, 12 months contract notice period would be required. Notice would not be able to be served until the end of the first three months supply, i.e. If an April 2014 start date, the first date notice can be submitted is 30th June 2014 to cease supply on 1st July 2015.
- ✓ **Application Process:** Electronic sign up on a first come, first served basis, with priority to those currently with milk priced on the Formula contract.
- ✓ **Specialist Pool:** Commitments to the Core Formula Contract would not prevent future inclusion in specialist milk pool opportunities should they arise during the contract period.

3. New Simplified Formula Contract

Operation Terms

Availability: The new Simplified Contract is a voluntary additional formula based contract developed by DCD and Dairy Crest. It is available to those on Standard Liquid Contracts, or those that currently supply via Formula. [*Not available to those on FBC contracts, unless exiting FBC and transferring across to Simplified Contract*].

- ✓ **% of Milk Supply:** 100% of milk supply.
- ✓ **Base Price Determination:** Milk price movement to the base price (see particulars opposite for start price), is determined by the Formula monthly price movement adjustments, as Core Formula Contract. For example, May price determined from the March Dairy Co data for the 5 formula parameters, on a '*month after next basis*', and so on.
- ✓ **Key Points:** Removal of profile, and the reduction in butterfat requirement to 3.75%. Effectively delivering a profile payment of +1.27p/l, and butterfat payment equivalent of 4.05% within the Simplified base price.
- ✓ Seasonality opt out option remains, with a lower threshold to secure seasonality opt out introduced, and a new seasonality schedule.
- ✓ **Standard Litre Start Price: 32.56p/l;** milkprices.com flagship league table
- ✓ **Contract Start Date:** 1st April 2014. Additional entry points to join the Simplified Contract from 1st July '14, 1st October '14, 1st January '15.
- ✓ **Contract Term:** 'Evergreen', with option to convert to Core Formula Contract at the 12 month anniversary of initial commitment made.
- ✓ **Notice Period:** Consistent with the "Voluntary Code of Best Practice in Contractual Relationships", as milk price is set by Formula, 12 months contract notice period would be required. Notice would not be able to be served until the end of the first three months supply, i.e. If an April 2014 start date, the first date notice can be submitted is 30th June 2014 to cease supply on 1st July 2015.
- ✓ **Application Process:** Electronic sign up on a first come, first served basis, with priority to those currently with milk priced on the Formula contract.
- ✓ **Specialist Pool:** Commitments to the Simplified Formula Contract would not prevent future inclusion in specialist milk pool opportunities should they arise during the contract period.

3. Liquid Simplified Contract - Particulars



DAIRY CREST LIQUID SIMPLIFIED CONTRACT

PAYMENT PARTICULARS

Example using REVIEWED FORMULA 2014 - milkprices.com Flagship League Table criteria



Contract Clause	Criteria	ppl
APRIL BASE PRICE	Set by Liquid Formula	30.960
Collection	1m EODC	00.600
DCD Bonus		01.000
TOTAL		32.560

1. BASE PRICE AND MILK COMPOSITION

Base price is established monthly, through the movement of the DC/DCD Formula. Results applied on a month after next basis.

1.1 Butterfat - A target of milk supplies at 3.75% is required to meet the requirements of this contract. No additions will apply for milk supplied above this level. Deductions will apply for milk supplies below 3.75%.

Average Monthly Butterfat %	Rate ppl
Over 3.75%	Base price
Over 3.65% to 3.75%	-0.35
Over 3.55% to 3.65%	-0.70
Over 3.45% to 3.55%	-1.00
Over 3.35% to 3.45%	-1.40

The deduction rate of 0.40p/l will continue to apply for each additional 0.1% unit reduction in the average monthly butterfat below 3.35%.

1.2 Protein - A deduction rate of 0.10p/l will apply for each 0.1% unit reduction in the average monthly protein below the minimum target of 2.80%.

1.3 Conditions - Butterfat and protein payments are based on the arithmetic mean of all tests carried out in the month in accordance with clause 3 of schedule 1.

2. HYGIENE QUALITY

2.1 Total Bacterial Count (measured by Bactoscan)

Band	Range	Rate ppl
Band A	Under and incl 50,000/ml	Base price
Band B	Over 50,000 to 70,000 ml	-0.20
Band C	Over 70,000 to 100,000 ml	-0.50
Band D	Over 100,000 to 250,000 ml	-3.00
Band E	Over 250,000 ml	-15.00

2.2 Somatic Cell Count

Band	Range	Rate ppl
Band 1	Under and including 250,000/ml	Base price
Band 2	250,000 to 300,000/ml	-0.50
Band 3	300,000 to 400,000/ml	-1.50
Band 4	Over 400,000/ml	-15.00

HYGIENE QUALITY - cont

2.3 Conditions - The bactoscan and SCC payments are based on the two monthly and three monthly geometric rolling averages respectively.

The highest bactoscan and SCC result will be **discarded** each month.

3.0 MILK SUPPLY SEASONALITY - NO PROFILE

3.1 Seasonality schedule - conditions - To only apply if supplier has not qualified for seasonality opt out during previous milk year. (Seasonality opt out qualification being average of a shadow profile 0.90p/l assessed across the milk year).

Month	Rate ppl	Month	Rate ppl
April	-4.00	October	+3.50
May	-4.00	November	+3.50
June	-3.50	December	+2.25
July	Base price	January	Base price
August	Base price	February	Base price
September	+2.25	March	Base price

4.0 COLLECTION VOLUME - average litres per collection within vat capacity.

Average litres per Collection	Rate ppl	Average litres per Collection	Rate ppl
Up to 1,000	Nil	10,001 to 12,000	+1.10
1,001 to 2,000	+0.20	12,001 to 14,000	+1.20
2,001 to 3,000	+0.30	14,001 to 16,000	+1.30
3,001 to 4,000	+0.40	16,001 to 18,000	+1.40
4,001 to 5,000	+0.50	18,001 to 20,000	+1.50
5,001 to 6,000	+0.60	20,001 to 22,000	+1.60
6,001 to 7,000	+0.70	22,001 to 24,000	+1.70
7,001 to 8,000	+0.80	24,001 to 26,000	+1.80
8,001 to 9,000	+0.90	Over 26,001	+1.90
9,001 to 10,000	+1.00		

5.0 GROUP BONUS, FARM ASSURED STATUS & WHITE GOLD

A bonus of 1.0p/l will be paid for being a member of DCD, securing Farm Assured Standards and being a member of White Gold.

Summary:

- ❖ DCD remains committed to the rebased Core Formula and Simplified Formula Contracts and the price movement transparency that these contracts can provide. These contracts independently track farm costs and dairy markets as well as providing additional voluntary pricing models for farmers to select. DCD/DC retains Stephen Bradley of milkprices.com to independently validate all monthly price movements.
- ❖ The rebasing of the Core Formula Contract, provides a new higher level of transparent pricing available to members on Standard Liquid Contracts. This 2014 review applied to the tracking data back to October 2003, out performs equivalent liquid 'by discretion' pricing.
- ❖ Formula pricing has delivered movements in milk price 'in advance' of historical negotiated pricing. It would also have provided less volatility in pricing, with the monthly movements driven entirely by the five transparent formula parameter indices, sourced from Dairy Co.
- ❖ The decision to supply milk via the Core Formula and Simplified Formula Contracts is entirely voluntary.
- ❖ At launch, Dairy Crest will apply an increased capped total Formula Contract volume across both contracts - Apr 14/Mar 15 period.
- ❖ This Formula Contract offer will require farmers to use e-mail with pricing updates communicated electronically via the DCD and Dairy Crest Farm Connect websites. Farmers who do not currently have email access can contact their FBM to assist with applications.
- ❖ Email application and sign up to the Formula Contract will be on a 'first come, first served basis,' with priority to those already supplying milk via Formula - see timetable on back page.
- ❖ For further details, including the background to the development of the Formula, comparisons with historic data, current pricing and the application process - please attend your local meeting. This will also enable you to raise any questions you may have.

Timetable:

❖ **5th March to 13th March 2014** - Regional Meetings.

- 5th Mar 11:00 Gipsy Hill Hotel, Gipsy Hill Lane, Exeter, **Devon**, EX1 3RN.
5th Mar 19:20 Sherborne Hotel, Horsecastles Lane, Sherborne, **Dorset**, DT9 6BB.
6th Mar 11:00 Sedgemoor Market, North Petherton, **Somerset**, TA6 6DF.
6th Mar 19:20 The Forge, St Clears, **Carmarthen**, SA33 4NA.
7th Mar 11:00 Gables Hotel, Falfield, Wotton u Edge, **Glos**, GL12 8DL.
10th Mar 19:20 Tillington Hall Hotel, Eccleshall Rd, Eccleshall, **Stafford**, ST16 1JJ.
11th Mar 11:00 Hilton House Hotel, Hilton, **Derbyshire**, DE65 5GP.
11th Mar 19:20 Bentley Hotel, Newark Rd, South Hykeham, **Lincoln**, LN6 9NH.
12th Mar 11:00 Scole Inn, The Street, Diss, **Norfolk**, IP21 4DR.
13th Mar 11:00 Bank House Hotel, Bransford, **Worcester**, WR6 5JD.
13th Mar 19:20 Glebe Hotel, Church Street, Barford, **Warwickshire**, CV35 8BS.

❖ **14th March** - Core Formula Contract & Simplified Formula Contract application details to be circulated.

❖ **24th March** - Open applications via email only, accepted on a 'first come, first served basis.' With priority to those already supplying milk via Formula.

❖ **31st March** - Applications close.

❖ **4th April** - Farmers notified of results from application process

For further details:

DCD Office: 01458 835060
Farm Business Centre: 0800 121 4766