

IN THE AUSTRALIAN COMPETITION TRIBUNAL

of 2013

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

**RE: PROPOSED ACQUISITION OF WARRNAMBOOL CHEESE
AND BUTTER FACTORY COMPANY HOLDINGS LIMITED**

Certificate identifying annexure

This is the annexure marked RAP53 now produced and shown to Robert Arthur Poole at the time of signing his statement on 28 November 2013.

**Annexure RAP53
New South Wales Milk Payment System brochure**

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Milk payment system explained 2013-14



New South Wales-Sydney Market Region



Devondale
MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

About this booklet

This booklet is designed to assist prospective New South Wales - Sydney Market Region supplier/shareholders in understanding Murray Goulburn Co-operative Co. Limited's (MG) milk payment system and incentives. Please refer to the detailed Standard Milk Payment Terms 2013-14: NSW-Sydney Market Region for the precise terms to milk payments and incentives. Field Services Officers are available to answer any questions you may have. Their contact details are on the back of this booklet.

Who is Murray Goulburn?

MG is Australia's largest dairy food company and is a co-operative of Australian farmers. Accordingly, MG holds a unique leadership position in the Australian dairy industry. A rich mix of dairy ingredients, consumer products, food service and farm trading stores provides MG with a balanced portfolio of products that we can proudly sell to Australia and the world.

In 2011-12, MG's 2497 supplier/shareholders from Victoria, South Australia and southern New South Wales supplied 2.94 billion litres of milk, which is approximately a third of the milk produced in Australia annually. Sales revenue was \$2.4 billion and 304,000 tonnes of product was exported, primarily to Asia, Middle East/Africa and the Americas.

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The system at a glance

MG offers its NSW-Sydney Market Region supplier/shareholders a single milk payment structure, complemented by a series of incentives that are aimed at rewarding a year-round milk supply.

The specific objectives of the milk payment system are:

- To provide a simple and equitable payment system
- To improve cashflow throughout the year
- To encourage year-round milk supply
- To have transparent incentives and charges
- To provide MG with a sustainable milk supply to meet its strategic plan for the NSW-Sydney Market Region

Single base price

A single base price for each month of the year will be announced at the start of the financial year. The monthly milk solid prices are available to all NSW-Sydney Market Region supplier/shareholders, regardless of region or calving pattern. The monthly values may vary throughout the season as a result of price increases, including back-pays and step-ups or price decreases, although these pricing changes, and particularly price decreases, will be rare in the NSW-Sydney Market Region. Supplier/shareholders have access to incentive options which can increase their overall milk price.

Milk prices are flat across the year, reflecting MG's need for supply year-round for its Sydney processing facility and Sydney market.

Seasonal Incentive (SI)

The Seasonal Incentive provides a clear market signal to suppliers about the value of milk relative to when it is supplied.

The milk payment system, is designed to improve profitability and cashflow on-farm, without impacting on-farm decision-making. It provides the basis for a sustainable pricing system.

Supplier/shareholders are offered a single base price with a Seasonal Incentive and a Productivity Incentive. They are required to make a monthly volume commitment and are also subject to volume and collection charges.

For the 2013-14 year, a single milk payment structure has been developed with a series of incentives.*

The main elements are as follows:

Productivity Incentive (PI)

The Productivity Incentive recognises scale efficiencies in milk collection for MG.

Volume commitments

Supplier/shareholders will be required to commit to a monthly milk allocation which is their commitment to producing flat milk all year round. MG will work collaboratively with suppliers to establish this allocation.

Suppliers will be required to ensure their monthly total farm production meets this allocation plus or minus 10 percent.

Volume and collection charges

Volume and collection charges reflect the cost of handling milk the various regions of NSW.

* The Productivity Incentive is calculated on qualifying milk solids that are of Premium 1, Premium 2 and Base Quality (please refer to Farm Milk Quality Standards for details).



Incentives

Seasonal Incentive

The Seasonal Incentive provides a clear market signal to suppliers about the value of milk relative to when it is supplied.

Table 1: Seasonal Incentive rates

Month	Cents Kg Butterfat	Cents Kg Protein
July	32	48
August	16	24
September	0	0
October	0	0
November	0	0
December	16	24
January	32	48
February	48	72
March	64	96
April	64	96
May	64	96
June	48	72

Productivity Incentive

The Productivity Incentive recognises scale efficiencies in milk collection for MG.

Milk handling costs vary between farms depending on their volumes. MG reflects these costs via the Productivity Incentive, which is calculated and paid monthly.

Table 2: Productivity Incentive payment rates

Total Kg's Fat & Protein (excludes grade milk)	Cents Kg Butterfat	Cents Kg Protein
1,701 – 3,800	3	5
3,801 – 5,800	4	6
5,801 – 8,000	7	10
8,001 – 10,000	9	13
10,001 – 12,500	10	15
12,501 – 15,000	11	17
15,001 – 17,500	12	19
17,501 – 20,000	14	21
20,001 – 25,000	15	22
25,001 – 30,000	16	24
30,001 – 40,000	18	27
40,001 – 60,000	19	29
60,001 – 80,000	21	31
80,001 – 100,000	22	32

Milk handling charges

Volume charge

A volume charge is intended to reflect the cost to MG in haulage from each zone and processing milk of varying composition.

MG applies differential volume charges based on milk tanker size to reflect efficiency gains from trucks of a larger capacity.

Volume charge is calculated at two rates specific to each zone. These are outlined in Table 3.

Table 3: Volume charge rates (cents per litre)

Zone	B-double	Tri-axle
Inner zone Sydney area; Southern Highlands	1.5	1.7
Main zone South Coast; Hunter Valley; Manning Valley	2.5	2.7
Outer zone Central West; Tamworth	3.5	3.7
Far outer zone Combyne area; Dubbo area	4.5	4.7

For information about the boundaries of each zone, please speak to Field Services. MG ultimately has the discretion to determine which zone a farm is in.

Collection charge

A collection charge is intended to reflect the costs associated with each milk collection.

The collection charge for the first collection in one day is \$7.50, whilst the charge for the second collection requested by the supplier/shareholder in the same 24 hour period is a flat rate of \$40.

If a farm has a daily collection, but has a vat capacity which is sufficient for skip-a-day collection all year, then the collection charge will be applied on a skip-a-day basis with the appropriate collection charge rebated on 15 August the following year.

If a supplier/shareholder has upgraded their vat capacity to 1.4 times peak daily production and in accordance with the Farm Milk Quality Standards in a financial year, and notifies their local Field Services Officer before 30 June, then the supplier/shareholder will be entitled to a refund of all second collection charges they incurred in that financial year (up to a maximum of \$4000).



Discounts

Milk quality system

MG is focused on maintaining a high standard for milk quality and commits to a complete milk quality system review during 2013-14.

The prices set out in the opening price circular are for the supply of Premium 1 milk. If the milk supplied is classified as Base Quality or Premium 2 (as set out in the Farm Milk Quality Standards), then the price payable by MG is discounted as follows. First and Second Grade milk will receive a further discount from the Base Quality price, as follows:

Table 4: Discounts for Premium 2 and Base Quality milk

Milk Quality Discount	Butterfat /Kg	Protein /Kg
Premium 2	-14c	-21c
Base Quality	-24c	-36c
First Grade	10% discount from Base Quality	
Second Grade	30% discount from Base Quality	

Bactoscan, Thermoduric and Bulk Milk Cell Count (BMCC) results have independent rolling grade records and are tested at least once every 10 days. The BMCC is measured every time milk is collected. Inhibitory substances testing is conducted from a representative sample taken directly from the vat by the tanker driver. If, on routine farm testing or by trace back from tanker testing, a farm has a positive test for inhibitory substances, a 10-day second grade penalty will apply (ie. a 30 percent discount for 10 days of milk collection).

Grade System for below standard milk

MG operates a grade system that includes milk grades received in the rolling 12-month period previous to the current 10 day period. Refer to the Rolling Grade System section of the Farm Milk Quality Standard.

The following table demonstrates how milk is graded.

Table 5: Grade milk discounts

Number of rolling grades		Discount levels from Base Quality price
BACTOSCAN		
1 – 5	1 Average Day Penalty	First Grade - 10%
		Second Grade - 30%
6 +	10 Day Penalty	First Grade - 10%
		Second Grade - 30%
THERMODURIC* (OR TOTAL PLATE COUNT EQUIPMENT)		
1 – 5	1 Average Day Penalty	First Grade - 10%
		Second Grade - 30%
6 +	10 Day Penalty	First Grade - 10%
		Second Grade - 30%
BMCC		
1 – 5	1 Average Day Penalty	First Grade - 10%
		Second Grade - 30%
6 +	10 Day Penalty	First Grade - 10%
		Second Grade - 30%

Bactoscan, Thermoduric and BMCC penalties will be cumulative to a maximum of 60 percent.

* Thermoduric is mainly used for the southern region and may not always apply in the NSW-Sydney Market Region.



Contact us

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