



The
**Co-operative
Difference**



Reintroduction of FEI minor downgrades FAQs

November 2023

Why are you planning to reintroduce minor FEI downgrades from 15/01/24?

We're seeing FEI levels increase, as we would expect for this time of the season, and this increases the pressure on our manufacturing operations.

The predicted impacts of El Niño will limit grass growth and quality, heightening the impact of PKE on milk composition.

We've moved past peak levels of milk, and as supply goes through its seasonal decline, we have more asset flexibility to help with moving your milk into the highest returning streams based on demand. High FEI levels have an impact on milk fat composition and this in turn can impact our ability to make some higher value products.

We're balancing trying to keep the temporary suspension in place while FEI levels are at a manageable level, but also give you as much notice as possible before the minor downgrades are reinstated so you can prepare as needed.

Key Facts

- In August we confirmed that minor FEI downgrades would be temporarily suspended, effective 1 August 2023
- We are planning to reintroduce the minor FEI downgrades from 15 January 2024
- We will continue to monitor FEI levels and if this date needs to be changed, we will ensure that a minimum of 14 days' notice is provided.



Will a temporary suspension be put in place for future seasons?

- The temporary suspension put in place in August 2023 was driven by the challenges on farm at that time, with consideration also given to FEI levels and manufacturing product mix. These factors will be different each season and our ability to make these decisions in the future will always be based on the information at the time. We continue to review our Milk Quality Framework and manufacturing processes, and any improvements that allow us to provide greater flexibility for farmers.

Why did you temporarily suspend minor FEI downgrades?

- We introduced the temporary suspension for a number of reasons, including the fact that feed availability had been negatively impacted by adverse weather across the country.
- When we announced the change in August, our overall FEI levels were manageable, and we knew we were heading into a period of grass growth. This is different to summer and autumn conditions, where the influence of PKE on milk fat composition is heightened with reduced pasture quantity and quality. In addition, our manufacturing sites were not making the products that present the highest risk when it comes to increased FEI levels.

Why are Fat Evaluation Index levels important and what's the background to the Co-op's Grading System?

- High FEI has an impact on milk fat composition and this in turn impacts our ability to make some products and access some markets. That's why we introduced our FEI Grading System five years ago.
- The FEI is impacted by different factors, but the key driver is the use of PKE as feed.
- The Grading System was developed with the objective of helping farmers deliver suitable milk to the Co-op that can be manufactured to meet customer specifications, while at the same time retaining farmers' ability to use PKE as an effective and affordable feed option.
- The grading framework is similar to the grading structures used for other milk quality measures as they are easy to understand and has proven successful at managing risks of a similar nature in the past.

What is a minor downgrade and what happens when a farmer gets one?

- A minor downgrade is the first step in the milk quality framework for milk that doesn't meet the Fonterra Farmers' Terms of Supply. The first two minors incurred in a month do not incur a financial deduction, but any subsequent minors will incur a 5% deduction from the Milk payment for that day.
- For FEI a minor downgrade is a result between 9.01 - 11 (category C), incurring a 5% deduction. A major downgrade is between 11.01 - 16 (category D), incurring a 20% deduction. Any results ≥ 16.01 are given a reject milk quality rating.
- The FEI downgrade system includes two different tests:
 - The first is a rapid, low-cost screen that provides a daily result reported to the farmer as a 6-day average. If this test returns three consecutive results of 9.01 or higher, then a second confirmatory test is triggered on the fourth collection.
 - The confirmatory test is more precise and is used to confirm downgrades.

What's happening with confirmatory testing?

- Since 1 August 2023, there have been no confirmatory testing for minor, 9.01 - 11, category C results. We will reintroduce the testing when minor FEI downgrades are reinstated, which is currently scheduled for 15 January 2023.

What happens next?

- We ask all farmers to remain prudent in their use of PKE while the temporary suspension of minor downgrades remains in place. This supports our ability to manage the manufacturing impacts while also ensuring that farmers do not incur any Major and Critical FEI downgrades.
- We are planning to reintroduce the minor FEI downgrades from 15 January 2024. We will continue to monitor FEI levels and if this date needs to be changed, we will ensure that a minimum of 14 days' notice is provided.

How can I find out more?

For further information or if you need any assistance, please contact your local Farm Source representative or the Farmer Support Team on 0800 65 65 68.

Visit the Farm Source website for tips on how to manage your FEI.