



Dairy for life

Winter Milk Handbook

South Island



Updated May 2024

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Why does Fonterra need Winter Milk?

Fonterra needs a regular and reliable supply of Winter Milk to meet specific:

- Local demand: New Zealanders' appetites for fresh milk and dairy products last year round; and
- International demand: Demand from our consumer and food service business for products such as our UHT milk and cream in Asian markets like China.

Which farms can apply to Winter Milk?

There is one South Island region for Winter Milk collection. This region relates to the local market processing site in Christchurch. Ideally, farms supplying Winter Milk should be close to this site. Due to transport costs, there are some locations within this region where we do not collect Winter Milk.

WHY DOES FONTERRA PAY A PREMIUM FOR WINTER MILK?

In order to supply Winter Milk, farmers have requirements that are over and above those for standard supply. This usually means additional cost and effort. Fonterra recognises this and pays farmers a premium for their Winter Milk. Contract Winter Milk farmers receive a higher premium as they commit to providing a specified volume of Winter Milk.

The contracted and uncontracted premiums are set at levels to provide farmers with enough incentive to produce quality Winter Milk, while at the same time being in the interests of all our farmers.

HOW MUCH WILL I RECEIVE FOR MY WINTER MILK?

For contracted Winter Milk, you will be paid the Winter Milk premium less PAF. The PAF is based on the straight-line distance from your farm to the Christchurch processing site. It's explained in more detail on page 6.

Uncontracted winter milk is paid a lower premium, but there is no PAF transport adjustment.

KEY CONSIDERATIONS FOR YOUR FARM

When you are winter milking, there are some key things you will need to consider, including:

- Mating dates
- Calving dates
- Supplementary feed
- Investing in infrastructure to ensure you meet additional environmental, milk quality and food safety requirements
- Regional water quality regulations - we recommend seeking professional advice to assess the impacts and mitigations for any planned changes

Your Co-operative Services Area Manager (CSAM) can discuss these planning considerations in more detail with you.

Types of Winter Milk Premium

There are two types of Winter Milk premiums that farmers can earn with Fonterra – Contract Winter Milk and Uncontracted Winter Milk (Winter Premium Milk).

Contract Winter Milk

Fonterra seeks to secure a certain amount of milk during the winter period by offering a contract supply option. Under a Winter Milk Contract Fonterra agrees to buy and you agree to supply a specified quantity of milk during the 61-day Winter Supply Period, 1 June to 31 July. Your contracted volume earns a premium over the Milk Price, less the PAF (transport adjustment).

The premium payment structure is explained on page 6.

The PAF is based on the straight-line distance from your farm to the closest of the nominated Winter Milk processing sites. The PAF is explained in more detail on page 6.

To apply to supply Contract Winter Milk you need to:

- Be an existing Fonterra shareholder, or have applied to become a farmer shareholder
- Have your farm (that will be supplying Contract Winter Milk) located in one of the regions where Winter Milk is collected
- Comply with the milk quality and effluent management requirements and have a Farm Environment Plan in place
- Ensure the farm meets the minimum industry agreed good farming practices
- Register your expression of interest

Where there is limited quota available not all expressions of interest to supply Contract Winter Milk may be fulfilled, although it will remain on the list for potential future allocation of quota.



Eligibility Requirements

MILK QUALITY COMPLIANCE REQUIREMENTS

If your farm supplied milk in the previous two seasons, including both of the Winter Supply Periods during those seasons, then you may not be eligible to supply Contract Winter Milk if any of these circumstances apply:

- There were more than 12 downgrade days during either or both of the Winter Supply Periods during those seasons
- There was a daily average Somatic Cell Count exceeding 250,000 cells/ml during either or both of the Winter Supply Periods during those seasons.

If your farm supplied milk during the previous two seasons, but didn't supply Winter Milk during both those seasons, then you may not be eligible to supply Winter Milk if any of these circumstances apply:

- There were bacterial downgrades resulting in an average of 20 or more downgrade days across both seasons (or the equivalent if the farm dairy supplied another dairy processor)
- There was a daily average Somatic Cell Count for either or both seasons of more than 250,000 cells/ml.

ENVIRONMENTAL COMPLIANCE REQUIREMENTS | FARM ENVIRONMENT PLAN

To be eligible for a Winter Milk Contract, there must be a Farm Environment Plan in place for the farm which is meeting all the required actions.

FOCUSING ON EFFLUENT STORAGE AND NUTRIENT MANAGEMENT

During winter, saturated soils cannot absorb and use the nutrient content from effluent as well as they do during other seasons. Spreading effluent during winter leads to a significant environmental risk because of the loss of nutrients to water through run-off, and in addition leaching has a detrimental impact on water quality.

To be eligible for a Winter Milk Contract:

- Your farm needs to have a Dairy Effluent Storage Calculation that demonstrates there is adequate effluent storage capacity so that you can defer effluent irrigation to pasture during rainfall and when soils are saturated
- Your farm must not have any current significant effluent issues
- Your effluent system meets all the Regional Council requirements
- Your farm meets the minimum industry agreed good farming practices

Any effluent issues arising during the term of a Winter Milk Contract must be resolved immediately.

NITROGEN MANAGEMENT PROGRAMME

Around the country there are Regional Plan change processes at various stages. In some regions there will be rules (either in place now or coming into effect over the next few years) that may require farms to operate within nutrient loss limits, or in compliance with actions described in a Farm Environment Plan.

Changing a farm system to produce Contract Winter Milk may require significant changes to stock numbers, nitrogen fertiliser use and feed inputs. Any farmer considering such changes should be considering their ability to continue to operate within the relevant regulations and should seek expert advice before committing to a Winter Milk Contract. For more information on all environmental requirements please contact your Sustainable Dairying Advisor on 0800 65 65 68.

Payment Structure for Contract Winter Milk

The Winter Milk Contract has a “stepped” payment structure, with a higher premium when demand is greatest.



There are four payment periods of 15 or 16 days each.

Payment Period	Dates/number of days	Premium per kgMS
First payment period	15 days – 1 June to 15 June	\$3.90
Second payment period	15 days – 16 June to 30 June	\$4.55
Third payment period	15 days – 1 July to 15 July	\$4.55
Fourth payment period	16 days – 16 July to 31 July	\$3.90

The first payment period will be the 15 days from 1 June to 15 June. This will attract a premium of \$3.90 per kgMS. The second and third payment periods will be from 16 June to 30 June and 1 July to 15 July and will attract a premium of \$4.55 per kgMS. The fourth payment period, which attracts a premium of \$3.90 per kgMS, is from 16 July until 31 July – the end of the Winter Supply Period. The PAF remains the same amount in each payment period.

Premium Adjustment Factor (PAF)

HOW DOES THE PAF COVER TRANSPORT COSTS?

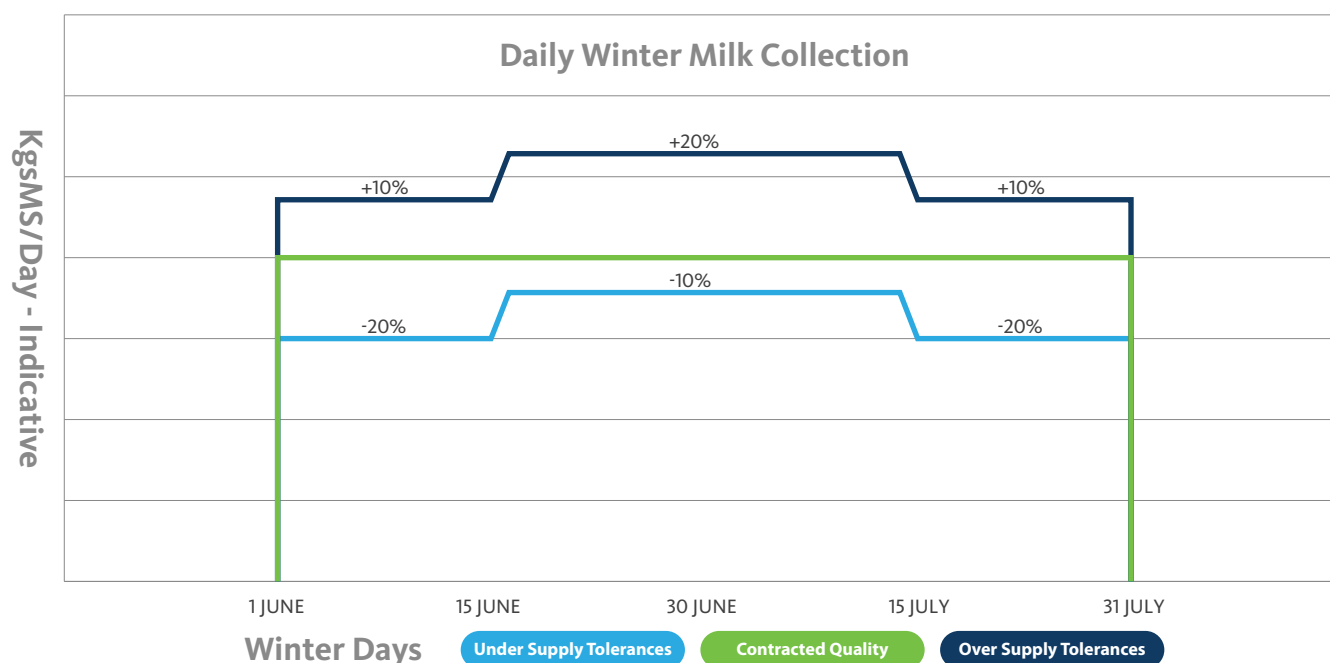
- The PAF contributes to the cost to Fonterra of transporting Winter Milk from farms to the closest Winter Milk processing plant, based on the straight-line distance between them
- It takes into account the cost of diesel, road user charges and additional maintenance
- For practical purposes, farms are grouped in 10 kilometre bands
- The PAF is 2.5 cents per 10 kilometre band in which each farm is placed

To find out the PAF for your farm please contact your Co-operative Services Area Manager (CSAM).



WHAT IF I SUPPLY MORE THAN THE CONTRACTED WINTER MILK VOLUME?

There is a tolerance structure for under and over supply of contracted volume. The tolerance relates directly to the demand for milk during each payment period.



If you supply over the contracted volume in the first and fourth supply periods you will receive the premium less PAF for up to 10% over your contracted volume. During the second and third supply periods (the period of highest winter milk demand) you will receive the premium less PAF for up to 20% over your contracted volume.

AND IF I DON'T MANAGE TO SUPPLY THE CONTRACTED VOLUME OF WINTER MILK?

There is also a tolerance structure for volumes supplied under the contracted volume. During the first and fourth supply periods there is tolerance for under supply of up to 20% of your contracted volume. For the second and third supply periods, the tolerance for under supply is up to 10% of your contracted volume.

Where supply falls below the tolerance Fonterra may require you to compensate it for losses suffered (referred to as 'liquidated damages'). The amount of liquidated damages is equivalent to 50% of the premium, less PAF, on the shortfall volume below the level of the tolerance.

Example:

A supplier has a 100 kgMS Daily Quota Volume and is paid a premium of \$4.55 per kgMS for the period for the period 16 June to 30 June (the second payment period). The supplier's PAF is \$0.20 per kgMS. From From 16 June to 30 June the supplier supplies 1305 kgMS, being an average daily volume of 87 kgMS. The permitted shortfall tolerance during this period is 90% of the Daily Quota Volume. Liquidated damages would be calculated as follows:

$$\begin{aligned} \text{Liquidated damages for 16 June - 30 June} &= \text{Shortfall} \times \text{days in Key Supply Period} \times \text{Premium} \times 50\% \\ &= 3 \text{ kgMS} \times 15 \times (\$4.55 - 0.20) \times 50\% \\ &= \$97.88 \end{aligned}$$

The 3 kgMS shortfall is the difference between the tolerance (90% x Daily Quota Volume) and the actual average daily volume = (90% x 100) – 87 = 3 kgMS per day.

You will not be liable to pay liquidated damages if a shortfall arises as a result of something outside your control, or if you have exercised a right under the Dairy Industry Restructuring Act 2001.

CAN THE CONTRACTED WINTER MILK VOLUME BE REDUCED OR INCREASED?

Your contracted volume can be reduced by Fonterra or you, by giving notice. A reduction of up to 33% requires one winter's written notice, and reduction of 33% or more requires two winters' written notice. Your contracted volume can only be increased by written agreement between Fonterra and you.

CAN A FARMER TERMINATE THEIR WINTER MILK CONTRACT EARLY?

You can only terminate your Winter Milk Contract:

- If there are extenuating circumstances that Fonterra agrees justify termination, or
- By giving Fonterra two winters' written notice, or
- By giving Fonterra one winter's notice where Fonterra has notified you of a reduction to the premium or an increase in the PAF or
- By giving Fonterra one winter's notice where Fonterra has notified you that you need to comply with additional environmental or sustainability requirements and achieving compliance would require you to incur material additional cost.

There are limited time periods during which you may give notice to terminate (please refer to the Winter Milk Contract). You do not have the right to terminate your Winter Milk Contract simply because you are selling your farm.

Transfers

As per Clause 7 of the Winter Milk Contract, you cannot transfer all or part of a Winter Milk Contract to anyone else, or to any other farm dairy you supply Fonterra from.

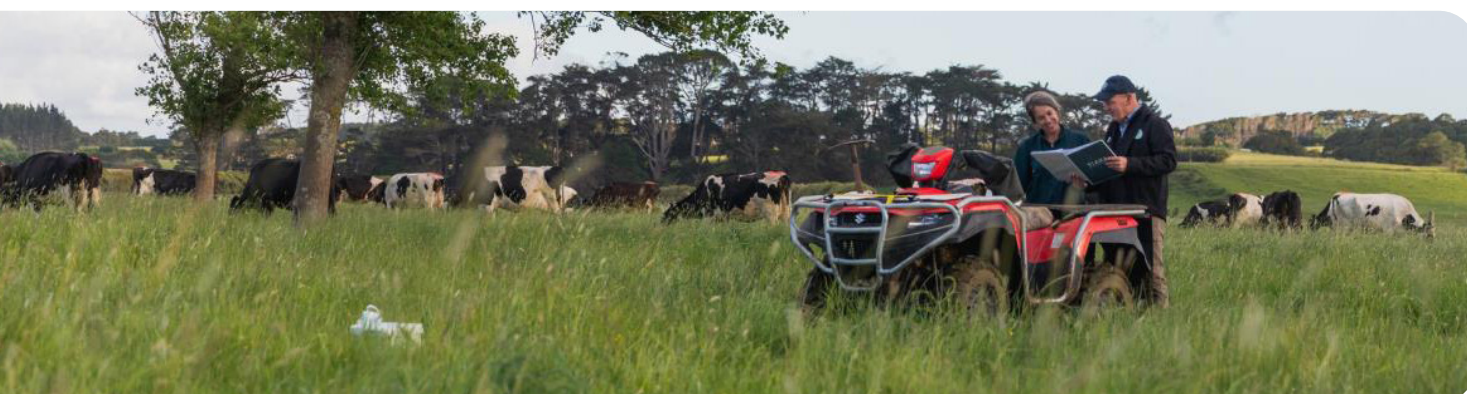
Milk Quality Management

Winter milk premiums will incur the same total percentage deductions that are applied to the milk payment where a Minor, Major, Critical or Reject milk quality rating applies. See the Fonterra Farmers' Terms of Supply ("Terms of Supply") clause 9.5 (c).

Fonterra can require additional testing for Winter Milk. Fonterra may terminate your Winter Milk Contract once you reach 12 Downgrade days or supply two consignments of milk contaminated with inhibitory substances and has the right to cease collection.

Performance Management

Fonterra may suspend premium payments made under specialty milk contracts when a final warning has been issued and terminate specialty milk contracts where a farm is placed under Performance Management (Terms of Supply clause 1.5 (a)).



Uncontracted Winter Milk (Winter Premium Milk)

Farmers who do not have a Winter Milk Contract but supply milk at any stage during the 61-day period between 1 June and 31 July, within a Winter Milk region, will be also be paid a 'stepped' premium over the Milk Price.



There are four payment periods of 15 or 16 days each.

Payment Period	Dates/number of days	Premium per kgMS
First payment period	15 days – 1 June to 15 June	\$0.70
Second payment period	15 days – 16 June to 30 June	\$1.40
Third payment period	15 days – 1 July to 15 July	\$1.40
Fourth payment period	16 days – 16 July to 31 July	\$0.70

The first payment period will be the 15 days from 1 June to 15 June. This will attract a premium of \$0.70 per kgMS. The second and third payment periods will be from 16 June to 30 June and 1 July to 15 July and will attract a premium of \$1.40 per kgMS. The fourth payment period, which attracts a premium of \$0.70 per kgMS, is from 16 July until 31 July – the end of the Winter Premium Milk payment period. **There is no transport charge (PAF) on Winter Premium Milk (uncontracted).**

WHAT ARE THE MAXIMUM AND MINIMUM VOLUMES OF WINTER PREMIUM MILK YOU CAN SUPPLY?

- There is no maximum limit to the volume of Winter Premium Milk you can supply.
- The minimum requirement per farm is 400 litres per collection.

Please note that, depending on your vat size, your minimum amount of milk in the vat may be greater than 400 litres to ensure continual agitation and refrigeration. Please refer to clause 8.3.1 of the Terms of Supply for more information.

WHAT ARE THE MILK QUALITY REQUIREMENTS FOR SUPPLYING WINTER PREMIUM MILK?

Winter milk premiums will incur the same total percentage deductions that are applied to the milk payment where a Minor, Major, Critical or Reject rating applies. See the Terms of Supply clause 9.5 (c). If 7 Downgrade days are reached during the Winter Milk period then no further winter premium payments will be made and collection may be suspended until milk can be demonstrated as being fit for its purpose. If 12 Downgrade days are reached in this period then collections may be suspended for the remainder of the Winter Milk period.

WHAT ARE THE ENVIRONMENTAL REQUIREMENTS FOR SUPPLYING WINTER PREMIUM MILK?

Clause 5.2 of the Terms of Supply states: All farms supplying milk during the 61-day period between 16 May and 15 July in the North Island, and 1 June and 31 July in the South Island are required to ensure that:

- a Farm Environment Plan is in place;
- the farm meets the minimum industry agreed good farming practices;
- there are no significant effluent hazards on farm; and
- there is adequate effluent storage capacity available at all times to ensure that effluent irrigation can be deferred.

