20 November 2009

MEDIA RELEASE

National Foods reaffirms offer to Tasmanian farmers

National Foods has written to Tasmanian farmers reaffirming its milk price offer, stressing a desire to build long-term, collaborative relationships with all current suppliers, and outlining its intentions if it does not receive sufficient signed contracts to cover milk requirements by the end of November.

National Foods' offer, as set out in a contract schedule sent to its Tasmanian suppliers, provides a minimum base price of 33 cents per litre across the year plus around 3.8 cents per litre in contract, quality, volume, and compositional bonuses. This adds up to 36.8 cents per litre. In addition, National Foods is offering a $1.1 million assistance package putting the total value of the offer to farmers at more than 37.5 cents per litre over the year.

The letter, from Murray Jeffrey, General Manager Milk Procurement and Inbound Logistics, reads:

> Dear Supplier
>
> I am now in a position to provide some more information about the milk price offer that we have put to you. We remain hopeful you will accept it because it is our strong preference to build long-term, collaborative relationships with all of our current suppliers.
>
> Firstly, I have to be clear in confirming to you that we have no more money to put on the table. Secondly, our deadline of 30 November is real.
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> We gave this information as evidence to members of the Senate Select Committee on Agricultural and Related Industries in a hearing by teleconference yesterday.
>
> **After 30 November**
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> When asked what will happen after 30 November, our response was that our focus is on securing commitments from our existing suppliers. That is still the case. We have a number of commitments already in the form of signed contracts and my thanks go to those farmers who have recognised the value of the offer we are making.
>
> However, we do have to plan for the possibility that we do not receive sufficient signed contracts, by 30 November 2009, to cover our milk requirements. And you need to know our intentions in order to make an informed decision.
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> 1. Our first contingency would be to accept over-contract milk volumes at the contract price, as set out in Schedule 4 accompanying our Letter of Offer dated 26 October 2009. Those who have signed a contract would be eligible to apply for this option and it would be granted on a 'first-come-first-served' basis.
> 2. Our second contingency would be to open up our offer to farmers who are not currently National Foods suppliers. We are likely to do this by seeking expressions of interest in our offer through newspaper advertisements next week. Once again, we would consider applications on a 'first-come-first-

served' basis, but only if we do not receive sufficient volume commitments from our current suppliers.

For those who choose not to accept our offer, our intention is to continue to pick up their milk until they can make alternative arrangements. This will be at a price yet to be determined, but it will be lower than that in the offer. We will communicate that price to you between now and 30 November.

Minimum Price Guarantee challenge

We are aware of a challenge to our Minimum Price Guarantee, which is designed to ensure we match the Fonterra price in the first half and exceed it in the second half.

The intent of this guarantee, based on the model farm, is:

(a) when the Fonterra price is less than 40 cents per litre, we will at least match in the first half and exceed it by 6 cents per litre in the second half; resulting in a full year benefit of at least 3 cents per litre;
(b) when the Fonterra price is above 40 cents per litre but less than 50 cents per litre, we will at least match in the first half and exceed it by 4 cents per litre in the second half; resulting in a full year benefit of at least 2 cents per litre;
(c) when the Fonterra price is above 50 cents per litre, we will, at least, match the Fonterra price.

We acknowledge it is theoretically possible that if National Foods matches Fonterra's opening price and Fonterra makes multiple step ups in the second half, our annualised premium could work out to represent less than 50% of the second half premium. In practice that has never happened and it is not our intent.

However, in the event that those circumstances do arise, we commit to honouring the intent of our Minimum Price Guarantee. In that situation, we would make an additional payment at the end of the year to ensure the pricing premium in the second half, as required by our Minimum Price Guarantee, does represent an annualised premium of 50% of its value in the full year's pricing for the model farm compared to market.

In conclusion

Let me stress, once again, that our objective is to sign agreements with our current suppliers and meet all of our requirements in that way. We have demonstrated our very strong desire for that outcome by putting on the table an offer that is ahead of the market in Tasmania by a very wide margin.

I sincerely hope you will consider it favourably.

For more information:

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