

3. REGISTERED CONTRACTS/PRICES

3.0 CONTRACT TYPES

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MILK YEAR	TOTAL	ALL YEAR ROUND	WINTER MONTHS
1995/96	3,344	3,206	138
1996/97	3,284	3,151	133
1997/98	2,908	2,783	125
1998/99	2,833	2,709	124
1999/00	2,762	2,642	120
2000/01	2,837	2,725	112
2001/02	2,720	2,620	100
2002/03	2,736	2,583	153
2003/04	2,656	2,510	146
2004/05	2,336	2,199	137
2005/06	2,282	2,104	178
2006/07	2,079	1,908	171
2007/08	2,008	1,861	147

Register of Contracts at 31 December in each year. The Register of Contracts is maintained as an open register. Processors and producers can register contracts in respect of individual milk years. Contracts continue to be registered throughout the year. For Register of Producers see Appendix 2.

- The number of registered milk supply contracts decreased to 2,008, a net reduction of 71 contracts or 0.4% on the previous year.

- 214 contracts were not renewed and 143 new contracts were entered into with 5 processors.
- All Year Round (AYR) contracts continued to be the main contract type representing 93% of contracts and 98% of milk supplies.
- Winter contracts represented 7% of all contracts and 2% of milk supplies.
- The number of All Year Round (AYR) contracts decreased by 47 to 1,861 or 2% while the number of Winter contracts decreased by 24 contracts to 147.

3.1 CONTRACT PRICING SYSTEMS

- Two systems of milk pricing are used by processors when purchasing milk from producers for processing for liquid consumption namely the FLAT Price System (FLAT System) and the Manufacturing Milk Price plus Bonus System (MMP System).
- Under the FLAT System, milk is paid for at a flat price per litre with no price differentiation for milk constituents.
- Under the MMP System, a milk price usually, but not always, linked to monthly manufacturing milk prices, with price differentials for constituents, is paid with the addition of variable or fixed winter bonus payments.

TABLE 3.1 CLASSIFICATION OF REGISTERED CONTRACTS BY TYPE/SUPPLIES

	CONTRACTS				SUPPLIES			
	2007/08		2006/07		2007/08		2006/07	
	number	%	number	%	m. litres	%	m. litres	%
All Year Round	1,861	93	1,908	92	446.3	98	423.1	98
Winter	147	7	171	8	8.5	2	9.2	2
TOTAL	2,008	100	2,079	100	454.8	100	432.3	100

Table 3.2 ALL YEAR ROUND CONTRACTS BY TYPE AND PRICING SYSTEMS

PRICING SYSTEMS	CONTRACTS				MILK SUPPLIES			
	2007/08		2006/07		2007/08		2006/07	
FLAT SYSTEM	number	%	number	%	m litres	%	m litres	%
Primary	1,112	60	1,160	61	250.8	56	235.5	56
Non Primary	274	15	288	15	55.6	12	50.8	12
TOTAL FLAT	1,386	75	1,448	76	306.4	69	286.2	68
MMP SYSTEM	475	25	460	24	139.9	31	136.8	32
TOTAL	1,861	100	1,908	100	446.3	100	423.0	100

FIG. 3.3 PRICING SYSTEMS/CONTRACTS 2007/08

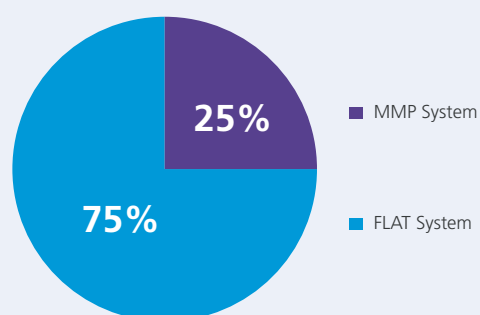
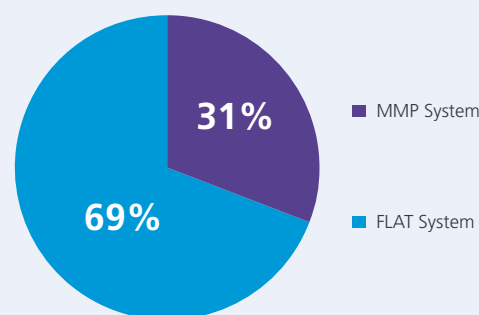


FIG. 3.4 PRICING SYSTEMS/MILK SUPPLIES 2007/08



- In the AYR contracts the FLAT System was applied in 75% of the contracts and to 69% of the milk supplies while the MMP System was applied in 25% of the contracts and to 31% of the milk supplies.
- Under the AYR contracts the 1,112 Primary Contracts, which operated a FLAT System with seven winter premium months, were the main contract type and represented 60% of AYR contracts and 56% of milk purchased.
- Non Primary AYR contracts, which operated a FLAT System with varying premium months, numbered 274 and represented 15% of AYR contracts and 12% of milk purchased.
- Increasing volumes of milk are being purchased under the MMP System. In 2007/08 the MMP System was applied in 25% of the AYR contracts and 31% of milk supplies compared with 14% of AYR contracts and 17% of milk supplies in 1999/00.

FIG. 3.5 AYR CONTRACTS – PRICING SYSTEMS/SUPPLIES 1999/00 – 2007/08

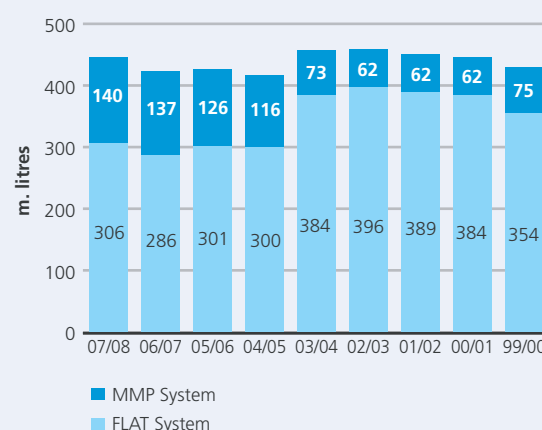


TABLE 3.6 ALL YEAR ROUND CONTRACTS – AVERAGE ANNUAL PRICES PAID

	2007/08	2006/07
FLAT SYSTEM	1,386 contracts 306.4 m. litres	1,448 contracts 286.2 m. litres
	c/litre	c/litre
Winter months , September – March (7)	43.65	34.57
Summer months , April – August (5)	33.40	28.81
Annual Average	39.38	32.25
MMP SYSTEM	475 contracts 139.9 m. litres	460 contracts 136.8 m. litres
Winter months , September – March (7)	42.03	32.77
Summer months , April – August (5)	31.68	30.75
Annual Average	37.60	31.85
COMBINED	1,861 contracts 446.3 m. litres	1,908 contracts 423.0 m. litres
Winter months , September – March (7)	43.16	34.03
Summer months , April – August (5)	32.85	29.49
Annual Average	38.84	32.11

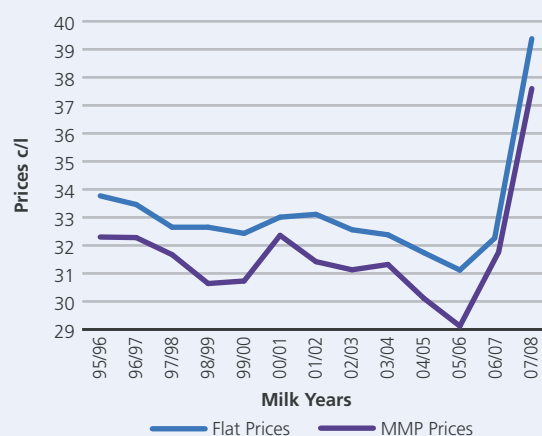
Prices are in respect of AYR contracts which apply the FLAT System and the MMP System and are ex farm attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deductions of penalties, statutory levies and collection charges. Prices are weighted by monthly volumes purchased. In the case of contracts applying the MMP System, prices are based on fixed and variable manufacturing prices with winter bonuses added. Payment periods have been standardised to a seven winter months premium period and a five summer months period.

- The average price paid under the AYR FLAT System contracts in 2007/08 was 39.38 c/l (179 c/g), an increase of 7.13 c/l (32 c/g) or 22% on the previous year.
- The average price paid under the AYR MMP System contracts in 2007/08 was 37.60 c/l (171 c/g), an increase of 5.75 c/l (26 c/g) or 18% on the previous year.
- The average annual price paid under all AYR contracts in 2007/08 was 38.84 c/l (177 c/g), an increase of 6.73 c/l (31 c/g) or 21% on the previous year.
- The price paid during the seven winter months was 43.16 c/l (196 c/g), an increase of 9.13 c/l (42 c/g) or 21% on the previous year. The price paid during the five summer months was 32.85 c/l (149 c/g), an increase of 3.36 c/l (15 c/g) or 11% on the previous year.
- The differential between annual average prices under the Flat and MMP Systems widened in 2007/08 with Flat Systems yielding on average 1.78 c/l more than MMP Systems compared with a differential of 0.40 c/l in 2006/07.
- Eight processors purchased supplies using FLAT Systems in their contracts.
- Seven processors purchased supplies using MMP Systems in their contracts.

3.2 PRICES PAID 2008 – MAIN AYR CONTRACTS

- A table of the average annual milk prices paid under the ten highest volume AYR contracts representing 91% of the AYR contracts and 91% of AYR milk supplies is set out hereunder.

FIG. 3.7 AYR CONTRACTS – AVERAGE ANNUAL FLAT AND MMP PRICES.



See Appendix 3.

TABLE 3.8 ALL YEAR ROUND CONTRACTS – PRICES PAID – 10 HIGHEST VOLUME CONTRACTS

CONTRACT TYPES	ANNUAL AVERAGE PRICES		WINTER PRICES		SUMMER PRICES		CHANGE IN ANNUAL AVERAGE PRICES
FLAT SYSTEM CONTRACTS							
PRIMARY TYPE	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	Increases
	c/l	c/l	c/l	c/l	c/l	c/l	c/l
B	38.73	32.35	42.22	34.04	34.35	30.14	6.38
D	39.97	32.32	44.43	34.26	33.51	28.11	7.65
F	39.96	32.06	44.26	34.63	33.88	28.20	7.90
NON PRIMARY TYPE							
D	38.56	35.15	41.84	37.20	31.18	30.72	3.41
J	37.00	33.13	41.96	34.73	30.22	30.70	3.87
MMP SYSTEM CONTRACTS							
	ANNUAL AVERAGE PLUS BONUS		ANNUAL AVERAGE MONTHLY BONUS		BASE PRICES		PRICE
	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	Increases
	c/l	c/l	c/l	c/l	c/l	c/l	c/l
A1	37.37	30.76	2.98	2.46	34.39	28.30	6.61
B1	36.60	32.98	4.13	4.24	32.47	28.74	3.62
B2	39.28	32.64	4.93	4.87	34.35	27.77	6.64
C2	41.20	32.58	3.10	4.57	38.10	28.01	8.62
C3	37.24	31.61	3.67	2.65	33.57	28.96	5.63

Contract reference codes relate to Tables 5.6, 5.7 and 5.8 in 2005 Annual Report.

3.3 PRICES PAID – WINTER CONTRACTS

TABLE 3.9 WINTER CONTRACTS – PRICES/SUPPLIES

	CONTRACTS		MILK SUPPLIES		2007/08	2006/07
Pricing Systems	number	%	m. litres	%	Average Price – Winter Months	Average Price – Winter Months
					c/litre	c/litre
MMP	111	76	7.4	87	48.73	36.35
FLAT	36	24	1.1	13	44.63	34.83
TOTAL	147	100	8.5	100	48.20	36.02

Under the Winter contracts, a producer undertakes to supply milk for processing for liquid consumption during some or all of the prescribed winter months (October to February). The 147 winter contracts applied to 8.5 million litres (a reduction of 0.7 million litres on the previous year) and represented 7% of all contracts and 2% of milk supplies.

3.4 PRICES PAID – ALL CONTRACTS – MILK YEARS

The average price paid under all contracts, both All Year Round and Winter Months Only in 2007/08 was 39 c/litre (177 c/g), an increase of 6.8 c/litre (31 c/g) or 21% on the previous milk year.

TABLE 3.10 PRICES PAID UNDER ALL CONTRACTS AND PRICING SYSTEMS

PERIOD	2007/08	2006/07
	2,008 contracts 454.8 m. litres	2,079 contracts 432.3 m. litres
	c/litre	c/litre
Winter Months, September – March (7)	43.16	34.09
Summer Months, April – August (5)	32.85	29.49
Average	39.00	32.20
c/g	177	146

Prices are in respect of both AYR and Winter contracts utilising the FLAT System and the MMP System and are ex farm attainable prices exclusive of VAT and inclusive of all quality and other bonuses and before deductions of penalties, statutory levies and collection charges. Prices are weighted by monthly volumes purchased. Payment periods on all contracts are standardised to a seven winter months premium period and a five summer months period.

3.5 MILK PRICES 2008

ANNUAL AVERAGE LIQUID MILK PRICES AND MANUFACTURING PRICES

- In the calendar year 2008, which includes the first three months of the 2008/09 milk year, the average annual price of 37.58 c/litre paid under all registered contracts was lower than the average annual price of 39 c/litre paid during the 2007/08 milk year due to the reduction in monthly producer prices in the first quarter of the 2008/09 milk year.
- In 2008 the annual average price paid under all contracts was 37.58 c/l (171 c/g), an increase of 2.30 c/l (11 c/g) on the price of 35.28 c/l (160 c/g) in 2007.
- In 2008 the estimated annual average price for manufacturing milk supplies excluding VAT and after collection charges was 32.24 c/l, a reduction of 0.30 c/l or 1% on the annual average price of 32.54 c/l (revised) in 2007.
- The differential between the annual average producer price for milk supplies for liquid consumption of 37.58 c/l and the annual average producer price for manufacturing milk supplies of 32.24 c/l, was 5.34 c/l (24 c/g) in 2008, an increase of 2.6 c/l or 95% compared with the differential of 2.74 c/l (revised) in 2007.
- A schedule showing average annual milk prices for supplies for liquid consumption and for supplies for manufacturing since 1995 is set out in Appendix 3 (Table B).

FIG. 3.11 AVERAGE ANNUAL PRODUCER MILK PRICES – LIQUID MILK/MANUFACTURING MILK 1995-2008

