

3. REGISTERED CONTRACTS/PRICES

3.0 CONTRACT TYPES

TABLE 3.0 CONTRACT TYPES

| 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 |
| 2008/09 | 1,992 | 1,849 | 143 |

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 1,992, a net reduction of 16 contracts or 0.8% on the previous year.

- 128 contracts were not renewed and 112 new contracts were entered into with 9 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 12 to 1,849 or 0.6% while the number of Winter contracts decreased by 4 contracts to 143.

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 and without 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 | | | |
|----------------|-----------|-----|---------|-----|----------|-----|----------|-----|
| | 2008/09 | | 2007/08 | | 2008/09 | | 2007/08 | |
| | Number | % | Number | % | m litres | % | m litres | % |
| All Year Round | 1,849 | 93 | 1,861 | 93 | 438.2 | 98 | 446.3 | 98 |
| Winter | 143 | 7 | 147 | 7 | 9.6 | 2 | 8.5 | 2 |
| TOTAL | 1,992 | 100 | 2,008 | 100 | 447.8 | 100 | 454.8 | 100 |

TABLE 3.2 ALL YEAR ROUND CONTRACTS BY TYPE AND PRICING SYSTEMS

| PRICING SYSTEMS | CONTRACTS | | | | MILK SUPPLIES | | | |
|-------------------|--------------|------------|--------------|------------|---------------|------------|--------------|------------|
| | 2008/09 | | 2007/08 | | 2008/09 | | 2007/08 | |
| FLAT SYSTEM | number | % | Number | % | m litres | % | m litres | % |
| Primary | 1,119 | 60 | 1,112 | 60 | 257.6 | 59 | 250.8 | 56 |
| Non Primary | 251 | 14 | 274 | 15 | 53.7 | 12 | 55.6 | 12* |
| TOTAL FLAT | 1,370 | 74 | 1,386 | 75 | 311.3 | 71 | 306.4 | 69 |
| MMP SYSTEM | 479 | 26 | 475 | 25 | 126.9 | 29 | 139.9 | 31 |
| TOTAL | 1,849 | 100 | 1,861 | 100 | 438.2 | 100 | 446.3 | 100 |

* Rounding

FIG. 3.3 PRICING SYSTEMS/CONTRACTS 2008/09

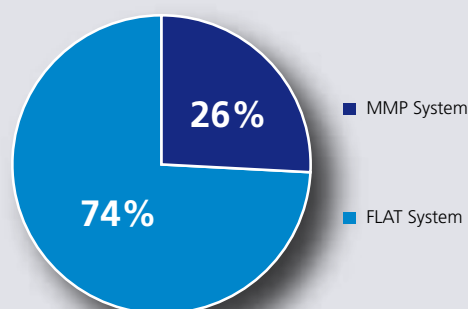
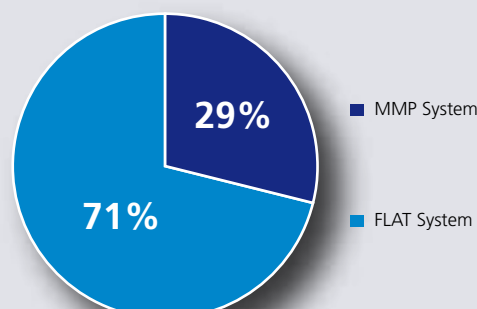


FIG. 3.4 PRICING SYSTEMS/MILK SUPPLIES 2008/09



- In the AYR contracts the FLAT System was applied in 74% of the contracts and to 71% of the milk supplies while the MMP System was applied in 26% of the contracts and to 29% of the milk supplies.
- Under the AYR contracts the 1,119 Primary Contracts, which operated a FLAT System with seven winter premium months, were the main contract type and represented 60% of AYR contracts and 59% of milk purchased.
- Non Primary AYR contracts, which operated a FLAT System with varying premium months, numbered 251 and represented 14% of AYR contracts and 12% of milk purchased.
- In 2008/09 the MMP System was applied in 26% of the AYR contracts and to 29% of milk supplies compared with 25% of the AYR contracts and 31% of milk supplies in 2007/08 and 15% of contracts and 9% of milk supplies in 1995/96.

FIG. 3.5 AYR CONTRACTS – PRICING SYSTEMS/ SUPPLIES 1999/00 – 2008/09

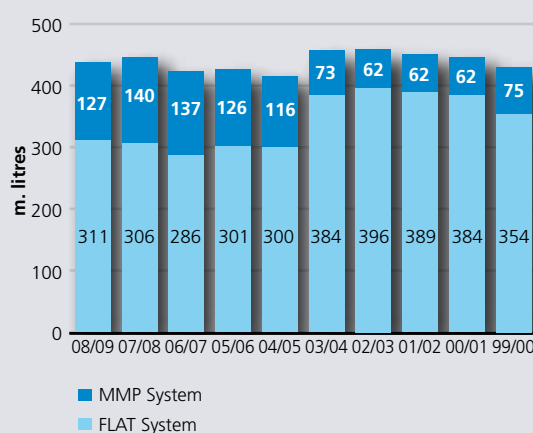


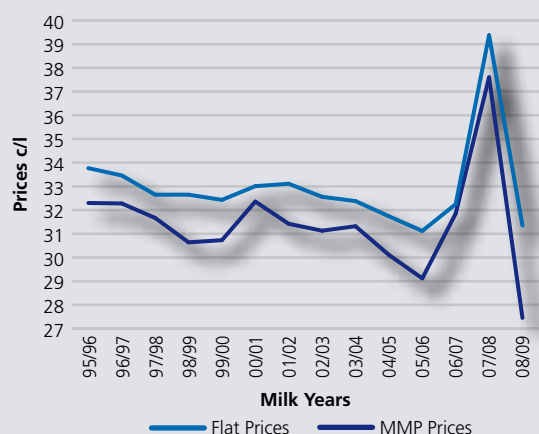
TABLE 3.6 ALL YEAR ROUND CONTRACTS – AVERAGE ANNUAL PRICES PAID

| | 2008/09 | 2007/08 |
|--|--|--|
| FLAT SYSTEM | 1,370 contracts 311.3 m. litres | 1,386 contracts 306.4 m. litres |
| | c/litre | c/litre |
| Winter months, September–March (7) | 36.68 | 43.65 |
| Summer months, April – August (5) | 23.94 | 33.40 |
| Annual Average | 31.35 | 39.38 |
| MMP SYSTEM | 479 contracts 126.9 m. litres | 475 contracts 139.9 m. litres |
| Winter months, September– March (7) | 32.19 | 42.03 |
| Summer months, April–August (5) | 19.75 | 31.68 |
| Annual Average | 27.45 | 37.60 |
| COMBINED | 1,849 contracts 438.2 m. litres | 1,861 contracts 446.3 m. litres |
| Winter months, September– March (7) | 35.33 | 43.16 |
| Summer months, April–August (5) | 22.80 | 32.85 |
| Annual Average | 30.24 | 38.84 |

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 and statutory levies. 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 2008/09 was 31.35 c/l (143 c/g), a decrease of 8.03 c/l (36 c/g) or 20% on the previous year.
- The average price paid under the AYR MMP System contracts in 2008/09 was 27.45 c/l (125 c/g), a decrease of 10.15 c/l (46 c/g) or 27% on the previous year.
- The average annual price paid under all AYR contracts in 2008/09 was 30.24 c/l (137 c/g), a decrease of 8.6 c/l (39 c/g) or 22% on the previous year.
- The price paid during the seven winter months was 35.33 c/l (161 c/g), a decrease of 7.83 c/l (36 c/g) or 18% on the previous year. The price paid during the five summer months was 22.80 c/l (104 c/g), a decrease of 10.05 c/l (46 c/g) or 31% on the previous year.
- The differential between the annual average prices paid under the FLAT and MMP Systems widened in 2008/09 with FLAT Systems yielding on average 3.9 c/l (18 c/g) more than MMP Systems compared with a differential of 1.78 c/l (8 c/g) in 2007/08.
- Eight processors purchased supplies using FLAT Systems in their contracts.
- Seven processors purchased supplies using MMP Systems in their contracts.

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



See Appendix 3.

3.2 PRICES PAID 2009 – MAIN AYR CONTRACTS

A table of the average annual milk prices paid under the thirteen highest volume AYR contracts representing 90% of the AYR contracts and 95% of AYR milk supplies is set out hereunder.

TABLE 3.8 ALL YEAR ROUND CONTRACTS – PRICES PAID – 13 HIGHEST VOLUME CONTRACTS

| FLAT SYSTEM CONTRACTS | | | | | | | |
|-----------------------|---------------------------|---------|--------------------------------|---------|---------------|---------|---------------------------------|
| CONTRACT TYPES | ANNUAL AVERAGE PRICES* | | WINTER PRICES | | SUMMER PRICES | | CHANGE IN ANNUAL AVERAGE PRICES |
| PRIMARY TYPE | 2008/09 | 2007/08 | 2008/09 | 2007/08 | 2008/09 | 2007/08 | Decreases |
| | c/l | c/l | c/l | c/l | c/l | c/l | c/l |
| B | 31.45 | 38.73 | 36.62 | 42.22 | 24.76 | 34.35 | (7.28) |
| D | 31.36 | 39.97 | 36.39 | 44.43 | 24.12 | 33.51 | (8.61) |
| F | 31.52 | 39.96 | 36.76 | 44.26 | 24.21 | 33.88 | (8.44) |
| G | 29.20 | 37.11 | 33.03 | 39.57 | 24.01 | 33.80 | (7.91) |
| NON PRIMARY TYPE | | | | | | | |
| D1 | 31.73 | 38.56 | 35.31 | 41.84 | 22.84 | 31.18 | (6.83) |
| J | 32.01 | 37.00 | 39.46 | 41.96 | 21.84 | 30.22 | (4.99) |
| H | 31.81 | 39.70 | 37.63 | 43.55 | 25.12 | 34.72 | (7.89) |
| MMP SYSTEM CONTRACTS | | | | | | | |
| CONTRACT TYPES | ANNUAL AVERAGE PLUS BONUS | | ANNUAL AVERAGE – MONTHLY BONUS | | BASE PRICES | | CHANGE IN ANNUAL AVERAGE PRICES |
| | 2008/09 | 2007/08 | 2008/09 | 2007/08 | 2008/09 | 2007/08 | Decreases |
| | c/l | c/l | c/l | c/l | c/l | c/l | c/l |
| A1 | 31.43 | 37.37 | 6.03 | 2.98 | 25.40 | 34.39 | (5.94) |
| B1 | 26.48 | 36.60 | 3.59 | 4.13 | 22.89 | 32.47 | (10.12) |
| B2 | 27.47 | 39.28 | 4.86 | 4.93 | 22.61 | 34.35 | (11.81) |
| C2 | 28.83 | 41.20 | 2.75 | 3.10 | 26.08 | 38.10 | (12.37) |
| C3 | 27.44 | 37.24 | 3.13 | 3.67 | 24.31 | 33.57 | (9.80) |
| C4 | 25.63 | 33.00 | 2.55 | 2.26 | 23.08 | 35.26 | (7.37) |

* Excluding VAT

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 | | 2008/09 | 2007/08 |
|-----------------|------------|------------|---------------|------------|-------------------------------|-------------------------------|
| Pricing Systems | Number | % | m. litres | % | Average Price – Winter Months | Average Price – Winter Months |
| | | | | | c/litre | c/litre |
| MMP | 106 | 74 | 8.6 | 90 | 38.68 | 48.73 |
| FLAT | 37 | 26 | 1.0 | 10 | 37.39 | 44.63 |
| TOTAL | 143 | 100 | 9.6 | 100 | 38.55 | 48.20 |

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 143 winter contracts related to 9.6 million litres of milk (an increase of 1.1 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 2008/09 was 30.40 c/l (138 c/g), a decrease of 8.6 c/l (39 c/g) or 22% on the previous milk year.

TABLE 3.10 PRICES PAID UNDER ALL CONTRACTS AND PRICING SYSTEMS

| PERIOD | 2008/09 | 2007/08 |
|---|--|--|
| | 1,992 contracts 447.8 m. litres | 2,008 Contracts 454.8 m. litres |
| | c/litre | c/litre |
| Winter Months, September–March (7) | 35.44 | 43.31* |
| Summer Months, April–August (5) | 22.80 | 32.85 |
| Annual Average | 30.40 | 39.00 |
| | 138 c/g | 177 c/g |

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 and statutory levies. 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.

*Revised



3.5 MILK PRICES 2009

ANNUAL AVERAGE LIQUID MILK PRICES AND MANUFACTURING PRICES

- In the calendar year 2009, which includes the first three months of the 2009/10 milk year, the average annual price of 29.17 c/l (133 c/g) paid under all registered contracts was lower than the average annual price of 30.40 c/l (138 c/g) paid during the 2008/09 milk year due to lower producer prices in October to December 2009 compared with the same period in 2008.
- In 2009 the annual average price paid under all contracts of 29.17 c/l (133 c/g), represented a decrease of 8.41 c/l (38 c/g) or 22% on the price of 37.58 c/l (171 c/g) paid in 2008.
- In 2009 the estimated annual average price for manufacturing milk supplies excluding vat and after collection charges was 22.04 c/l (100 c/g), a reduction of 10.20 c/l (46 c/g) or 32% on the annual average price of 32.24 c/l (146 c/g) in 2008.
- The differential between the annual average producer price for milk supplies for liquid consumption of 29.17 c/l and the annual average producer price for manufacturing milk supplies of 22.04 c/l, was 7.13 c/l (32 c/g) in 2009, an increase of 1.79 c/l (8 c/g), compared with the differential of 5.34 c/l (24 c/g) in 2008.
- A schedule showing the average annual producer milk prices for supplies for liquid consumption and 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- 2009

