

My husband, Brian Schuler, and I are dairy farmers in Western Victoria, supplying Fonterra.

We are concerned about the legality of Fonterra's actions regarding the lack of notice given for the milk price drop, the spreading of loan repayments and interest across the supplier base, and the lack of specificity in milk statements about the loan balances, terms and conditions, the interest charges and the milk price.

We are also concerned about the continued statements Fonterra makes about not having asked farmers for any money back. By dropping the price of milk collected in May and June below the spot price of milk at the time, they took the money back immediately, as the price paid did not reflect the actual value of the milk at that time. They continue to take money back from farmers through a number of well-hidden mechanisms including ghost loans and interest charges, all rolled into the milk price and not detailed separately.

The Fonterra Loans, in a nutshell: When Fonterra dropped the milk price for May and June to significantly below the spot price for milk, they put many of their suppliers, especially their autumn-calving farmers in a severe cash-flow crisis. Fonterra organised two different loan mechanisms for those farmers.

- 1 they realised they had significantly disadvantaged autumn-calvers so they created the "autumn offset", an additional \$2.50 paid for production in May and June (but actually paid in August and September), to be clawed back across (nearly) the entire Fonterra supplier network in some sort of effort to level the playing field between all suppliers (note: after this adjustment, there is still a significant clawback disparity, from Fonterra's own figures, equating to \$0.54 to \$0.72/kgMS over the 15/16 season, depending on a farm's seasonality. Further, some Fonterra suppliers, via contracts set off original pricings, have been largely unaffected by this clawback). This was said to equal around \$0.19/kgMS over the whole of the 16/17 season. **This is loan number 1 and no one knows the total value of the loan and the payment terms of it.**
- 2 they offered a loan of up to \$0.60/kgMS to get through the cash-flow crisis they created for farmers. **The entire Fonterra supplier network was to pay interest on this loan, whether they took it out or not, at a rate of \$0.02/kgMS.** This has recently been revised as less than 40% of those suppliers eligible took out the loan.

In neither case has Fonterra been transparent about what the loan balance is, what the terms and conditions are etc. It is all bundled into the total milk price and we are unable to work out what our actual milk price is, what repayments are being deducted for the autumn offset and what interest is being deducted for the loans we didn't take. **We believe what they have done is actually illegal: you cannot charge someone interest on a loan they have not taken out.** Fonterra Australia is not a cooperative, so the argument that all the shareholders or 4 members of a cooperative should share the costs and the benefits does not apply.

Note that Fonterra justified their actions by saying that they were not travelling well financially, dropped the milk price after Murray Goulburn did so, then ended up making a profit in Australia and a record \$834 million profit in New Zealand.

Below, we have included the email communications from Fonterra detailing what the company has been doing. The first email was the announcement of the price drop on 5 May 2016. Note that the milk price was dropped for all milk collected that day, no previous notice was given, and included in that day's milk was milk produced and in the vat before

the announcement was made, that is, milk from the previous evening and milk from earlier that morning.

The following emails are evidence of the different mechanisms Fonterra has used and is using to take money from farmers, including interest charges.

Regards
Karrinjeet Singh-Mahil and Brian Schuler
Schuler Ag P/L

An email from Fonterra 5 May 2016 at 10.22am:

Good morning,

Today we have made two important announcements so my email will be a bit longer than usual. We have been in discussions with Tony Marwood and the BSC Board regarding today's announcement.

Revised farmgate milk price

- Given the events of last week and the ongoing dairy market challenges, we today have revised our current farmgate milk price, meaning that the full 2015/16 season price will be reduced from A\$5.60 per kgMS to A\$5.00 per kgMS.
- This means that our average May and June farmgate price per kgMS will be \$1.91 (\$1.16 fat & \$2.89 protein plus production and quality incentives).
- Fonterra has been committed to meeting our pricing obligations under the BSC Milk Supply Agreement, even while our product mix and global commodity price volatility have continued to challenge us and does not support the price paid. We will continue to honour this commitment.
- **Next season Fonterra will continue to meet the minimum benchmark milk price, as per the BSC Agreement, excluding the deductions that Murray Goulburn is using to recover repayments from its farmer support package (\$0.20 – \$0.27 kgMS).**
- We understand that there are huge implications of this price revision to your business, and that this is the last thing you will want to hear in an already tough season. It is not a decision we make lightly.

Fonterra Australia Support Loan

- To support farm production for the remainder of the season, suppliers will be able to borrow up to 60 c/kgMS based on actual milk that is supplied to Fonterra in May and June this season.
- This provides suppliers with options to help deal with the current challenging conditions, and gives them the ability to receive an equivalent of \$5.60 per kgMS for the current season.
- This loan will require no repayments for FY17. However, we will reduce the quoted

farmgate milk price for FY17 by \$0.02 per kgMS to reflect interest that would otherwise have been payable by suppliers participating in the loan scheme during FY17.

- It is repayable (principal and interest) over three years from the start of FY18.
- Suppliers who take out the loan will need to continue to supply Fonterra for the next four years. If you decide to stop supplying us, the loan will become repayable in full on the date of cessation.
- **It is important to understand that our loan will not materially affect your future farmgate milk price; which means that your milk price will be between at least \$0.20 and \$0.27 per kgMS higher than the benchmark milk price for the next three seasons.**
- It is also important to note that this provides **individual farmers with a choice as to how they deal with these circumstances.**
- FASL is subject to eligibility and terms and conditions, which will be provided in due course.
- A letter will be mailed to all suppliers, which includes more information and a Questions and Answers section.
- We will make available to you in the coming weeks an information booklet which will detail all the information and terms and conditions for the Fonterra Australia Support Loan.

An email from Fonterra 13 May 2016 at 9.43am:

Good morning,

This week I've been on the road with Fonterra's Commercial Director of Finance, Abhy Maharaj, and BSC Chairman Tony Marwood.

We've spoken with many of you since our announcement last week, both at the meetings and on the phone. We've heard your concerns, and we know you are hurting.

One of the biggest issues raised at the meetings has been the disproportionate effect the step down will have on suppliers on an autumn/split calving system. We have listened to your concerns, and are today announcing additional measures aimed at addressing the imbalance for those suppliers.

These measures will provide an additional autumn offset to farmers for milk supplied in May and June 2016:

- The measures will go some way to rebalance the pricing construct for farmers on an autumn/split calving system for May and June.
- The offset will provide an additional \$2.50/kgMS in July and August payments based on the kgMS a farmer supplies in May and June 2016.
- This will be effectively drawn through the redistribution of base rates in the 2016/17 season.

Although these measures won't completely level the playing field, we hope they will go some way towards rebalancing the spring versus autumn seasonal incentives for FY17. Further information is included in the attached Q&A sheet.

I know that for some of you, these measures come after you have already made decisions about your herd, and for that, I am sorry.

I want to assure you that we are listening, and we stand prepared to answer any questions you have, about this or any other issue. If you couldn't get along to a meeting, or didn't get a chance to ask your questions, please pass them on to your Area Manager, who will make sure they are answered by the team.

Finally, I encourage anyone needing assistance to get in touch with Converge, a confidential counselling service through which you can arrange to speak with a consultant either over the phone or meet face-to-face. Call [REDACTED] to contact them and let them know that you are a Fonterra farmer.

Given today's announcement there will be no Watt Matters this afternoon.

Regards,

Matt Watt

An email from Fonterra 29 June 2016 at 7.26pm:

Good evening,

I'm writing to advise our opening price for the 2016/17 season.

- **Our forecast full year average price is \$5.00 kg/MS for 2016/17 season.**
- **Our opening average farmgate milk price is \$4.75 per kilogram of milk solids (kg/MS) for 2016/17 season.**
- This includes the 2 cents/kgMS to pay interest on loans, meaning your weighted average opening cash price is \$4.73kgMS.
- Our forecast is set at .74 US cents currency with commodities remaining at similar levels for next six to 12 months.
- Australia: Global Dairy Update will be key in keeping you informed as to how currency and commodity prices are tracking and how that influences milk price.
- We look forward to discussing how we can evolve this at the upcoming supplier meetings, beginning next week.
- Our opening price letter will provide more information on rates, and is up on [Dairyweb](#) now.
- You will receive an income estimation in the next few weeks which will detail exactly what this announcement means for your business. The Milk Supply team will also be out on farm explaining the support services on offer this season and we have our supplier meetings beginning next week
- I encourage you to discuss this with your Area Manager and work through how you can maximise your bottom line result with us this season.

Regards,

Matt Watt

GM Australian Milk Supply

An email from Fonterra 30 September 2016 at 4.01pm:

Welcome to this week's Watt Matters.

What's happening on farm?

- Another soggy week, with rain falling across the regions. Some areas in Tassie received over 30ml, up to 15ml in parts of the West and North, and around 5ml in Gippsland.
- Thankfully we escaped the worst of the storms that knocked out power across all of South Australia, however the rain exacerbated the flood situation in Western Victoria just days after floodwaters had begun to recede.
- The BSC annual photo competition is on again, with the team on the lookout for seasonal photos that celebrate dairy.
- Winning entries will feature in the 2017 Bonlac Supply Company calendar, and will also win their photographer two nights accommodation in their nearest capital city.
- Entries close 21 October, and terms and conditions are in the attached flyer.

What's happening in the market?

- I've spoken with many of you over the last week about our results and recent step ups from other processors.
- At the start of the season we forecast a close of \$5.00/kgMS, and every improvement in dairy commodity prices strengthens that forecast.
- However, while we are seeing improvements, there is still some ongoing volatility and subsequently we are holding our current farmgate price at \$4.75 per kgMS.
- You can read more in our September edition of the Australia: Global Dairy Update, which is attached.
- Also in Australia: GDU, an update on the interest deduction of 2c/kgMS for the Fonterra Australia Support Loans.
- As fewer loans were taken out than expected, the interest deduction has been adjusted to 0.85 of 1 cent (<\$0.01c). More information on what this means is in Australia: GDU.
- Meanwhile, the Australian dollar hit a six-week high this week, trading at 0.77 US cents, following a tentative deal from OPEC members to reduce crude oil output, which saw the US dollar tumble.

What's happening at Fonterra?

- We're about to commence a new marketing campaign for Mainland, with new TV commercials for Mainland cheese and ButterSoft kicking off this weekend during the footy finals to an audience of 4.4 million.

- We're headed into the busiest time of the year for our Brands team, with the lead up to Christmas being peak time for cheese and spreads purchases.
- Mainland Cheese has had a brand refresh this year and the new commercial highlights Mainland's point of difference – that we age it longer so that it tastes better.
- Our Mainland ButterSoft brand has been something of a 'sleeping giant'. Despite not being supported by advertising since 2008, it's currently growing at +17.1 per cent value and is the number 3 spread in market, behind Western Star and Devondale.
- ButterSoft is a big part of the Mainland portfolio, and has the unique proposition in the market of being 'the only pure spreadable butter', with no oil blended in to achieve 'spreadability'.
- Keep an eye out for the commercials on TV throughout October and November.

Finally, although a Footscray victory will make keeping my son on the Richmond bandwagon even harder, go Dogs!

Regards,

Matt Watt

GM Australian Milk Supply