

## **DDE PENALTY RECOVERY POLICY**

### **INTRODUCTION**

This Policy outlines the basis for recovering DDE milk quality downgrade penalties from Sharemilkers and Contract Milkers.

### **BACKGROUND**

In the Company's sharemilking and contract milking agreements DDE milk quality downgrades are the responsibility of the farm owner where DDE milk residues are up to the level specified in the agreements. Above the specified level the DDE penalties are borne by the sharemilker/contract milker.

During the past few seasons Fonterra has revised their DDE penalties, but also provided direction to operators as to how farms can be managed and stock may be grazed to help lower these charges.

When winter grazing was largely provided by third party graziers, sharemilkers and contract milkers were encouraged to obtain as much information regarding the DDE status of winter crop soils so that they were aware of the risks and could manage the grazing as required.

In recent years, Dairy Holdings Limited has taken responsibility for providing the majority of the Group's winter crop requirements and as a result crop may sometimes be grown on higher DDE properties. This crop must still be grazed over winter. In these circumstances it is appropriate that the farm owner shares some of the DDE penalties.

Even though a wintering area may have higher DDE soil residues, various practices can be adopted to reduce DDE milk penalties.

It is important that sharemilkers and contract milkers continue to implement best practice to reduce DDE milk residues, irrespective of where stock may be grazed over winter.

### **COST SHARING**

The Company is continually reviewing the DDE charges for individual dairy farms and compares these charges to among dairy farms that have grazed their stock over winter on the same wintering property.

Where the majority of the dairy farms grazing on a Dairy Holdings Limited owned or leased winter grazing property incur DDE penalties in a season less than \$5 per hectare on the dairy farm, then the wintering property is regarded as being a **Low DDE Block**. All other Dairy Holdings wintering properties are regarded as being a **High DDE Block**.

- For dairy farms wintered on **High DDE Blocks** the sharemilker or contract milker is to pay their percentage share of the total DDE milk penalties for the dairy farm. All other DDE milk penalties are borne by the farm owner.

- For dairy farms wintered on **Low DDE Blocks** the sharemilker or contract milker is to pay all DDE milk penalties for the dairy farm up \$5 per hectare and their percentage share of the total DDE milk penalties for the dairy farm above \$5 per hectare. All other DDE milk penalties are borne by the farm owner.
- For dairy farms wintered on **third party wintering blocks** the sharemilker or contract milker is to pay all of the total DDE milk penalties for the dairy farm.

In all cases the sharemilkers and contract milkers are encouraged to obtain as much information as possible regarding DDE soil test levels of winter crop land. However, the above cost sharing policy recognises that where third parties are providing the grazing the sharemilker or contract milker will need to decide whether or not to secure that grazing after obtaining the relevant soil tests.

## **SUMMARY**

In summary, the above Policy details how DDE penalties are proposed to be shared by the Farm Owner.

Sharemilkers and Contract Milklers continue to be responsible for DDE penalties. However, the extent of that responsibility depends on whether or not Dairy Holdings Limited owns or leases the wintering block and whether or not that block is regarded as being high in DDE.

Notwithstanding this Policy, all parties need to be aware of the risks of DDE milk penalties and the practices that may be adopted to reduce the chance of DDE residues in milk.

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