

Bonlac Supply Company



Farmers representing farmers

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<< Supplier name >>

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22 November 2017

Dear << salutation >>,

I'm writing to provide you with an update on the progress of the new operating model between the Bonlac Supply Company (BSC) and Fonterra, and on discussions around the possibility of a Fonterra co-operative in Australia.

Further to recent cluster meetings with the Board and BSC Supplier Forum, and as advised at our AGM held in Warrnambool on 15 November, discussions on our new model of operation with Fonterra have resulted in an initial draft agreement being completed. The new model will build stronger connections between farmers and Fonterra, and is inclusive of more farmer representation in milk pricing discussions. Once finalised and approved by you, it will replace the current Milk Supply Agency Agreement that expires at the end of 2019.

I'd like to again emphasise that the current agreement with Fonterra, including the safety net style benchmarking requirement to ensure the final Fonterra milk price is not less than the milk price of the volume leading processor (excluding Fonterra) in Victoria, still remains in place.

Whilst good progress has been made on the new agreement, our focus as a Board for the immediate future is on investigating Fonterra Australia's recent proposal around developing a co-operative in Australia.

Earlier this month Fonterra initiated the idea of creating a co-op model in Australia, believing that the time is now right to explore farmers' appetite, given the likelihood that MG will cease to operate as a co-op. The evaluation of the co-op has the support of the BSC Board, as well as the Fonterra Board.

This is not a new idea – as I said at the AGM, we have long held the view of an Australian Fonterra Co-operative and it is something that Fonterra Chairman John Wilson and I have discussed numerous times in the past. It is pertinent to note that Fonterra is currently implementing a co-operative based model with its suppliers in Latin America – and we are of the view that this shows Fonterra's commitment to providing the opportunity for supplier ownership outside of New Zealand.

BSC will work closely with Fonterra to develop options for a co-operative to present to you in the first half of next year. The BSC Board believes that a key part of any proposed co-operative for Fonterra Australia would be that membership of the co-operative is optional, and tailored to the

Australian dairy environment. We are also of the view that the co-op proposal needs to be based on the Australian Fonterra business, and we will be advocating those positions strongly in discussions about what form any co-op may take.

Despite the failure of dairy co-ops in Australia such as Murray Goulburn (MG) and Bonlac Foods, we do not believe that the co-op model is broken, but rather that there has been an issue with the way that these co-ops have been run. Many of the world's largest and most successful dairy processors are still co-ops, and we continue to believe that there is significant benefit in farmer ownership and control.

As a Board, and in conjunction with your BSC Supplier Forum members, we will be actively seeking your inputs into the co-operative proposal as it develops. There may be just one chance to get this done, and to get it right. We look forward to engaging with you all again on this in the New Year.

Yours sincerely



Chairman, Bonlac Supply Company