



# Market Announcement

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23 June 2020

## Fonterra to pay farmers more for sustainable, high value milk

Fonterra farmers producing sustainable, high quality milk will be eligible for a new payment, as Fonterra announces important changes to the way it pays farmers for their milk.

From 1 June 2021, Fonterra is introducing a Co-operative Difference Payment of up to 10 cents per kilogram of milk solids (kgMS) if the farm meets the Co-op's on-farm sustainability and value targets. It's part of the Co-op's strategy to add value to New Zealand milk and responds to increasing demand from customers here and around the world for sustainably-produced dairy. The payment will be funded out of the Farmgate Milk Price.

"The total Farmgate Milk Price will remain the same across the Co-operative, but the amount that each individual farm is paid will vary depending on their contribution under The Co-operative Difference, in addition to the other variables, like fat and protein, which affect the amount that's paid," says Fonterra CEO Miles Hurrell.

"We've always paid our farmers based on the value that milk provides to the Co-operative. The reality is that the drivers of value are changing, and we need to reflect that. Our customers want to know that the products they are buying are not only safe, but also produced sustainably.

"This payment helps us meet the changing needs of our customers, so they continue to choose our milk and enjoy dairy as a sustainable and nutritious choice.

"We want to deliver the innovation, sustainability and efficiency needed to make the most difference to our strategy and our bottom line. It makes sense to financially reward those farmers who go the extra mile to help our Co-op differentiate its milk."

Last year Fonterra launched [The Co-operative Difference](#) – a straight-forward framework to help farmers produce high-quality, sustainable milk and prepare for any changes needed in the future.

The payment will replace the Farm Source Reward Dollars farmers currently earn through The Co-operative Difference and will work on a tiered system. The more a farmer achieves in The Co-operative Difference programme, the higher the payment will be. The precise payment structure will be confirmed over the next few months following discussions with farmers but will be no more than 10 cents per kgMS.

Nestlé's Robert Erhard says, "At Nestlé how milk is produced matters. Now more than ever, people expect farmers to act as good stewards of the land – safeguarding the climate, enhancing animal welfare and carefully managing water and the health of soils."

"Farmers put in a lot of effort to produce the best quality milk possible. Over recent years, large numbers of farmers have spent a significant amount of time and money to improve their local environment and waterways to make their farms sustainable for the future. It's great to see these farmers distinguished and rewarded for their efforts to produce and deliver a product that Fonterra can capture the highest value from. Through The Co-operative Difference, we can get better, together," says Northland dairy farmer Terence Brocx.

"We've created this with our Co-operative principles in mind. All farmers can participate in The Co-operative Difference and we'll keep supporting them through Farm Source," says Mr Hurrell.

"We want farmers looking to the future, and The Co-operative Difference encourages them to continue to focus on the things that will create the highest value milk. This helps us create higher value products that stand out in the global market for their New Zealand-ness and the sustainable way they're produced."

Key details:

- Introducing The Co-operative Difference payment for farms that meet Fonterra's The Co-operative Difference targets, including on-farm sustainability and milk quality targets.
- Effective from next season, from 1 June 2021.
- Current Farm Source Rewards Dollars in The Co-operative Difference will be replaced with a c/kgMS payment.
- The amount and targets will be set annually by the Fonterra Board.
- The payment will work on a tiered achievement system. The more a farmer completes in The Co-operative Difference, the higher the payment they'll receive.
- The payment won't be more than 10 cents per kgMS for the first season commencing 1 June 2021. Fonterra will work with farmers on the framework over the next few months to achieve the right balance.
- The total amount available to be paid to farmers does not change, but a proportion of the Farmgate Milk Price will be available to be redistributed between farmers to better reflect the value of the milk from individual farms.
- Based on achievement under The Co-operative Difference framework.
- It will be a simple and low cost approach but with robust and straight-forward verification.

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