

**LEGISLATIVE COUNCIL PORTFOLIO COMMITTEE NO.5 - INDUSTRY AND
TRANSPORT**

INQUIRY INTO SUSTAINABILITY OF THE DAIRY INDUSTRY IN NSW

**Answers to questions on notice taken during the hearing:
Mr Scott Hansen and Mr Alex Russell, Department of Primary Industries**

1. *What was the average cost of production figure in the north and south?*

Farm costs and milk income	North average (18 farms)		South average (14 farms)		State top 25% average	
	\$/kg MS	c/l	\$/kg MS	c/l	\$/kg MS	c/l
Cash cost of production	\$6.67	49.2	\$5.68	42.2	\$5.38	39.8
Cost of production with imputed labour and depreciation (without feed and livestock inventory change)	\$8.28	61.2	\$6.89	51.3	\$6.61	49.1
Cost of production with imputed labour, depreciation and inventory change	\$8.38	61.9	\$6.84	50.9	\$6.34	47.0
Milk income	\$7.62	56.5	\$6.81	50.6	\$7.25	53.7
Total income (inc. livestock trading)	\$8.39	62.1	\$7.49	55.7	\$8.00	58.6

Source: NSW Dairy Farm Monitor Project

Note about imputed labour: Imputed labour is calculated at \$30.33 per hour, with the average imputed labour cost per farm in NSW being \$143,789 or 99 hours per week for a 48 week year. The cash cost of production includes paid labour. Mr Russell's evidence included that imputed labour was approximately \$50,000 per family labour unit. The figure is in fact closer to \$72,000.

2. *The water market is slowly getting more transparent; buyers and sellers are knowing what each other are up to. It is getting better. Should this Committee be making any comment about the transparency of that market? I am thinking about a dairy farmer in the lower Hunter knowing pretty quickly day by day if there are opportunities in the spot market or wherever it might be, how the market is in the supply—shortfall, oversupply—situation? Are there any blockages or impediments there?*

A key difference between the milk market and the market for irrigation water is that milk production is committed in supply agreements and needs to be collected from the farm every second day at the outside, with daily pick-up the norm. A dairy farmer does not have a surplus of milk that can be accumulated and sold into a spot market, in the way surplus irrigation water can. A dairy farmer is not able to take advantage of short term movements in the spot market for dairy products.

The discussion was about milk market dynamics and the impact on farm gate price of the fact that Australian milk production exceeds domestic consumption. This situation has arisen because the dairy industry has actively pursued export markets and milk production and processing capacity has grown to satisfy those expanded markets.

The consequence is that a shortage of supply in northern regions (identified in Mr McNamara's evidence) can be met by transporting milk from other regions and the cost of

doing so is largely a function of the price received in the south for milk that exceeds domestic consumption (i.e. the export price) and the cost of transporting the milk north. It is not a perfect relationship but is the basis by which the global dairy price is the predominant influence on farm gate prices in NSW, as identified by the Australian Competition and Consumer Commission (ACCC).

A global surplus in dairy production drives down the export price for Australian dairy products. This in turn places downward pressure on farm gate prices in regions supplying the export market, which in turn reduces the cost of supplying southern milk into northern markets; effectively constraining farm gate prices in the north.

Nevertheless, an increase in transparency regarding the farm gate price in each region will improve dairy farmers' ability to negotiate a fair price with processors. We note that recommendation 7 in the ACCC's report into the Dairy Industry was: *Processors should publish information identifying how their pricing offers apply to individual farm production characteristics to enable better farm income forecasts.this will improve transparency of pricing, allow farmers to make better comparisons of processors' milk supply terms and enhance competition.*

NSW DPI supports this recommendation.