

December 12, 2020

## NSW UPPER HOUSE COMMITTEE DAIRY HEARING – ANSWER TO QUESTION ON NOTICE

### MILK TO FEED PRICE RATIO

There has been much debate in the dairy sector recently about the need for farmgate milk price increases due to the increases in farm inputs or the cost of production. Importantly, for these price increases to be sustainable, milk processors need to be able to justify wholesale price increases to retailers. There are constraints imposed on the industry with national pricing policies of the large retailers.

Various advocacy groups have suggested using, for example, averages generated by the Dairy Australia Regional Development Programs (RDP) annual Farm Monitor results as a representation for cost of production. Clearly these programs are very valuable in measuring individual farm performance retrospectively in a standard manner enabling benchmarking. However, as a representation for a whole region they have shortcomings including that:

- These programs are participated in **voluntarily** by farmers who provide **unaudited** data
- The data typically represents relatively **small proportions** of the total dairy production in a region.
- The figures are necessarily **retrospective** and do not reflect current costs.

DFMC believe that the establishment of a cost of production index like the long used North American **Milk to Feed Price Ratio** administered the United States Department of Agriculture (USDA) would be more credible and therefore valuable to the whole supply chain – farmers, processors and retailers.

The milk to feed ratio is the milk price divided by the feed index, which is the cost of a representative feed. The methodology uses an agreed proportion of major raw feed component prices published by USDA's National Agricultural Statistics Service (NASS).

A region by region index could be developed for the Australian dairy sector that could incorporate readily available information on, for example, a specified grade of grain and fertiliser ex-port, water prices (where applicable), electricity and labour. Tracked over time they provide a current picture of costs that is independent of individual farmer decisions on inputs and farming systems.

For more detail on the US Milk-to-Feed Price Ratio see:

<https://extension.psu.edu/dairy-risk-management-education-tracking-milk-prices-and-feed-costs>

**Understanding the milk-to-feed price ratio as a proxy for dairy farm profitability**, C.A. Wolf, Department of Agricultural, Food, and Resource Economics, Michigan State University, East Lansing published in the American Dairy Science Association, 2010

In relation to questions on notice:

1. Federal Senate inquiry into the Dairy Industry and specifically the report due date. Please see below link and screenshot confirming an extension has been granted until 11 February 2021.

[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Rural\\_and\\_Regional\\_Affairs\\_and\\_Transport/DairyIndustry](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/DairyIndustry)

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## Performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000

On 17 October 2019, the following matter was referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report by **25 March 2020**.

On 26 February, the Senate granted an extension of time to report until **25 June 2020**.

On 15 May 2020, the Senate granted a further extension of time to report until **19 August 2020**.

On 20 July 2020, the Senate granted a further extension of time to report until **15 September 2020**.

On 20 August, the Senate granted a further extension of time to report until **12 November 2020**.

On 30 September 2020, the Senate granted a further extension of time to report until **11 February 2021**

Submissions closed on **29 November 2019**.

The performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000, with

### About this inquiry

An inquiry into the performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000.

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Track Inquiry

### Past Public Hearings

**15 Sep 2020:**  
**23 Jul 2020:** Brisbane  
**19 Jun 2020:**