Submission
No 8

INQUIRY INTO SUSTAINABILITY OF THE DAIRY INDUSTRY IN NEW SOUTH WALES

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Portfolio Committee No.5 – Industry and Transport

The Hon Robert Brown MLC & Portfolio Committee,

Schofield Holsteins wish to make a submission for the Inquiry into the sustainability of the dairy industry in New South Wales.

Background on Our Farming Organisation

We are a multi-generational dairy farm milking 300 cows annually in the Southern Highlands supplying fresh milk to Parmalat Australia.

Schofield Holsteins as an organisation has at least 50 business stakeholders and their associated families that rely on the existence of this farm.

We have firsthand experience of an industry that's now in significant turmoil and decline, over the last two years our annual milk production has reduced some 400,000 litres, our milking cow numbers have been decimated by 90 head and we've needed to increase borrowings by $200,000 just to try and survive.

In an effort to try and find options to continue we recently had a business review and planning meeting and identified three options.

1. Sell up and do nothing
2. Cease dairying for a year
3. Refinance to carry debt

Ultimately we decided to refinance as this allows us to remain in business and therefore continue to support all those 50 other businesses and their families. The industry is in a critical stage where we need to retain as many viable stakeholders as possible to ensure communities remain intact in our region.

Over the last 12 months we have experienced significant increases in fodder costs & farm expenses

- wheat price was delivered at $245 per tonne last year to now just over $500 delivered on farm.
- hay costs were $240 per tonne delivered for oaten hay to now $490 a tonne delivered on farm.
- Straw costs were at $100 a tonne to now $220 delivered on farm (if supply can even be found).
- electricity costs have increased on average $300 per month even though actual electricity usage has decreased over this period.

- fuel cost have increased on average $2000 a month over the last 4-5 months, it was originally $1.20 per litre and is now about $1.69 per litre.

All of these are necessary inputs to maintain our dairy operation.

In terms of income received our average milk price has declined from $0.55 cents per litre some three years ago now down to $0.52 cents per litre at present.

External Influences

Ultimately the sustainability of our business can't be maintained whilst the cost of production is consistently above the prices received for milk produced. We are exposed to an ever changing landscape of industry pressures including:

- The average age of the NSW dairy farmer has increased to approximately 60 years old
- We can't attract investment and younger farmers into the industry
- We can't communicate with the processor
- We can't communicate with the retailer
- We can't communicate with the consumer
- Ever increasing costs of employing staff and contactors
- Continuing restriction of terms of trade, every tradesman we contract has the ability to pass along their price increases to ourselves and we continue to absorb these costs
- The last 18 months have been severe, drought conditions have intensified throughout the region as rainfall was scarce.

This has all brought forward the stress and compounded our terms of trade significantly.

The Supply Chain

Our milk processor, Parmalat, designs their milk price based on the world market, we are however in a fresh milk market in NSW and the fresh milk market is in fact the most profitable supply option for the processor.

The milk processor issues us with a "take it or leave it price" offer, seasonal base price with incentives. Our yearly average of supply will be 0.52.2cents/ltr. At the moment Parmalat are not offering above this price although they claim their are suffering milk shortages.

Spring base prices have been LOWERED

- Sept. price 41.40 Cents/ltr base
- Aug. price 45.50 cents/ltr base

These prices have impacted the dairy farm currently experiencing the worst recorded drought in NSW.

The Retailer

Woolworths & Coles set the bench mark, selling milk from a $1 a litre for home branded up to $3.20 for 2 litres Pauls milk (processor) consumer price which equals $1.60 per litre.

We don't know what the distribution of cost and profit is between the

- freight company

- milk processor,
- retailer.

Deregulation

Deregulation was supposed to create an open and level playing field to enable competition for milk amongst processors and therefore set in motion a relationship between supply and demand whereby prices would increase in line with demand and cost of production. It is obvious that deregulation simply hasn't delivered anything near this.

Since deregulation the processor has signed contracts with retailers, excluding farmers input.

$1 Litre milk

Since Australia Day 2011 when the fixed price of $1/ltr was announced by Coles we have seen a consistently depressed milk income. It would appear that two or three individual organisations within the milk processing and retail industry have effectively managed to fix prices and erode farmer's profitability.

Cole's seems to have no real comprehension of the pressure their 'loss leading' strategy on milk pricing has had on the viability of an entire industry. They don't realize that for every extra $1/ltr milk they sell it comes at the expense of the higher priced branded products - and what does this mean? The value of the entire industry comes down, meaning less revenue for processors to pass along to us farmers.

A response from Parmalat on our multiple requests for a price increase through them requesting increase from their retailer Woolworths was simply that "they can't as they are scared to lose shelf space".

Coles have indicated that they aren't interested in responding to farmer's concerns around increased costs of production and surviving the current drought as they are solely focussed on building their own profitability for their share restructure.

It concerns me that for example a café can buy milk for $1/ltr and upsell by turning it into more than $35/ltr for a coffees yet we as farmers carry all the risk yet receive little to no reward.

It seems unfair that many supermarket products can increase their individual profits on lines by decreasing the size or weight of the product or simply increasing their retail price whilst we in the dairy industry can't.

Policies & Government

We need the Government to intervene in the dairy industry with,

- Milk price commission
- Legislation or
- Royal commission

It appears that policies and set pricing have been made by people who have little or no knowledge of the dairy industry, what it costs to produce, the time, energy and emotion invested by us.

In hindsight it would appear that one retailer (Coles) reducing milk to $1/ltr has contributed to the bolstering their own record profits has simply seen farmers own profits continuously decline.

Pre-deregulation Schofield Holsteins could grow their herd from 40 head to 360-400 head and make a profitable return knowing what each component of milk pricing was. Deregulation was an attempt by Victorian farmers (Processors) to access our NSW fresh milk market.

Concerns are, how processors negotiates contracts with the retailer, without first negotiating, communicating a price, with the farmer carrying the costs and risks involved with the production.

I'm a proud intergenerational farmer though I struggle to talk with my children and their children about the lack of profit to be made within this business. How could I possibly hand on this business to the next generation knowing the difficulties we've been facing? There is simply no money available to pay my son's a real wage in the business let alone profits available to even think about succession within the family.

Without significant change within the dairy supply chain and rebalancing of risk and reward there simply is no future for a family farm to continue on.

Regards
Gregory P Schofield
Schofield Holsteins