

**INQUIRY INTO SUSTAINABILITY OF THE DAIRY  
INDUSTRY IN NEW SOUTH WALES**

**Organisation:** Norco Co-operative Limited

**Date Received:** 5 November 2018

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Partially  
Confidential

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**NORCO CO-OPERATIVE LIMITED ARBN 009 717 417**

***Submission to the  
Senate Portfolio Committee No.5 – Industry and Transport***

***Inquiry into the sustainability of the dairy industry in New  
South Wales***

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Upper House Committees  
Legislative Council  
Parliament of New South Wales  
Macquarie Street  
SYDNEY NSW 2000

By e-mail: [portfoliocommittee5@parliament.nsw.gov.au](mailto:portfoliocommittee5@parliament.nsw.gov.au)

Dear Senators,

**SUBMISSION TO THE SENATE Portfolio Committee No.5 – Industry and Transport – INQUIRY into the sustainability of the dairy industry in New South Wales**

Norco Co-operative Limited (Norco) welcomes the opportunity to make a submission to the Portfolio Committee No.5 – Industry and Transport inquiry into the N.S.W. dairy industry.

Norco is a dairy Co-operative based in northern New South Wales and south east Queensland with its Head Office located in Lismore NSW. We are proud to be able to say that we are a 100% farmer owned dairy co-operative that has been in business since 1895. Norco has 315 active members on 200 farms supplying fresh milk to the Co-operative 365 days a year. Our farms are spread from Kenilworth QLD in the north, west to Toowoomba QLD and down along the coastal fringe to Taree and Gloucester NSW in the south.

**(a) The nature of, and relationship within, the value chain between farmers, processors, logistics companies and retailers and their respective influence on price;**

Norco processes our members' milk primarily for the fresh drinking milk market in northern NSW and Queensland with milk factories in Labrador on the Queensland Gold Coast and Raleigh in NSW (just south of Coffs Harbour).

Norco strives to maximise the returns of our members by maximising the return for every litre of milk supplied to the Co-operative. This entails significant relationships across the full supply chain including our member farmers, logistic companies (both

incoming and outgoing), retailers and our end customers who purchase our products.

It is important to note that Norco can only influence the finished product price of goods sold to customers. These prices are market driven. Norco has contributed to other dairy industry enquiries such as the ACCC Dairy Inquiry, and we refer the Committee to those findings.

Costs associated with logistics companies reflect mutual negotiations and contractual commercial arrangements. Freight cost impacts are varied however distance to factory, freight efficiencies and fuel do have an ongoing impact on these costs for the Co-operative.

Norco also has interests in other businesses that can benefit our members. We have a highly successful Ice Cream Business Unit based in Lismore that allows us to process excess milk not needed for the drinking market into value added ice cream products. In fact Norco is the largest contract manufacturer of ice cream products in Australia with a throughput of 55m litres per annum.

Our Norco Rural / Agribusiness division is integral in its contribution to the overall success of the Co-operative as a commercially driven business with more than 30 rural stores and two stock feed mills. Our members can purchase their farming inputs from this division and obtain patronage rewards to improve their overall returns. Members' share capital for the last three financial years has attracted a dividend of six (6) percent.

Norco's primary concern is to maximise the farm gate returns of our members because unlike non-co-operative structured dairy processors, we do not have to satisfy the needs of external shareholders who do not have a vested interest in the dairy industry. We must, of course, be cautious not to maximise farm gate returns to a level that puts the Co-operative itself under financial burden. We must ensure the Co-operative's financial performance is commensurate to the returns we pay our members as we must plan for reinvestment in the business to ensure the Co-operative remains competitive within the markets we operate in.

**(b) The impact of external influences on the dairy industry, including but not limited to drought, water, energy, and price-setting;**

Like any agribusiness in Australia, the NSW dairy industry has many external challenges that test the resolve and sustainability of the value chain in providing high quality product to consumers.

There is no doubt that the recent external influences have had a detrimental impact on farmer and processor returns. The extended drought conditions have materially increased the cost to produce milk with ongoing historically high feed cost inputs.

Norco has reacted immediately to this situation and has increased the farm gate milk price by five (5) cents per litre for September and October 2018. Norco will continue to review the ongoing conditions and farm gate price however, despite forecasts of high feed costs continuing well into 2019, Norco must also balance the business requirement to reflect proper commercial outcomes that benefit the Co-operative members as a whole.

Ongoing increases to energy costs are also a significant factor for the Co-operative, through electricity and gas requirements for the factories and store outlets. Norco is pro-active in managing these costs through partnerships that seek funding for projects to maximise efficiencies and internally invest in technology to minimise energy costs. This activity also looks at the energy efficiencies and technology at the farm level.

**(c) The impact of previous policies, in particular, the deregulation of the dairy industry;**

It is Norco's view that deregulation of the dairy industry was inevitable and reflective of the Federal Government moving to a market driven economy.

We believe that as a strong regional Co-operative, we have a significant role to play in ensuring that all dairy farmers (whether they supply milk to Norco or another processor) continue to receive a fair return for their milk. It was not so many years ago that Norco was not seen as a major player in the northern dairy industry. However, with the corporatisation of some other processors within the industry which led to them turning their attention away from their dairy farmers in favour of satisfying their shareholders, Norco is now seen as a real alternative and an attractive proposition for many dairy farmers. If Norco was not a major dairy processor in the northern Australian market, the farm gate milk price in our region might not be what it is today.

Norco's co-operative structure has been instrumental in allowing us to win major retail contracts as the retailers want to align themselves with member owned processors now that there is much more scrutiny placed on them by consumers, however the price which retailers sell milk for is something that we cannot comment on, nor influence. The only consideration for Norco is to ensure that any contract we tender for is at a price that provides a benefit to our members in terms of assisting to maintain or uplift their milk price.

Policy settings by government can have significant impacts on Norco's members whether the policies reflect wider market dynamics or defined policies such as how a freight subsidy is calculated. It is important that government, industry representatives and dairy commercial businesses work towards ensuring that the targeted benefits that can be a result of government policies, are in fact being a benefit to dairy farmers.

**(d) The role of government in addressing key economic challenges to the industry.**

Norco is of the view that government can have a significant role in providing support for economic challenges that the Co-operative and dairy farmers as a whole face, whether it be in exceptional circumstances such as the current drought, or ongoing policy settings that support the growth of the industry.

In recent times, we have seen a reduction in support funding through the Department of Primary Industries, Local Land Services and general industry support of research and development and extension services. While farm gate pricing in non-exceptional circumstances could be considered largely sustainable, cost of production increases

over time, do not foster an environment of increased investment or practices on farm to increase efficiencies to offset these increases. These organisations play a significant role in the research and the communication of beneficial developments to dairy farmers and the continued decline in funding provides less of an opportunity for industry development and sustainability.

The benefits that increased investment from co-operative members would provide include:

- The ability to access new technology that may assist in improved efficiencies.
- Improved competitiveness allowing for greater market access.
- Access to markets that may attract higher margins.
- Improved farm gate returns for our members.
- Opportunity for members to increase their farming operations to take advantage of new market access.
- Improved employment opportunities in regional communities.

Norco considers itself to have a deep involvement in the regional communities that our dairy farmers farm in and in the manufacturing facilities we operate at Labrador, Lismore and Raleigh as well as the 30 rural retail sites and two stock feed manufacturing mills, in all employing more than 820 people. Norco's presence in these communities adds significantly to the viability of these communities and whilst it is hard to estimate the net benefit Norco and the dairy industry bring to these communities, what we do know is that in most instances if the dairy industry ceased and the factories closed, many of the 820 employees would have to consider relocating to areas that provide better employment prospects or seek welfare payments.

Creating a stable environment for our members to operate within is a key component in ensuring future generations consider dairying as a career option. Our experience has shown that when farmers exit dairying when financial circumstances are perilous, whether that be climatic pressures or input cost driven, few return to the dairy industry.

This is the priority issue for the industry as without sustainable dairy farmers, the loss and breakdown of the industry is a threat to the supply of fresh milk 365 days per year.

Yours sincerely  
**NORCO CO-OPERATIVE LIMITED**

**GREG McNAMARA**  
Chairman