

**Submission
No 17**

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

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**SUBMISSION TO PORTFOLIO COMMITTEE NO. 5 INQUIRY
INTO THE SUSTAINABILITY OF THE DAIRY INDUSTRY IN NSW**

I am a dairy farmer (owner/operator for 24 years) and a qualified Dairy Consultant having worked as a Dairy Livestock Officer for NSW Agriculture from 1981-1997.

I represent the Manning Valley Fresh group supplying direct to Woolworths and I am chair of the Taree Collective Bargaining group.

I was also a member of the NSW Dairy Farmers' Association before and during de-regulation.

De-regulation and the 6 years following set the NSW Dairy Industry back 20 years.

Processors clambered for supermarket contracts at any price to get the business then literally halved the farm gate price in their wake.

The loss of any bargaining power to farmers meant something had to be done.

The Taree Collective Bargaining group was one the of the first Collective Bargaining Group's formed in Australia under the broad approval through Australian Dairy Farmers. secured from ACCC.

For 8 years our committee bargained and begged processors mainly National Foods then, for mediocre price rises of half cents and little more.

In 2008, a so called milk shortage saw our biggest gain ever, a rise of 7 cents a litre. This was like, finally after 8 years of bargaining we have a fair price.

Then a couple of years later National Foods purchased Dairy Farmers and the Co-op mentality was no more.

Suddenly National Foods said farmers were producing too much milk for their needs and we were forced to take a major price cut. Initially this was 13 cents/litre however we managed to nearly halve it but this was devastating for many.

Since then the price has moved very little while input costs, fuel, fertiliser, electricity and grain has increased markedly

And then came \$1/ litre milk.

Around this time National Foods introduced 2 tier pricing, and with Parmalat Australia keen to contract supply, they saw the Taree Collective Bargaining Group as a quick way of securing approximately 70 million litres.

At a farmer meeting, a price was negotiated and 95% of farmers signed a contract with Parmalat.

Several months later after securing the NSW Woolworths contract Parmalat dropped the price paid to its suppliers despite earlier promises made of no reductions. Attempts by Taree Collective Bargaining Group committee to address the concerns were ignored.

This highlights my main point that although Collective Bargaining Groups are authorised by ACCC, unless the processor is prepared to talk, the Collective Bargaining Group has no power to force them to the table.

It was this stone walling that triggered my complaint to Woolworths and ACCC.

I wrote to all directors asking if they were aware that Parmalat secured a contract then dropped the price to farmers.

ACCC did nothing although they interviewed me, not enough evidence, yet it was fact the contract for \$1 milk dropped the price at the farmgate.

After 2 years of negotiating, a small break-off group of the Taree Collective Bargaining Group signed direct supply contracts with Woolworths to supply Farmers' Own brand.

The Manning Valley Fresh group receive a 4 cent/litre provenance premium, providing strict guidelines are met.

During this time one of the ways processors supply their large contracts is by wholesale milk.

Murray Goulburn was one of the largest suppliers of wholesale milk. A processor can call an agent, order a truck load and have it delivered to the door.

This availability of large quantities of milk at a phone call has also put a floor in the milk price eg. nearly half of the NSW Woolworths contract came from Murray Goulburn supply.

This also meant the importance of having direct farm supply to a processor was minimised, again eroding the power of the farmer to negotiate.

The pressure on farm gate price has always been there but it seems never to the extent it is now.

The average cost per litre varies dramatically between farms but I know good managers battle to keep it around 49 cents per litre, before recent drought affected commodity prices.

With grain up 50%-60%, hay up 40%-50% as well as fuel, electricity and other costs I believe many will see a cost price shift of 8-10 cents per litre putting the average manager in the red.

The reason farmers keep going is because it is what they know, keep working it will get better but that won't work anymore.

The drought is not the issue, the \$1 milk is not the issue, the cost of production has exceeded the return. The drought has merely highlighted the plight farmers are in.

We need a major shift in the base price paid at the farm gate.

This could be simple if farmers could simply set their price, sit down and explain to processors the fair thing. The processors could go to the supermarkets and ask for more, not a drought levy, a firm permanent lift in farm gate price.

However the will to communicate is not there. I believe it is written into their supermarket contracts that they can seek a rise if the price is not sustainable for farmers.

So what can the government do. I don't believe it is up to the government to set the price, however a price must be set.

It is the governments responsibility to ensure we have a dairy industry in the future, in fact an agricultural industry in the future.

Many current farmers are now in their sixties and there is an acute lack of young drivers in the industry.

We could look at incentives, grants, interest rate subsidies but the reality is an 8-10 cent lift in the milk price will solve 90% of the problems.

So if the drought levy was permanent on all milk and transferred totally to the farmer we would fix the problem, however we don't want a levy we want a fair rise in pay.

How do we achieve this rise in pay when the supermarkets blame the processors and the processors blame the supermarkets.

The farmers direct call needs to be on the processors, so can government help to bring them to the table. Can we give Collective Bargaining Group's more power? Can government put more pressure on supermarkets and processors to discuss the effects of these contracts and direct impacts on farmers.

After all regardless of the excuses and shift of blame it is the farmer who has to take the last price left, the price takers!

I would love to be at a meeting with supermarket buyers, processor decision makers and leading dairy farmers possibly chaired by government.

If people were honest and cared about the result it could be an amazing meeting.

I am always available to serve the dairy industry and keen to contribute, I am happy to answer further questions or clarify my opinions.

Yours faithfully