

**Submission
No 21**

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

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OPENING STATEMENT

Members of the Legislative Council

My name is Tim Cochrane. I am a dairy farmer and one of three brothers dairying in the Shoalhaven, at Terara, Wogamia and Pyree.

As 6th generation Dairy Farmers since the mid 1800s, our family has increased milk production, improved productivity and quality components, farmed economically with great efficiency, embraced technology for minimum till and ecologically sound pasture management and fuel efficiency and soil health and water conservation, expanded geographically, enacted a pro-active farm succession plan and provided employment for employees and not just family members. Solid business practice combined with a wide technical and academic and experiential skill base has enabled this expansion. As a family group we provide employment for 12 family units. **We run an efficient and robust business.**

We produce milk, a healthy multi-component **food**, regulated by and fulfilling the requirements of the NSW Safe Foods Act among many other legislative requirements but are being paid at a **commodity price**. The farm gate price of 50-53c/litre is the same as the price paid in 2011. But the cost of production has increased along with the CPI and inflation which includes wages, fuel and energy costs and is exacerbated by increased fodder costs and less fodder availability due to the current drought.

INDUSTRY ISSUES

Milk Price Issues:

- The price at farm gate compared to cost of production continues to put pressure on the business cash flow, thereby challenging the continued employment of non-family members, Examples of 63c/litre for production costs compared to 50-53c/litre payment for whole milk is an untenable situation. It cannot be maintained long term with such a negative P&L situation.
- It appears that there is an **artificial ceiling** in the milk price at the supermarket level with the \$1/litre milk pricing. (not a floor price – but an artificial ceiling) This came into being 26 January 2011. There has been 7 years of the flow-on effects of this low price due to negotiations between supermarkets and milk companies (the processors)
- Tier 2 milk saw ½ of our milk being paid at 13c/litre prior to ²⁰¹¹2009 for 5 months. This was an extremely difficult time for us when previously the spring price (when there is great supply) was 35c/litre. It created an unfair and unbalanced market situation.
- When **Parmalat** and **Murray Goulburn** first won contracts in NSW, they did not have any litres of milk to sell in NSW. WE chose to supply Parmalat but the story was similar to others' – that we were offered an attractive price and since then the price has decreased.
- From a producer's point of view, it appears that in the setting up of processing costs with the supermarkets, there is an over-representaion of middle management who receive commissions for KPIs/goals/targets for selling more milk at a lower margin and thus farmers end up with a worse deal.

EXTERNAL ISSUES:

- All the **support businesses** to the dairy farm include accountancy, banking, fodder suppliers, machinery maintenance and replacement **increase their costs** as the CPI and inflation occurs but we, as **dairy farmers are not able to negotiate** according to costs of supply and demand and certainly we **do not have any bargaining tools mid-contract**.
- **Federal Policies of Free Trade agreements** have had a negative impact. It is claimed that we should trade on a 'level playing field' but some imports are dumped on our markets under the cost of production even in their own country. For example Domino's have imported *allegedly* cheese at the equivalent of \$4/kg compared to Bega Cheese \$8-\$10/kg – how can this be sustained? This could be a Federal Govt issue.
- **NSW Political and Legislative** decision to de-regulate the dairy industry in 2000 caused our family pressure to consolidate and expand to become more viable through economy of scale BUT WE SURVIVED . We have followed a trend of expanding to spread the costs. Amongst the family we share various seasonal equipment and have made choices to employ contractors for specialist pasture production/crop growing.
- **Marketing of other products:** Why is the cost of bottled water higher than the cost of milk? This eventually leads to the devaluation of the land and cows used to produce milk! Dairy farmers are end users of, for example, wheat, other grains. Bakers and brewers are able to pass on the price rise when their raw product – wheat or other grain – has a price rise (supply and demand) but dairy farmers are still unable to pass on a component price rise.
- **Drought** is an inevitable cyclic impact on the dairy industry. We prepare for such an occurrence by growing and storing fodder for 'that non-rainy day'. Use of irrigation is efficient, pre-planned, more expensive but predictable. This particular drought has impacted those on the coast because normally bought-in fodder from west of the dividing range would have to have been pre-ordered and pre-booked/ paid. Such contracts have been fulfilled and newer seasonal contracts will reflect the upward market costs. When such contracts were organised and both sides acted honourably, there was minimal rise in price /T. But many of our colleagues and acquaintances have been paying a premium price rise (this is supply and demand) but dairy farmers had been unable to pass on any price rise. We recognise the **substantial and generous community support** with charities such as 'buy a bale'. Charities have paid the increasing demanded price for available fodder which has consequently makes it more expensive for a farmer to compete with a raised price.
- There has been an over-representation of **dairy farmers selling up**. Poor decisions and timing by Murray Goulburn saw many leave the industry, which had a flow-on effect of lower cattle prices on an over-supplied market. And Rural Counsellors state anecdotally the **rise in mental health issues** – mainly **depression**. The \$1/litre has had a negative impact on the sustainability of the production of milk.

NOTE:

- We, the Dairy Farmers produce a **food** by using **Commodities**. The cost of Commodities can rise and fall and find the stable price for the product. Dairy farmers should be able to bargain mid- contract time to re-negotiate price rise for farm-gate milk.
- **Water** – we have invested in farm irrigation – a forward thinking plan when the Shoalhaven City Council offered tertiary treated waste water for farm use 15 years ago.

- **Energy** – investment in solar production enables an agreed rate of account payment - a stable, discounted payment – we have already invested in this use of technology.
- **Fuel** – we are in no different position to any other fuel user.
- **Paperwork for Drought relief** – what a painful process! Easy for the sole trader but too complicated for our family as a whole because of our inter-related legal set-up. **It is not pride but a realistic understanding of drought** - we can accept some hand-outs but not so high or systemic hand-outs that mask the unviability of some operators.
- **Transport subsidies –THIS IS A STATE ISSUE** just note this ludicrous situation! The 50% transport subsidy to cart 32T pellets from the Manildra site in the Shoalhaven to a farm in the Shoalhaven cost which included waiting time for the transport company but not distance covered (\$60)... as compared with a 32T load of hay from Grenfell(\$1500)... EXACT FIGURES TO FOLLOW

History: We run an efficient family farming enterprise, were recognised in 1990 as leaders in Primary Production – Agriculture with a NSW Small Business Award. When my father was young the sale of milk was measured in cans – the equivalent of 165 000litres annually(1968) and today as reliable producers of milk our family group produced over 11 million litres in 2017. My mother was the Illawarra winner of the ABC Rural Woman of the Year in 1997 and is proud of the fact that she has personally lowered the average age of dairy farmers in NSW/Australia.

Multi-skilled: Among the family group we have a wide range of skill set – TAFE qualifications Diesel mechanics, Dairy Farming, Electrical, Real Estate, Auctioneering and Small Business Management, Diplomas in Agriculture, Genetics and breeding skills, book-keeping skills, cattle judging skills and higher degrees as well as diploma in Leadership and Management. Members of the family have been chosen for interstate and international agricultural exchange awards , Federal President of the Illawarra Cattle Breed Society as well as having 3 on the Federal Council at present. Members are active in the Royal Agricultural Society of NSW (Sydney Show), one is the President of the Nowra Show Society, members of Schools Parents and Citizens Associations – in fact a community minded and competent contribution to the local area.