

**Submission
No 25**

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

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Inquiry into the sustainability in the dairy industry N.S.W.

The Hon Robert Brown MLC
Chair
Portfolio Committee No.5. - Industry and Transport
Parliament House

Evan William Hayes

To whom this May concern,

Thank you Hon Robert Brown and members of the panel for asking NSW Dairy Farmers input into this inquiry.

Thank you for allowing me to speak at the inquiry held at MossVale ,Monday 12th November 2018.

My Name is Evan William Hayes, Dairy farmer based in Avoca located outside Moss-Vale N.S.W. A family run farming business along with My Brother , Father, Wife and eldest Son running 260 milking herd + dry herd , heifers and dairy beef.

The farm has been in the family since 1912 supplying high quality milk . Our milking area of 98 ha along with fodder and weaned rearing area of 111 ha. We currently lease a further 160 ha for dry cows and matings heifers along with Dairy beef.

Our production has increased from 1.3 million litres to 2.7 million litres in recent years.

Over the years our operation has changed with the requirements from industry, government and public's needs for clean high quality cost efficient products that can give us a return on our work and investment in the industry.

We have grown from a 60 cow farm to 400 Milkers however, in recent years had to reduce milking numbers due to the current drought.

We have always had a positive outlook on the industry for a future for our children on this farm. We have always been willing to change or adapt with countless challenges. Our view is to get paid the most for every litre of milk -not just sending alot of milk . We have focused on supplying the highest quality with high components to achieve a sustainable return.

Over the years our fixed costs within the business i.e Power ,Fuel, land rates, cost of labour ,necessary maintenance and repairs have increased and taken the profit away. In return having a negative impact onto the business,not allowing profit to stay within the business to save from the volatile industry and or being effected by drought .

We supply DFMC (Dairy Farmers milk co op). Being part of a large pool of milk allows DFMC to negotiate prices and conditions with the backing of arbitration if needed.DFMC offers a flat pay rate with options of 5 year contract also giving a minimum price, Giving our business the security we need.

Milk price has remained flat and reduce in recent years .

In general we haven't been able to correct the increases on fixed costs and just had to exsorb this by milking more cows and push the farm to its limits.

We have installed solar power to reduce costs for the on going electricity costs, but still it's a 5 year investment to receive the return, within this time the price on electricity still rising.

Our farm has been subjected to hard times.

Our property is a dry land farm ,(meaning no irrigation infrastructure)with the on set of this drought our on farm fodder was reduced and the reliance on the bought in fodder market ,this putting more pressure onto the business.

We however, have been able to lock in grain from our grain merchant but as the drought worsened it forced us to increase the amount that we were feeding to replace the lack of pasture available to help maintain milk production and income . As the year ,2018 progressed milk production dropped and more fodder was bought. The business was in the position to sell older cows to make up the difference in income from milk production to cover costs. A budget was formulate to continue picking up the short falls, working out increased feed costs with the price increasing weekly. Currently we are still paying off feed that was used from our hay/silage supplier.

We have formulated a budget with our nutritionist Jim Wade (Aus farm) to help maximise a return over feed costs however, with fodder prices on the rise it has made it harder to gain any return.(we still have a carry on debit on hay/silage . Still currently paying off. as stated above.)

At the end of the financial year (2017-2018)we made a small profit but caring the previous years loss (2016-2017) We are already running at a loss.We have had to extend our finances to ease the pressure on the budgets .

Yes ,we have had much welcomed rain in return allowing the farm to stop feeding and spin out what fodder we have in reserve.

As costs increase on current land prices it doesn't allow our business to grow as well as drought proofing our farm thus will make it harder for any return. Lack of return on current down turn has given us at Hayes family farms to make the decision to relocate to Victoria . Selling our two properties in the southern highlands to relocate gives us security with drought proof property as with the ability to expand for a brighter future as we'll reduce financial pressures .

In N.S.W. Cost of production has increased annually costing our business 64 cents per litre when we are paid 54 cents per litre. A short fall of 10 cents .

The problem with the industry from were I sit is :

*There is not enough money in the supply chain for the liquid milk market.

* The export market has too much milk and prices are turbulent.

*The Domestic market is weak and unsustainable in its current state.

* lack of control on exports however, having the ability to control the domestic milk market.

* imported goods like cheese and other dairy products that have been outsourced by other countries pay farmers subsidies in return placing on Australian shelves cheaper than cost per production.

* Lack of leadership from the industries leaders not allowing unity within the industry giving lack of guidance and the ability to have a bright future for the dairy industry.

*As monies has exited from industries supply chain has in return had a negative down turn on money spent on advertisement on our products reducing the sales on branded milk.

*As the industry was deregulated in 2000 it seems to be now regulated by the Supermarkets. They have power over the industry.

With thus said we cannot control exports , but have the ability to control the domestic market.If the Domestic market was strong the fall of Murray Goulburn would of been cushioned and the Domestic market May have ex sorbed it .

May I add the Dairy Industry is beyond critical . It has had too many inquiries and discussions regarding what actions should be put in place to make our industry viable , We are at the point of much needed action to save what is left of this Industry. I believe the dairy industry is one of the industries that offers Nutrition and Healthy food to the Generations of Australians and the World .This Industry supports rural economy's with jobs through out the supply chain as well as supporting industries.

The question is does NSW Government want to save this industry ? as 80% of the public is willing to support local fresh Milk that is supplied by Australian farmers.

As Supermarkets have started this pricing attack bringing its home-brands at \$1 to attract costumers in to buy more within the store. The ACCC stated that the supermarkets have no connection to farm gate price .This is a problem as the supermarket chains set the shelf price giving the market to manoeuvre around this to make money along with competition against the same milk within the processors Brands which is where they make money off .

Before \$1 litre the market share between the market on the shelf was 50-50 percent after the \$1 milk the home brands moved the market share to 66-70% of milk sold in supermarkets. The Introduction of A2 and plant based products have gain market share and thus in return taken away from processors brands.This reflected in millions of dollars in money taken out of the supply chain and put into the supermarkets profit. The problem with this is the money has not gone into the rural economy through better prices that could of been paid to farmers.

A2 milk is a prime example of what can happen when the supermarkets do not have a home brands on their shelves . A2 has gain 16% of market share giving great returns to the supply chain! A great market strategy to gain more market share.

*Since \$1/litre was introduced the reduction on advertisement has had a down would response towards branded milk. It's important to advertise this high quality product but crucial to promote the real health benefits on dairy based products to compete against the plant base products available on supermarket shelves today.

There is no new factories being built with in NSW as there are in Victoria and this to me is a indication that the milk industry will be more focused in Victoria even more then at present .

Recommendation

* I believe if supermarkets can't be trusted to set a sustainable price for their home brands to allow market competition on the shelves it should NOT be allowed to have any home brands on Milk or dairy products ,this may be extended to all Agricultural production.

*Supermarkets have no connnetion between farmers and thus makes for vulnerability in the supply chain. If there is only Processor Brands with more than two processors in the market, competition

should set the price in the supply chain .Deregulation was intended to allow the market to set prices with supply and demand in a Free Market .With \$1 litre is not allowing this to happen .

*With all processors manufacturing costs would be profitable over all the milk brands sold on the shelf and in return put more money back into the supply chain offering a flowing effect to the farmers.

*A strong Industry is one that the whole supply chain makes money and able to reinvest into its industry. A return of money taken out by this milk war, Supermarkets still can make money off processors Brands actually allowing the supermarket gaining more on their return.

*We need to start adding value back into milk industry .

The customer may pay more for a high quality product however, if the processors profit are spread equally over all milk sold their brands would come back to were the actual market should be.This would give them the security that their milk product will be fresh not powdered and on the shelf all year around.

* A independent aberrater could be assigned to over look the percentages of the supply chain to protect against unfair advantage in the chain.
Compulsory code of conduct was recommended by the ACCC to take the imbalance between farmer and processors but still does not add value to the supply chain .Introduction of this policy needs to be from farm to shelf .

In Conclusion the dairy industry as a whole is suffering from low farm gate price.

The need of strong action to address the unbalanced market and stopping money leaving the supply chain.

Exports will improve over time allowing the domestic market to run short on Australian produced fresh milk. If the current trend continues of farmers exiting the industry there my be no liquid milk market in the N.S.W .

As the Rabo market reports that the national milk production is to fall by 7% this season to 8.6 billion litres ,if this eventuates it would be a two- decade low and lead to extensive pressure on local supply .

NSW will become a import state like Queensland from Victoria and possibly New Zealand if local farmers are not looked after .

Thank you

Evan Hayes

Thank you Stephen Hayes