

REPORT ON PROCEEDINGS BEFORE

**PORTFOLIO COMMITTEE NO. 5 – INDUSTRY AND
TRANSPORT**

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

CORRECTED

At Shotz Room, Moss Vale Golf Club, Moss Vale, on Monday 12 November 2018

The Committee met at 10:00

PRESENT

The Hon. Robert Brown (Chair)

The Hon. Rick Colless (Deputy Chair)

The Hon. Wes Fang

The Hon. Courtney Houssos

Mr Scot MacDonald

The CHAIR: Ladies and gentlemen, welcome to the first hearing of the inquiry into the sustainability of the dairy industry in New South Wales. Before I commence, I acknowledge the Gundungurra people who are the traditional custodians of this land upon which we meet. I also pay respect to the elders past and present and extend that respect to other Aboriginal persons present. Today the Committee will hear evidence from dairy farmers and industry experts and representatives. Before we commence I will make some comments about the procedures for today's hearing.

Today's hearing is open to the public and the transcript of today's hearing will be placed on the Committee's website when it becomes available. In accordance with the standard broadcasting guidelines, while members of the media may film or record committee members and witnesses, people in the public gallery should not be the primary focus of any filming or photography. I remind media representatives that they must take responsibility for what they publish about the Committee proceedings. It is important to remember that parliamentary privilege does not apply to what witnesses may say outside of their evidence of the hearing. I urge witnesses to be careful about any comments they may make to the media or to others either after or before completing their evidence as such comments would not be protected by parliamentary privilege. The same applies to people in the public gallery.

There may be some questions that witnesses could only answer if they had more time or with certain documents to hand. In these circumstances, witnesses are advised that they can take a question on notice and provide an answer at a later date. Due to the short reporting time frame for this inquiry, the Committee has resolved that answers to questions will be provided within seven days. Given the difficulties in an industry such as the dairy industry it may put pressure on people, but we have limited time to make recommendations to the Government. To aid the audibility of this hearing, I remind Committee members and witnesses to speak into the microphones. I ask everyone to turn their mobile phones to silent for the duration of the hearing so that it does not interfere with the recording equipment.

GREGORY PAUL SCHOFIELD, Dairy Farmer, sworn and examined

The CHAIR: Before we commence with questions, would you like to make a brief opening statement?

Mr SCHOFIELD: Yes, thank you. First, I would like to thank the Committee for taking the time to get involved in the New South Wales dairy industry, which is in complete and utter turmoil as we speak. People are leaving the industry left, right and centre. There are a lot of damn good people in the dairy industry. They take pride and credit in what they do, through generations. Thanks again for taking the time to listen to all these people.

Mr SCOT MacDONALD: Mr Schofield, I have read your submission. I am not an expert on the dairy industry, but I am struggling to understand this relationship with the processor. Is the processor continually coming back to you about their financial position? Is their position that they are locked into the major retailers—Coles, Woolworths, Aldi and all the rest of them? What latitude is there within their profitability and rate of return on their businesses?

Mr SCHOFIELD: At the moment there is no money there for the processor also because the milk situation, it has a flow-on effect from the retailer through the processor right down the chain. Unfortunately, as a dairy farmer, we do not know or understand what contracts are signed between a retailer and a processor.

Mr SCOT MacDONALD: It might be a hard question to answer, but we pay \$1 at the retail end or close to that. What is it like compared to the United States, Europe or anywhere else in the world? Is \$1 a litre the norm?

Mr SCHOFIELD: No, as we speak a litre of milk in New Zealand is upwards of \$3.50. Europe and America it is hard to gauge because their farmers get subsidies, and quite a lot of subsidies, to help them. Whereas we are a price taker—

Mr SCOT MacDONALD: You are subsidy free.

Mr SCHOFIELD: Subsidy free.

Mr SCOT MacDONALD: The \$1 a litre came on Australia Day 2011. Have there been any studies about what economists would call the price elasticity? If the milk retailer went to \$1.50 or more, what would that do to consumption? Has anybody looked at that?

Mr SCHOFIELD: Not so much on consumption. In 2011, when the \$1 a litre was announced, the price of a litre of milk at the retail sector was roughly around \$1.30. For one person, and that one person worked for Coles, to come out and devalue the dairy industry in one foul movement without any idea how to pass benefits back to the farmer was detrimental to the industry.

Mr SCOT MacDONALD: Can you give me your opinion about Coles and Woolworths with the 10¢ a litre drought addition they have put on milk? I understand that is not going back to the processor or the farmer. What is your opinion of that? Is that having any effect on consumption?

Mr SCHOFIELD: I can only speak on one retailer, that is Woolworths. You have to understand that the two retailers work against each other. As for Woolworths, they put it on certain brands. Instead of putting it across all drinking milk, so the farmer can get a net benefit of 10¢, they put it across certain lines, which has now turned into a drought assistance milk, so it is covered by a different label.

Mr SCOT MacDONALD: That goes to rural aid or something like that, does it not?

Mr SCHOFIELD: No, Woolworths comes back to the farmer, so it is across the two litres and three litres, the drought assistance. But that 10¢, because it is not spread across the whole board, this month will equate to 3¢ a litre to the farmer. So that is Woolworths, who is supplied by Parmalat, who I supply. On the Coles side, they have put it across fewer brands. They are putting that into a pool where any farmer can apply to try to achieve a subsidy.

The Hon. WES FANG: Thank you for appearing today and for your detailed submission. I read it with great interest. You have given detail of the increased expenses over the past 12 months. I am not an economist, but a lot of us understand facts and figures. I do not understand how the industry, as you have laid it out, is sustainable, given the increases we have seen for fodder and petrol and all the rest. What impact is that having on you and your business?

Mr SCHOFIELD: The dairy industry is quite a hard industry to get your head around if you have not been in it. Schofield Holsteins as an organisation has at least 50 business stakeholders and their associated families

that rely on the existence of the farm. So we took three options: one was to sell up and do nothing; the second was to cease dairying for a year; and the third was to refinance to carry debt. We decided to refinance as this allows you to remain in business and therefore continue to support all those 50 other suppliers and their families. The industry is in a critical stage.

Document tabled.

That document is from the dairy industry group that states that X dollars goes into the community. There are a few other things that will get there too. So how we have maintained to move forward during this dramatic time, is, first, we have increased debt by \$200,000; second, out of those 50 suppliers I communicate with them and they do not get paid in full every month. A prime example, we have been using a wheat supplier for 22 years and so he gets a cheque every month when I get a cheque. I have not got any grain from him since the first week of August. His account will not be finalised until February next year. As we go through those 50 suppliers we have a relationship with them, and the only way that Schofield Holsteins and a lot of the dairy industry can stay in business is to stretch out credit. That means that some companies will be stretched out to 120 days plus. Because they are relying on the industry they also understand what is going on in the situation.

The Hon. WES FANG: It does not seem to me to be a sustainable model? Do you concur with that?

Mr SCHOFIELD: At the moment it is not a real sustainable model, as I said in my submission. I stated:

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 sons a real wage in the business let alone profits available to even think about succession within the family.

I am real proud that my father built the dairy up from 30 head. I did not go to school much, I helped dad work. The farm was passed on to some brothers and I would like to pass that on. The only way the dairy industry can be sustainable is if there is set price for the farmer to move forward so he can indicate to his suppliers how you can maintain a business.

The Hon. WES FANG: And achieve profitability.

Mr SCHOFIELD: And achieve profitability.

The Hon. WES FANG: It worries me that in, say, 20 years my kids and their kids may not be drinking milk from New South Wales. Is that a possibility?

Mr SCHOFIELD: That is a real possibility. I do not think it will be 20 years, Wes, I think it will be shorter than that because as we speak dairy farmers are going out of business. Litreage is decreasing. Within the highlands, there was four million litres left the highlands last year. That milk has been replaced by Victorian milk out of what I call the Victorian pool, which is a cheap milk that comes into the State. But slowly and steadily that pool is also running short, so what we see are processors running around trying to source milk to keep these contracts with the retailer fulfilled.

The Hon. WES FANG: It is a crazy situation when there is a lack of supply and processors who cannot get the supply but they are paying bottom dollar because that is in their contracts.

The Hon. RICK COLLESS: You mentioned earlier that the New Zealand farmgate price was somewhere between \$3 and \$3.50. Is that correct?

Mr SCHOFIELD: Retail.

The Hon. RICK COLLESS: What is the farmgate price in New Zealand?

Mr SCHOFIELD: The farmgate price in New Zealand, off the top of my head, I am not quite sure. But they pay a kilogram weight so I am not quite sure what that is at the moment.

The Hon. RICK COLLESS: Is it fair to say, as far as you know, it would be a lot higher than what it is here?

Mr SCHOFIELD: In the domestic market, yes. But you have got to remember that New Zealand has a lot of milk that goes on the international market.

The Hon. RICK COLLESS: You said in your submission that somewhere between 50¢, 52¢ and 41¢ is the variation in your farmgate price. Is that correct?

Mr SCHOFIELD: The farmgate price varies for the seasons. Normally in a spring season when there is a lot of excess milk for the processor, of course, he will pay you less because that milk goes into another market. We are encouraged to produce a lot of milk during winter because that is when there is less milk in the pool in Victoria because most of them go on a holiday.

The Hon. RICK COLLESS: That is when you get a slightly improved—

Mr SCHOFIELD: You get a slightly improved price.

The Hon. RICK COLLESS: On a per litre basis, as far you can say, what is your cost of production?

Mr SCHOFIELD: Today?

The Hon. RICK COLLESS: Yes, today.

Mr SCHOFIELD: Per litre?

The Hon. RICK COLLESS: Per litre.

Mr SCHOFIELD: Let us say I would have lost roughly this morning, even though it is in spring, 4¢ a litre.

The Hon. RICK COLLESS: Is your cost 55¢ to 60¢ a litre? Is that a fair assessment?

Mr SCHOFIELD: The cost is just not quite the average because in the average there is also like incentive bonuses. Our cost is about 4¢ to 5¢ above the base and that is just to feed cows. There are other things. So as you go through those documents—and, as I said, power has gone up by \$300 per month; that will be within those documents—and that is not included in that price.

The Hon. RICK COLLESS: You mentioned paying wages to your family members. Are those costs included in that 4¢ a litre?

Mr SCHOFIELD: No. Today as we sit here, Schofield Holstein is run by two brothers and employs my two sons. The two brothers' wages are zero. My two sons, who are 28 and 26, receive a nett of \$300 per week. How can I tell those sons when their mates are pulling upwards of \$1,500 a week that this is a good business to work in? In other words, we had to reduce costs during the winter months to try to cover our more expensive bills.

The Hon. RICK COLLESS: If you were to include a proper wage for all of you and a return on your capital—anybody who has got money invested in any business should be getting a return on their capital investment—what do you think the cost of production is if you included all the wages and a modest, say, 5 per cent return on your capital? Surely your costs would be over \$1 a litre.

Mr SCHOFIELD: A rough, quick figure, it would be 70¢-plus per litre. That is not even considering a 5 per cent return on capital. The dairy industry is quite expensive to be in. You have stainless steel, you have cattle and they should be replaced upwards of every five years. Five per cent will not just quite cut it. It has got to be at least 70¢ as a base price.

The Hon. RICK COLLESS: You also point out in your submission that you cannot communicate with anybody in relation to the price, and you have listed the organisations you cannot communicate with. Who do you communicate with? Is it Parmalat that advises you of the farmgate price every week? How does that work?

Mr SCHOFIELD: No, we cannot communicate with anybody—even though 80 per cent of the general public would like to see the dairy industry and dairy farmers paid more—because we do not have a direct line with the public, because there is less money in the marketplace. When was the last time any of you saw an ad promoting our wonderful product called milk? It has a flow-on effect. Because we cannot communicate with the public, the retailer seems to hold all the cards. They do not want to listen to a farmer, which in turn means the processor is being told what they are going to get paid, which means they will indicate to us what we are going to get paid. In Parmalat's case, they roughly review every six months of a down or up trend, and let me say that is not a great deal. I think their up trend is 0.5 of a cent to come into effect in June. So 0.5 of a cent over two and a bit million litres to me is not a great deal of money.

The Hon. RICK COLLESS: It does not take you anywhere near that 70¢, does it?

Mr SCHOFIELD: It does not get you anywhere near that 70¢. As a scenario, I worked figures out for a bank because I was one of the first to go to this bank six years ago. Six years ago we worked figures out for the bank to have a return of 11-plus per cent. Back then you would have needed 79¢ a litre to maintain this industry.

The Hon. RICK COLLESS: Do you have any figures or any ideas as to the margins that the major retailers and then the processors take?

Mr SCHOFIELD: This is a good question. You have to ask, one, the retailer and, two, the processor how can they decide people's future when only one or two people sign a contract? I will give you a prime example. I am involved in a collective bargaining group, have been for years. I have been to a lot of different processors. But when Parmalat first signed a contract in New South Wales they did not have any milk. They managed to sign a contract with Woolworths without having any milk within New South Wales. Because of confidentiality rules et cetera, who would sign a contract without milk and who would accept such a contract without milk? Parmalat got that milk within two days and I was one of those suppliers. In other words, they had to do a deal with the company that lost the retail contract, so existing suppliers went straight over to a new processor. There were not a great deal of options for the dairy farmer.

The Hon. RICK COLLESS: The only other question I have at the moment is: what do you see as the next step? Do we go back to the bad old days, if you like, of regulation or is there a better way of doing business? What is the answer in your view?

Mr SCHOFIELD: Well, Rick, what was wrong with regulation in the first place? In a regulated market you roughly knew what percentage the retailer was getting, what percentage the processor was getting and what percentage the farmer was getting. We were roughly getting 30-plus per cent. But they had pay structures in so you had a quota which peaked at 57¢. They had what was called second tier milk, which was about 26¢, but that did not move. They would announce that. Then they had a spot price which was roughly 13¢. A company brought that back in a couple of years ago because it had an oversupply of milk. They did not supply a major retailer and the farmers nearly went broke then so they had to sell a lot of cattle. During the regulated market we could actually build. At Schofield Holsteins we built from 40 head up to 560 cows, knowing the percentage of the pie we were getting. So I cannot see what is wrong with a regulated market.

The Hon. RICK COLLESS: What was the result if you were unable to supply your quota? Was there a penalty if you could not supply your quota?

Mr SCHOFIELD: Early on there was a penalty for supplying quota but most farmers got around that by sharing milk and the factories shared milk also. There was a lot of communication in a regulated market.

The Hon. RICK COLLESS: Was that done at the milk co-op level?

Mr SCHOFIELD: Yes. You had a milk board.

The Hon. RICK COLLESS: Do you think we need to go back to that cooperative-type arrangement to even those variations out?

Mr SCHOFIELD: As per my submission, I think we have to have a commissioner in place to oversee the three players in the market, we have Dairy Connect, we have the New South Wales market. But a commission could oversee the whole lot.

The Hon. COURTNEY HOUSSOS: Thank you, Mr Schofield, for your time this morning, for your detailed submission and also for that additional information to us. It is very informative for the Committee. The specifics about the increases in your costs is obviously personal information for you but it is very beneficial for us when we are considering this. I want to ask a couple of basic questions first. You said that you have 300 cows now and that is down by 90 head, so you went down from 390 or 400.

Mr SCHOFIELD: At this time last year we had 390 head milking.

The Hon. COURTNEY HOUSSOS: Within a year you have lost a quarter of your—

Mr SCHOFIELD: When you indicate that you milk 390 head, you have roughly 100 dry cows for that to continue. This year, even though I am down to 300, I only have 33 dry cows. So I have sold well over 120 milking cows.

The Hon. COURTNEY HOUSSOS: As you were saying to Mr Fang, it is not just dire but it has dramatically worsened over the last 12 months.

Mr SCHOFIELD: Yes. The drought has brought forward what was going to happen anyway. We have been suppressed in the marketplace basically since deregulation, then the dollar a litre had more of an effect to depress our income. This has been happening for years. As we see this move forward, if there is no drought tomorrow our costs will be maintained at 40 per cent above what they were at the start of the year. Unfortunately we are losing too many good people that we need in the industry.

The Hon. COURTNEY HOUSSOS: I am not sure if it was your submission or someone else's that talked about how the dairy industry used to be an employer within communities but it does not have the capacity to do that anymore because of the restrictions on the price of milk.

Mr SCHOFIELD: It is also that we cannot pull any outsiders to invest into the dairy industry. When you study the dairy industry now, a lot of it is generational. Because there is no money to be made with the industry, we cannot attract outside investment in the industry.

The Hon. COURTNEY HOUSSOS: That is a huge problem for us going forward. I want to ask you some logistical questions. You are signed on with Parmalat. Where is their closest processing facility?

Mr SCHOFIELD: It is at Lidcombe.

The Hon. COURTNEY HOUSSOS: How does your milk get transported there?

Mr SCHOFIELD: My milk is picked up every day. The milk has to be processed within 72 hours. My milk forms a fair bit of the tanker so I am picked up every day. It is processed at Lidcombe. Parmalat have the transport cost within their structure.

The Hon. COURTNEY HOUSSOS: Parmalat covers the cost. You do not have to cover their transport costs?

Mr SCHOFIELD: No. It is between Parmalat and the transport company. So when we get our price, that price would be included also, give or take.

The Hon. COURTNEY HOUSSOS: They include that provision within their costs.

Mr SCHOFIELD: Yes.

The Hon. COURTNEY HOUSSOS: Do you know if they are employees or subcontractors?

Mr SCHOFIELD: I would have to take that on notice. I do not actually know. I would say they would be subcontractors.

The Hon. COURTNEY HOUSSOS: I want to ask you about the idea of a milk commission or someone to oversee it. I recently initiated an inquiry into fresh food prices and one of the things we talked about was the need for transparency across the whole supply chain, from farmers through to processors and retailers. We noted that producers of fresh food have the least amount of bargaining power. For example, you said you have 72 hours to get milk from your farm to a processor. If Parmalat will not do it—and obviously you have got an ongoing contract with them—you do not have a lot of other options.

Mr SCHOFIELD: I am one of a few farmers who have not signed a contract. I refused to roughly three years ago because I thought the contract was unfair. To Parmalat's credit, once they pick you up for a couple of weeks it would seem that you are contracted, even though I have not signed anything.

The Hon. COURTNEY HOUSSOS: If you were not to go with Parmalat, what are your other options?

Mr SCHOFIELD: In the fresh milk market the other options are next to zero. As we speak, from today you have three retailers and they have their supply chain. One is Coles and they have Saputo, which is a Canadian company. It used to be Murray Goulburn but they were on the verge of, let's say, insolvency, bankruptcy, so Saputo bought them. Parmalat have the Woolworths' contract. Lion, which has the route trade, they have their brands and they do the route trade—are up for sale at a hugely reduced price. Bega is hardly involved at all in the white milk market. Then you have Norco, which is mainly up north and goes into Queensland.

The CHAIR: What is it that determines whether the product from the farm will be used in a fresh milk market or in a processed market? Is it simply the processor themselves that determines that they are in the fresh milk market? Are there other options for dairy farmers who are currently supplying the fresh milk market—so you, through Parmalat? Are there other options available to the producers to go into other markets such as dried milk or dairy products and those sorts of things?

Mr SCHOFIELD: No. All of those markets, except for one which is the flavoured milk market, are at an historic low. Companies like the fresh milk market—because the milk virtually goes through the processor into a container to the retailer—that is the highest earning money but everything else is quite depressed, except the flavoured industry.

The Hon. COURTNEY HOUSSOS: Earlier on you said that you were part of a collective agreement but I missed whether that was historically.

Mr SCHOFIELD: It was a collective bargaining group.

The Hon. COURTNEY HOUSSOS: Is that a Southern Highlands regional area?

Mr SCHOFIELD: It used to be from Bodalla through to the Southern Highlands with select farmers. When we originally went to Parmalat, they did not want to travel down to Bodalla to collect the milk whereas now, because there is a shortage of milk, Parmalat basically want to travel anywhere to collect milk. So as a collective bargaining group we could say, "We have a pool of milk to go everywhere." We have actually followed the Woolworths contract but all of the benefit we would have got from it, we would have argued for half a cent to a cent. It was what the retailer basically sets that dictates what the processor will offer you.

Mr SCOT MacDONALD: Did you have to get permission from the Australian Competition and Consumer Commission [ACCC] to do the collective bargaining?

Mr SCHOFIELD: The collective bargaining group?

Mr SCOT MacDONALD: Yes.

Mr SCHOFIELD: We had to pay I think it was \$50, each farm, so we could be related with the Farmers Association just in case anything happened.

Mr SCOT MacDONALD: You would normally need ACCC's authority to do collective bargaining.

Mr SCHOFIELD: A proper collective bargaining group would be that the money goes into one pool. This was just a collective bargaining group to discuss leaders, so each individual of that group was paid what their farm actually earned.

The CHAIR: We are out of time but I have a few questions that I would like to put on notice. If any answers you wish to give are of a confidential nature you can be assured that confidentiality will be kept if you ask for it. I would like to explore your cost structure a bit more.

Mr SCHOFIELD: Yes.

The CHAIR: Mr MacDonald has just mentioned that the Australian Competition and Consumer Commission is a market regulator. To say that the food market or any market in this country is not regulated is not strictly true. If Committee members have any more questions they will put them on notice. You do not have to worry about writing anything down, the secretariat will let you know.

Mr SCHOFIELD: Will she? Good girl.

The CHAIR: The secretariat plural. They will let you know what the questions are. I know it is an imposition on your time, but if you can try and get those answers back to us within seven days that will help us to come to a conclusion and make some recommendations. Thank you for agreeing to appear before the Committee today.

Mr SCHOFIELD: No worries. Once again, on behalf of the dairy industry, thank you greatly.

(The witness withdrew)

ROBERT JOHN MILLER, Dairy Farmer, Milton, sworn and examined

TRACY LOUISE RUSSELL, Dairy Farmer, Brundee, affirmed and examined

The CHAIR: Mr Miller, your submission to this inquiry is number 13. Before we commence with questions would either or both of you like to make opening statements?

Ms RUSSELL: No, I will take questions.

The CHAIR: Mr Miller?

Mr MILLER: I would like to say that I am a farmer. I am not an activist, I am not a politician. The industry is in an absolute crisis, as Mr Schofield said previously. We have a milk price that is not sustainable and we have had it for seven years. Really the biggest point here is that we have got no marketing power as farmers and we have come to the end of our tether. That is why I say thank you very much for having this inquiry, because something needs to change, otherwise we will not have a dairy industry in New South Wales. Both Tracy Russell and I have large farms. We probably produce about 1 per cent each of the milk in New South Wales. We are reasonably substantial. We are family farms that have been here for seven generations for Tracy and six generations for me. We are good farmers, we have got good facilities, we have got some of the best cattle and yet we cannot do it. There is something seriously wrong.

The CHAIR: I take it you are both in the fresh milk industry, are you?

Mr MILLER: Yes.

Ms RUSSELL: Yes.

The Hon. COURTNEY HOUSSOS: Thanks for coming today, we really appreciate it. We also appreciate your extensive submission, Mr Miller. I note that you said you are not an activist or a lobbyist, but sometimes the most powerful testimonies we receive in these kinds of committees are from people like you—people who have firsthand experience that they can share with us. You noted that your current production costs are 80¢ a litre.

Mr MILLER: I would guess it has been very close to 80 during the drought. Since we have had rain it has decreased a little bit but I am losing money every day. I have not paid the bills this month but I am sure I am going to be \$100,000 short for the month.

The Hon. COURTNEY HOUSSOS: It is not a sustainable situation. Ms Russell, you are in a same situation?

Ms RUSSELL: Exactly the same situation. I have actually borrowed money from my 80-year-old father to help pay the bills. I have always been of the belief that my small business is no more important than anyone else's small business, so I always manage to pay my bills on time. But we are getting to the situation where we cannot even do that. I am borrowing money off my dad to be able to pay our bills. It is heartbreaking. It is very bad.

Mr MILLER: I am the same. I am going to the banks and getting refinancing, getting an overdraft increased all the time, but the banks have literally said, "Enough's enough. What's your exit strategy?" I have been through a divorce and other issues like that, so I am probably carrying a bit more debt than other farmers, but we should still be able to make a profit. Literally our variable costs are greater than our milk price. We cannot even meet fixed costs. That is where the trouble has come in. As Mr Schofield said, I am in the situation where I am not paying myself. I have got family members helping. I used to have a full-time skilled workforce. That is gone. I am back to casual staff, backpackers and university students during holidays now. That is not how to run a progressive, positive industry.

The Hon. COURTNEY HOUSSOS: Or one that sustains local communities with good local jobs that encourage people to stay in communities.

Mr MILLER: Yes. A couple of years ago when we were milking three times a day I advertised in the local paper for staff. This was when the industry was quite strong. We had 40 applicants looking to work on the dairy farm. But I must admit we did have new facilities. For occupational health and safety you have got to put that capital in. Without that capital, you just cannot go. Since capital has not been improved in the last couple of years, farm accidents are on the increase.

The Hon. COURTNEY HOUSSOS: Do you mind me asking which processors you are with currently?

Ms RUSSELL: We are both with Parmalat.

The Hon. COURTNEY HOUSSOS: As Mr Schofield said, there is really a limited option for you. Is that right?

Ms RUSSELL: Yes.

Mr MILLER: I was with Bega a couple of years ago but their prices got so low; Parmalat came and offered an alternative. I am in Milton, which is nearly in no-man's-land. It is three hours from Sydney and three hours from Bega, so I had that choice at the time. The other issue is we have got Sydney which is the main milk market in New South Wales. New South Wales is about a billion litres of fresh milk of year. That is what the market is, what we are supplying. I went to Bega when the Gulf War was on and they were supplying cheese, I am told, for the gulf. They had a contract. So we were paid a very good price at that time.

The Hon. COURTNEY HOUSSOS: Has that seen a change in your production? The Chair asked about your being in fresh milk production, not in—

Mr MILLER: I am in fresh milk now, yes.

Ms RUSSELL: Almost all of New South Wales would be in fresh milk production because there is actually a shortfall. Most of our milk is even moving to Queensland and they are bringing more milk up from Victoria to cover the shortfall.

The Hon. COURTNEY HOUSSOS: But there has been no increase in the price?

Ms RUSSELL: No increase in the price.

The Hon. COURTNEY HOUSSOS: Which in itself implies that the market is not working.

Ms RUSSELL: Yes.

Mr MILLER: I wrote a submission to Rod Sims at the Australian Competition and Consumer Commission [ACCC] two or three months ago when I made the call that something was seriously wrong, I could not keep going. I said, "Who do you go to?" Deregulation was supposed to create an efficient, competitive market, but there was no price signal from the farmer to the supermarket. I have attached in my submission a letter back from Coles. They recognise that there are no price signals. They said that is just their view, or that is how it is. To have an efficient market we have got to have signals. If there is a shortage of milk we should be paid a higher price. If there is too much milk we are paid a lower price. That is what an efficient operating market should be. That has not happened in New South Wales. It is not happening in Australia probably.

The Hon. COURTNEY HOUSSOS: And there is a bottleneck at the end of the system where you have the retailer setting a price of \$1 a litre and then that flows back instead of there being some level of movement. Is that what is happening?

Ms RUSSELL: It devalues our whole market. It devalues everything in our product.

Mr MILLER: Literally you have got to look at the retailer. There is about 2.8 billion litres of milk sold in Australia every year. They say about 50 per cent sold is home brand, on which the retailer makes 10¢ a litre, and 50 per cent is sold at a premium price on which they make 50¢ a litre. On average, the retailer is making 30¢ on every litre of milk. You put that over 2.8 billion, that is \$800 million profit. You have got two main retailers. That is \$400 million profit for each retailer. Coles made \$1.5 billion last year. Twenty-five per cent of their profit came from white milk alone. That is how powerful it is for the supermarkets. Before deregulation started I think the supermarkets were regulated to about 12 per cent of the profit. Now it has gone up to 30-plus per cent. That is how the market has been skewed. They have the power. As farmers, we provide a fresh product. We have got to have it going off our farms every day, we cannot hold it. We are being manipulated in that sense.

The Hon. COURTNEY HOUSSOS: Were either of you part of the collective bargaining arrangement that Mr Schofields talked about previously?

Mr MILLER: No.

Ms RUSSELL: No.

The CHAIR: So regulation has created a super profit of about 28 per cent for the retailers and a super loss for the dairy farmers of 10 per cent or 20 per cent on every litre of milk you produce?

Mr MILLER: I would say the market has become regulated by the supermarkets now. The most powerful player is now regulating the market.

The CHAIR: When I said "regulation", I meant by a regulator. The market appears to be regulated by the economic bully in the room, for want of a better word.

Mr SCOT MacDONALD: Which is deregulation.

The CHAIR: Yes. I will reserve my comments and pass over to Mr Colless.

The Hon. RICK COLLESS: Thank you very much for coming in. In your submission one of the early statements you make is that the industry is in crisis, and the drought has obviously exacerbated that crisis. What is the underlying cause of the crisis?

Mr MILLER: It is a low milk price and a sustained low milk price for the last seven years.

The CHAIR: I remind members that Mr Miller's submission is partially confidential, so please be careful. I am just putting everybody on notice.

The Hon. RICK COLLESS: Your normal cost of production outside the drought time is 50¢ a litre?

Mr MILLER: Roughly around 50¢.

The Hon. RICK COLLESS: And the average farmgate price that you are getting now?

Mr MILLER: It is about 51¢.

The Hon. RICK COLLESS: And your cost of production, because of the drought, has gone to 80¢ a litre?

Mr MILLER: I would say it has gone to 80¢. Feed price is a big factor.

The Hon. RICK COLLESS: I understand. Does that include the wages for the people in your family that are involved in the farm business?

Mr MILLER: No. At 80¢ it would.

The Hon. RICK COLLESS: But at the 50¢ level, normally?

Mr MILLER: I was taking a token wage.

The Hon. RICK COLLESS: A token wage? We need to make sure that people that are working in the industry are getting paid a proper wage rather than a token wage. I know farmers generally probably never draw a proper wage anyway. What about an allowance for return on your capital invested in the business?

Ms RUSSELL: There is no room at all for any splurges within our businesses. My farm is mainly family run, but almost every person on our farm is related in some way—not everyone. We are working seven days a week every day of the year. I cannot even tell you the last time I had a day off. I milk the cows. I milk 700 cows every day. I milk them in the morning. I am there in the afternoon as well so I have a staff member come in to do it because I am 52 years of age and if I am expected to continue to work as hard as I am—

The CHAIR: You do not look a day over 51.

Ms RUSSELL: It is not going to happen. There is no room within our businesses to even have anything go wrong. I cannot afford to have an animal get sick because I cannot afford to get the vet to do what would have been a \$400 operation. I have to make a decision. If a cow has a twisted stomach, for example, I do not even operate anymore. I have to keep that cow alive and put her on the next truck that leaves the farm. It is heartbreaking. I sold a cow the other day that had had 12 calves. That cow deserves the right to stay on my farm in a grassy paddock down the back and live out her days. The only reason I had to sell her is because I had not got her in calf yet and she was not giving enough milk to pay for the feed that I have to feed her to keep her alive. These are things that might seem like an emotional response, but this is how dairy farming works. There has to be a reason that we are able to get up in the morning and go to work. I enjoyed milking that cow, and I can tell you I shared quite a few tears.

Mr MILLER: Adding on about not being able to pay things, I have taken interest only loans for many years now and I have not paid a cent of that back. Years ago a farmer used to be able to pay off their farm in 10 to 15 years. That is not happening now, not at all. We are not paying any debt back. We might pay back a bit of machinery debt but no land debt or anything like that.

The CHAIR: A lot of the banks are rolling those over and requiring capital interest on land.

Mr MILLER: We are not going to be able to do it. We cannot cover our variable cost, how can we start covering financial costs? It is a really big issue. My background is that I was a banker at one stage. I was a corporate banker with Nick Whitlam; I understand it. I have done commodity training and I have done numerous degrees, but it is a family farm and I wanted to do farming. It is not that I am stupid or anything like that, I just cannot make the figures work. And that is a really sad reality. That is why Ms Russell and I have visited most politicians. We have met with a lot of people—National Farmers Federation—arguing our case. We have had television interviews, radio interviews. We have done what we can because we do not want to quit this industry. But we are at the stage that with a sensible economic mind you say, "How much money am I going to lose?" We have to make a call.

The Hon. RICK COLLESS: What is the next step? How do we get out of this? Do we go back to regulation? I take on board your comment about the big retailers regulating the market.

Mr MILLER: Look at the power industry. Angus Taylor has come out these past couple of weeks to say they are going to start regulating. The deregulation is a great issue if you have a competitive big market. We have not got a big enough market in Australia to be fully, totally openly regulated. We need some legislative structure to protect the smaller player.

The Hon. RICK COLLESS: Is the model we need to look at some sort of floor price scheme?

Mr MILLER: I would not say a floor price because that failed in the wool industry. We need to move on to another economic style. My advocate is a minimum retail price of \$1.50. That is just going back to what it was before.

The Hon. RICK COLLESS: Then make sure somebody—

Mr MILLER: Just see if the market can give farmers a fair price. If it cannot, then we have a price indexing where the farmer has to take 45 per cent. Under the regulated market, it was about 45 per cent that farmers received.

Ms RUSSELL: We need some help. We do not have any power when it comes to dealing with the supermarkets. From my point of view, and I am not as educated as Robert, if the supermarket sells our milk for a dollar, then there is only a little bit of room for the processor as well. So the supermarket gets their bit, then the processor gets their bit. The only person who will lose at the end of the day is the farmer because we have no power to say that we need more. I think even if \$1 milk was at \$1.50, then at least there would be room in there for the processor to make a little bit more margin, but it would also give us the power to say that they have to give us more. The way we see it at the moment, if it is only selling for \$1 and then the price is set off that, if there is no room in there, then we cannot go to the processor and say we need more money for our milk because they are not making anything either. That is the hard part.

The Hon. RICK COLLESS: The next question is rather than a floor price scheme, if you went to a minimum retail price scheme it would guarantee the farmer a percentage of that minimum retail price?

Mr MILLER: That might be step number two but first let us leave the open market and see what comes out of it. If you have a milk commissioner or someone overseeing the industry it is a first step. It is not a regulated market but it is some legislation to protect the weaker player. In the Northern Territory, they now have a minimum price for alcohol. It is just in the State. They have put a floor price for Aboriginal communities—it might be across the whole State, I do not know. So it can be done. If we have a minimum regulated retail price in New South Wales, anyone could supply that milk into the supermarkets, or whatever. But it is like section 92 of the Constitution which states you cannot have free trade between States—that has gone. But you have a minimum retail price, it sits there, who knows who sells what milk. There might be more advertising or promotion for different brands, the goodness of different milks. It may lift the awareness of milk. Who knows what the consequences are going to be? But we have to start somewhere, otherwise we will not be here. Milk will be trucked in from Victoria or it will come across from New Zealand. We have some of the most fertile or premium agriculture land. We are close to Sydney. Ms Russell's farm is prime dairy land and yet we are going broke. We are not making it.

The Hon. COURTNEY HOUSSOS: You said you have spoken to lots of politicians and media outlets because you felt you had nowhere to go. Is that why you are advocating for a milk commissioner because that would be the specific person you would go to with these kinds of issues?

Mr MILLER: Probably, yes. We have farmer organisations but there are a few difficulties there.

The Hon. COURTNEY HOUSSOS: You spoke about the challenges, and I am very sympathetic to that.

Mr MILLER: We spoke with Minister Littleproud 10 days ago. He said it is a very difficult thing. He did not say it but it came across that big business controls government.

Ms RUSSELL: I actually said to him that it is a shame that supermarkets are more powerful than the Government and he just lifted his eyes and said they are.

The CHAIR: Well, in actual fact, they are not but—

Ms RUSSELL: But they have the power. This is the problem. They sell our milk for \$1. We have pleaded with them to lift the price of milk so that we can have some money within our market but they just will not do it. No matter what, they will not do it. We do a Facebook campaign and all of our friends buy branded milk. We are asking them to buy branded milk so that they can help put the milk price up. But what is the point? They can buy branded milk but nothing comes back to the farmer. We do not get anymore money back—

The Hon. RICK COLLESS: It does not change your price.

Ms RUSSELL: No, we do not get anymore money back. But I feel like saying to our friends, "Just give it to us so we can buy feed for the cows", because they cannot help. We do not have the power. We cannot ask, because they will not deliver. We are just farmers.

Mr SCOT MacDONALD: I take you back to your comment, Mr Miller, about milk ultimately one day coming from New Zealand or Victoria. I guess I am being the devil's advocate. I am trying to get my head around that because I have heard that before. If you are a family shopping at Woolworths in Bankstown or Blacktown, do they care at the end of the day? We are intensely interested here. At the end of the day, I keep thinking of that person walking through one of the major supermarkets. It is part of their weekly ritual. They do not care where the milk comes from, it is part of their basket of goods. How do we get around that at the end of the day? If the New South Wales dairy industry disappeared tomorrow, that family in Blacktown, Camden, Liverpool, or wherever it might be, will still buy milk. It will still be around \$1 a litre and essentially they will not care. I have seen the Channel Seven campaigns and dairy farmer campaigns and NSW Farmers, Dairy Connect all making a lot of noise, but it does not seem to make any difference at the consumer end.

Ms RUSSELL: It is because of the disconnect. The consumer does not even know where milk comes from, most people. So that is the sad thing—

The CHAIR: No, everybody knows it comes out of cartons.

Mr SCOT MacDONALD: Do you see the point I am trying to make.

Mr MILLER: I agree with what you are saying, whether it comes from Victoria or New Zealand the consumer does not worry about that. But they are not going to get it for a \$1 a litre very shortly because the Victorian system is mainly seasonal production. New South Wales is year-round production. Our cost production is probably 10¢ a litre higher than Victoria. Mr Schofield said the New Zealand retail price is about \$3. It is actually \$2 a litre in New Zealand. I have all the photographs from my mates when they were over there. They went to every supermarket. Woolworths is selling it for \$2 a litre. The farmers who supply—

Mr SCOT MacDONALD: Is it \$2 New Zealand?

Mr MILLER: Yes, that is the minimum price over there. The farmers that supply the domestic market are paid quite a premium because they have to maintain a supply for the whole year. Some of them are getting nearly \$1 a litre for a couple of months of the year. That is how high it is. It is difficult to produce milk in winter. It is a lot bigger cost in the autumn and the winter. It is easy to produce milk in the spring—everyone can produce milk—but it is carrying that cost across the whole year is where the big cost is.

The CHAIR: From what I have seen of dairy production in New Zealand it is easier to produce constant volumes across the seasons because its worst season is better, in a lot of case, than some of our best seasons.

Mr MILLER: I do not know if I would agree with that. They can produce milk in the spring and the summer but come the winter time it is wet and very few farms produce milk there.

The CHAIR: Okay.

Mr MILLER: Whereas here we are producing our milk all year around.

Mr SCOT MacDONALD: I will ask pretty much the same question I asked Mr Schofield. At the moment most consumers are buying milk at around about that \$1 a litre. Is there any impact on consumption if it went to \$1.50 or more per litre? Do you have a comment on that?

Mr MILLER: An ACCC report said milk is price insensitive. Therefore, if the price goes up to \$1.50 it does not affect demand. That was one of Rod Sims' findings.

The CHAIR: That is interesting.

Ms RUSSELL: We are all guilty of it. Everyone will buy the cheapest product in times of need, but the cheapest product in milk needs to be \$1.50. It cannot be \$1. It is the dollar that is breaking us.

The CHAIR: The dollar and the drought and a few other things.

Mr MILLER: The drought has just exacerbated our problem.

Ms RUSSELL: It is the dollar that is causing it.

The Hon. RICK COLLESS: If it were \$1.50 would you be more comfortable to survive?

Mr MILLER: We would be a lot more comfortable. I am sure we would pick up 20¢ of that. The retailer would probably pick up 10¢ or 15¢ and the processor would pick up and there would be profit along the whole chain. As we heard from Mr Schofield, Lion is closing down in Australia or it is selling its business because it cannot make enough profit. It bought a \$3 billion dairy business and it cannot make a profit. I think Fonterra's loss came out at \$170 million—that was Australia, New Zealand. They are not making any money. Australian businesses are not making any money. We had Murray-Goulburn go broke. If you look at all the processors, there is something wrong with the system. I do not know what profit Parmalat might make because it is a private company and Saputo is a private company now. I know that they have openly said that they are not going to renew the Coles contract but they have to honour it.

The CHAIR: We have some bids on the table, so to speak. We have spoken to two lots of farmers. You put a price on it at \$1.50 and you say that is the first step in perhaps a two-step process, but let us try the first step and see if it works for the market. You said, and I note in some of the documentation that the ACCC has, indeed, said that it is a demand elastic-supply elastic situation and that the price at \$1.50 does not make much of a difference. It appears to me that this Committee could make recommendations to the State Government but whether that would fly, being a federation as the way we are, I do not know. Certainly you would suggest that this Committee recommend that, first, there be a floor price set; and second, that a commissioner be appointed to, shall I say, take care of the equity throughout the chain and if that did not work more regulations be put into the chain related to the percentage that farmers get. Is that correct?

Mr MILLER: Yes.

The Hon. RICK COLLESS: Retail floor price.

The CHAIR: Yes, starting at the retail price.

The Hon. WES FANG: This Committee has seen major retailers promote some of their larger volumes of milk with a levy that goes back to farmers. Mr Schofield said that it did not equate to much at the farm gate. Is that your experience? Is it more a public relations exercise?

Ms RUSSELL: It is definitely a public relations exercise. The public thinks that farmers are getting an extra 10¢ a litre by buying a litre of milk. We got 0.00945¢ per litre for our milk. My payment was \$5,100 including goods and services tax. It does not even buy half a load of feed, but that is what we got.

The Hon. WES FANG: Out of the 10¢ a litre levy you received—

Ms RUSSELL: Less than one-tenth of a cent.

Mr MILLER: I got about one cent, for some reason. Mine came out at one cent.

The Hon. WES FANG: Where have the other nine cents gone?

Mr MILLER: Because there is only such a small percentage of milk that is sold under that drought brand. As Mr Schofield said, it might go up to three cents this month because they have gone from three litres to two and three litres at Woolworths.

Ms RUSSELL: It is also a marketing ploy by the supermarkets. People now think that they are helping the farmer by buying their \$1 milk so they have all stopped buying their branded product, which we have asked

them to do to send a market signal to the supermarkets that people want to be able to buy fresh milk. But they have now done this and people are now buying the home brand milk—the Bankstown people who do not understand where milk actually comes from. It is the local people with whom we consult who are happily still buying their branded milk. But people think that by buying the drought relief milk it is helping the farmers.

The Hon. WES FANG: But it is making zero difference to your return at the farm gate?

Mr MILLER: Yes.

Mr SCOT MacDONALD: On the supermarket shelves there are boutique brands at \$3 a litre. I suppose you say good luck to them. Is it only a very small part of the market and not able to prop you up, so to speak?

Ms RUSSELL: It is a very small part of the market. You may be talking about things like A2 milk?

Mr SCOT MacDONALD: There is that and various others.

The Hon. WES FANG: They usually come in glass bottles.

Mr SCOT MacDONALD: Yes, different bottles and packages and they look boutique. Are they capable of lifting the industry over the volume?

Mr MILLER: No. You have got to understand that 50 per cent of the market is home brand milk. That was before this drought milk came in. That may gate at 70 or 80 per cent now. I do not know what percentage is going to go to that cheaper milk.

The CHAIR: This Committee may be able to interrogate some of those retailers.

Mr SCOT MacDONALD: I apologise if this is a difficult question. With your banking background you must have heard a bank or an economist would say to you "Why are you doing it?" Hopefully you are sitting on some equity, on some valuable land. Why do you not sell up, go to beef, subdivide the property, or whatever?

Mr MILLER: That is an easy question. When you have had a farm that has been in the family for 150 or 160 years it is a hard call to be the last one in the line. I suppose you look at England and you have got the family farms over there that have gone for 300 and 400 years, and the same in Europe.

Mr SCOT MacDONALD: With a bit of subsidy.

Mr MILLER: That was why I started advocating for this change in the \$1 a litre milk. I have had signs up. I have had signs everywhere. It is do or die. You give it everything and if it fails, well I am gone. That decision might be within six months. We have got lots of employees. It is a \$5 million business that is just going to go out of the rural economy; our little town.

Mr SCOT MacDONALD: Tomorrow you could switch it off and probably be in a better financial, physical and mental state?

Mr MILLER: Yes.

The CHAIR: Perhaps not mental state.

Ms RUSSELL: Not mental state.

Mr MILLER: Not mental, not initially.

Mr SCOT MacDONALD: I am trying to be the devil's advocate. It is not a rational decision to keep losing money?

Mr MILLER: Yes, that is why we are here. We thank you for listening.

Ms RUSSELL: That is why we are desperately here.

Mr SCOT MacDONALD: Do you want to add something?

Ms RUSSELL: My eldest son is 32, my second son is 30. They are both on the farm. My grandchildren are the eighth generation on farm. Do we just give up? Would you just give up?

The CHAIR: Do not ask him that.

Mr SCOT MacDONALD: Yes, you should not have to. We saw it in the wool industry where I live and it was incredibly difficult when it collapsed. A lot of people made a lot of hard decisions though.

Mr MILLER: But then you are looking at some of the best wool producers. They have still managed to keep going.

Mr SCOT MacDONALD: Yes. And they are coming out the other end now.

Mr MILLER: We are some of the best dairy producers there are in the State. We are as competitive as anywhere in Victoria. We can produce milk as cheaply here as in Victoria. They have an export market. Sometimes their price will be well above ours. We have been capped for the last seven years at a very low price. They have had the export price, which some years has given them maybe 5¢ or 10¢ a litre better than us, so they have been able to put a few nest eggs away. We have not had a chance to put anything away.

Mr SCOT MacDONALD: Do you think State and Federal politicians have been dishonest with you in terms of holding out hope that there could be a restructure, regulation, price intervention or a commissioner or whatever you want to say?

Mr MILLER: I think they are starting to come around to the fact that the industry is in a lot of trouble and there has to be change. They do not know what the change is because the dairy organisations are not strong enough and there has not been good leadership in the industry. It is too fragmented. That is why this has been very much grassroots, coming from the farmers themselves, because a lot of the dairy organisations are compromised. The ADF is 50 per cent or 60 per cent funded by processors and 50 per cent by farmers. Therefore what goals do they pursue? It is the same with NSW Farmers. Who is the biggest sponsor of NSW Farmers? Wesfarmers Coles. Therefore it cannot speak much against the supermarket.

The CHAIR: I notice you said you are a farmer, not an advocate but you can always tell when an advocate is being somewhat successful when organisations start to try to gag them—organisations that should not be trying to gag them. I cannot go any further than that.

The Hon. RICK COLLESS: For the sake of Hansard, can you tell us what ADF stands for?

Mr MILLER: That is Australian Dairy Farmers—or federation. I do not even know. I should know.

The CHAIR: We are out of time but you have given us some very clear and definite recommendations, which we appreciate. It is up to us now to work out how some of those things may or may not be achieved. I know it is taking you off your farms for a day or a half a day, but thank you very much for agreeing to appear. There will be some questions on notice. I will say the same to you as I said to the previous witness: If you deem your answers to those questions to be confidential and you ask that they be kept confidential, we will do so. But we would like answers to any questions within seven days. Knowing that you have to work seven days every week, we really do appreciate you coming here today. Thank you very much, Mr Miller and Ms Russell.

Mr MILLER: Thank you.

(The witnesses withdrew)

(Short adjournment)

PETER MIDDLEBROOK, Dairy Farmer, Peter and Jane Middlebrook Pty Ltd, Finley, sworn and examined

JANE MIDDLEBROOK, Dairy Farmer, Peter and Jane Middlebrook Pty Ltd, Finley, sworn and examined

The CHAIR: Before we proceed with questions from Committee members, would either or both of you like to make an opening statement?

Mr MIDDLEBROOK: I would like to make an opening statement.

The CHAIR: Please proceed.

Mr MIDDLEBROOK: The alarm goes off at 5 o'clock in the morning, I get out of bed and head off for a 12 to 16 hour day, knowing that when I come in at night-time I have lost \$1,000. That is what it is looking like this year. We milked 450 cows. We are slowly getting rid of them. Today it was a mad rush because the 30 heifers we have had for export order had to go today and I am up here and my young bloke is crook. They had to be in today. The pressures of the farm are building. You are not only selling your next generation of animals—we have already sold 30 of the younger ones—we have sold off 120 steers and about 50 cows. But we have to do that because our costs have blown out not only because of buying grain, canola and hay at ridiculous prices, we also have to buy water. As you probably know, in the New South Wales area we are in the Murray irrigation area. We have zero allocation for our irrigation water. South Australian has got 100 per cent, Victoria has got 82 per cent and we have got nothing. That is so unfair. We have just had a trip down to the Barmah Choke, at the narrowing of the Murray River, to have a look at what is going on down there. It is that full, the water is running into the forest. It has watered 90,000 hectares. The poor old horses have nothing to eat and they are dying. In a drought year they have got three gates open to the sea. They are letting water run out to sea—this just does not pass the pub test—and we are sitting there with no water.

Our current costs: we have to buy water at \$400 a megalitre and we have spent \$200,000 of borrowed money doing that so far. In the area down there we have probably 12 farms around us, eight of them are for sale. We would go on the market too but we have got a son who has just come back from university. He is probably the most over-educated dairy farmer in Australia but that is what he wants to do. He has a double degree in chemical engineering and business management and he is back there helping us out. We are trying to pay him a decent wage but we can't. It is pretty tough.

The Hon. WES FANG: Thank you for appearing before the Committee today. Your submission is really powerful. I guess what differentiates your situation to that of a lot of other farmers is the irrigation issue that you face. We all know about the water allocation problems. I love it that your solution is to build another dam. I would say let's build more dams. Given that you are on zero allocation at the moment, what effect is buying the water in at \$400 a megalitre having on your business, cost of production and profitability?

Mr MIDDLEBROOK: We looked at all the scenarios. It was not that the quality of hay was bad, a lot of the crops had failed. A lot of the cereal crops have a stalk and a head. There is no leaf on them, it is all dried off trying to fill that head. The quality of hay that was about was very ordinary. We had all the pastures sowed in the autumn. We had it all down but all it needed was water. So we made a decision then whether to start buying water or to look at buying hay. Global warming is a big issue in our area.

We have got to the stage where we had to look at not watering summer pasture. We do not water anything during the summer, we let everything dry off and we go to a feed-patch situation. So we need hay and silage to put through the mixer wagon and feed them on a feed pad. We will be feeding there twice a day very shortly. We had a little bit of rain; that belonged to pasture. So that is why we decided to buy water. There is no water there. There was very little carryover. There was about 31 per cent in the dams and a lot of that was held by the environment. That is why they feel obligated to use it and they are sort of wasting it. We campaigned heavily with the Government.

I talked to Niall Blair's office—I am an alternate delegate for Dairy Connect—and I got an interview there. We have had Ministers down—we have had Sussan Ley at a Federal level and Minister Littleproud was down there last week—but no-one wants to listen to us. So that is the way we decided to go: start buying water. Little did we know it would race from \$280 to \$400 real quick; I think it is about \$430 now. It is only about 800 megalitres or 900 megalitres before it gets to \$500, so it will be \$500 really quick. We bought as much as we could, if the bankers would have given us a bit more money. They have been supportive, I will give the NAB bank that. We have decided to use our water to grow some pasture. I have just put 40 hectares of corn in because I have got next year to get through, yet it is not only this year to get through, we have got next year. So we need to spend the money to do that.

Like your mate here said, "Why don't you walk off?" What do you do? There are 10 farms for sale. We have had farms for sale there for five years and no-one is even looking at them. If you had \$10 million would you buy a dairy farm? You would have to have rocks in your head the way the current system is. We were supplying Parmalat; we did for about 15 years. Parmalat had a real low spring price and a real high winter price. If you can produce winter milk, which we can, it was a really good thing. But when you have got the spring and you have silage bills and all these other bills coming in and you are working with all these people who work for you and you cannot pay them—you ring them up and say, "Mate, I will slip you a couple of grand"—it gets you down. When you cannot pay your bills that is the worse feeling as a dairy farmer.

So we have moved to Freedom Foods. They set up a factory in Shepparton and our milk is now going to Victoria. We don't like that much but that is where it is going. It is a better price. It is all put in ultra-temperature processing [UHT] and going to China and we are getting a better price than the fresh milk coming into New South Wales. That is just not right. So that is why we decided to go there: it is a flat price every day of the week. We will be a little bit behind what Parmalat pays overall but at least I have got a flat supply. We used to tell Parmalat, "You have got to flatten your supply out." They would not listen and they lost 100 million litres of milk. We produce 40 per cent of the State's milk down there. If you want to milk cows it is the best spot. There is no humidity, it is nice warm weather and we can grow a lot of grass because all we need is water. It has got so much potential and it is only about 7¢ to get it up to Sydney.

The Hon. WES FANG: That is the transport cost for the milk?

Mr MIDDLEBROOK: Yes. So we are 5¢ or 6¢ behind, where we shouldn't be. It should not be quite that much, but that is all based on cartage.

The Hon. WES FANG: Where do you see your cost of production today versus what you are receiving at the farm gate?

Mr MIDDLEBROOK: We are losing \$1,000 a day, so we are probably well over the 60¢, 65¢ to 70¢ range. I would have to sit down and actually calculate it all out. I am happy to do that if you want me to.

The Hon. WES FANG: No, rough figures are fine.

Mr MIDDLEBROOK: We are on 45¢, that is what we are getting paid.

The Hon. WES FANG: That is your farmgate price?

Mr MIDDLEBROOK: Yes.

The CHAIR: You mentioned that it costs about 7¢ a litre to get it to Sydney. Do you know what component of your 45¢ it costs to get it to Victoria? Would it be about the same: 7¢?

Mr MIDDLEBROOK: No. We are an hour out of Shepparton.

The CHAIR: So a couple of cents?

Mr MIDDLEBROOK: Yes. That is all in the price. It is the same as what Parmalat used to do. Realistically I reckon it would be lucky to be 1¢. They run a truck around, but the beauty of our farms is the truck does not run around picking up a couple of hundred litres here and there. The truck pulls into my place, pulls into the next farm and then they are loaded and away they go. We get 12,000 litres a day and the next bloke down the road might get 16,000, so the truck pulls into two farms and then they are on their way.

The CHAIR: How much do the tankers hold?

Mr MIDDLEBROOK: The normal ones about 26,000 litres and the B-doubles go up to about 37,000 litres. We have got a lot of dumping by New Zealand in the supermarkets. We were in the supermarket the other day, there are kilo blocks of Mainland cheese for \$6.50 and the 750 grams Murray Goulburn cheese is \$7.50. When we see people picking it up Jane cannot help but chip them.

The Hon. WES FANG: Good on you, Jane.

Ms MIDDLEBROOK: There is a lot of talk about the New South Wales industry but, just from my observations, we need to realise that the Victorians are in just as much trouble, particularly the ones in northern Victoria. They are in a different water structure to us but they are also higher cost for their water. I cannot exactly speak but—

The CHAIR: The feed situation is pretty much similar.

Ms MIDDLEBROOK: Very dire. I think southern Victoria is doing okay but in northern Victoria it is just as difficult.

The Hon. RICK COLLESS: Thank you for your submission and for coming here today all the way from Finley. In relation to the water situation, the carryover of the water that is available in the Hume-Dartmouth system for the New South Wales side of the border is something like 1,000 gigalitres. The dam has 50 per cent capacity but about half of it is carryover water. There is another 185 gigalitres, which is high security for the town water supply, et cetera, and the rural space environmental water is more than 100 gigalitres. The big problem is the carryover water, and you mentioned that when you were speaking a minute ago. How do you think we should address the issue of the carryover water? If farmers do not use their water in the year of allocation should they lose it or should they be allowed to carry it over?

Mr MIDDLEBROOK: The way the system has been structured at the moment—I totally agree with what you are saying—it has become an insurance for farmers. Because they have structured it this way you think, "Gee whiz, next year if we don't get any water I'm going to need some water to kick off my autumn program."

The Hon. RICK COLLESS: Or they know it is going to be worth a lot of money and they can sell it.

Mr MIDDLEBROOK: That is true. What I would like to see done is you can only carry water over if you are associated with land. If you have got no land—Eddie Maguire owns water. If they have got water they should not be able to carry it over. It is exactly what you are saying. They are the ones trying to make a buck out of it, so they will carry it over and hopefully it goes up next year and they will make a buck. They are making a buck now, don't worry. They are making a fortune from all that water they carried over. I would like to see it tied and it can only be carried over if you have got land.

Ms MIDDLEBROOK: We have got neighbours, farmers, who were lucky enough to sell their farms. They kept their water. It is like another investment for them. That is not fair for the people that are continuing to farm.

Mr MIDDLEBROOK: When they made water tradeable that was the worst thing they did. They had a lot of sleeper licences along the river. Blokes had thousands of megalitres of water that they could use; they never used it so it just stayed in the dam. Once they made it tradeable they kept selling it and getting rid of it. I am a growing business, so that has sort of been good to me; we have been able to buy a bit more permanent water. I have got close to \$3 million invested in water. When you are paying all the fixed charges on it each year and you have got nothing it hurts. You think, "Am I better off selling this water?" From just what we have seen in the last few years, it is debatable. If you kept getting zero and zero like we have you might say to get rid of it. But in a 50 per cent year when water is still traded at \$200 you are probably better off having that water.

The CHAIR: To use?

Mr MIDDLEBROOK: Yes, to use. We rely so heavily on it.

Ms MIDDLEBROOK: In actual fact, we cannot do without it, because we are a desert. If we do not have water we are a desert. It was not a desert until they put the irrigation scheme through for the agriculture. Now there is no water.

Mr MIDDLEBROOK: We went to Kakadu and had a look at the wildlife up there. Ours is tenfold better than that. We have got so many more birds. That all gets forgotten by the green lobby.

The Hon. RICK COLLESS: All because of water.

Mr MIDDLEBROOK: All because of water. Dead right. It is unbelievable, our environment. As farmers we need to look after that environment. I did not spray any weeds this year, I never had the money, and that is going to bite me next year. As caretakers of the land we need money coming in so we can do these things. They are all issues that the greenies just forget about.

The CHAIR: I suppose with a dairy operation you do not have the option just to stop milking. You have got to continue to milk your cows. You have got to look after your cows.

Mr MIDDLEBROOK: Exactly.

The Hon. RICK COLLESS: We will take on board the suggestion that carryover water needs to be looked at, particularly if it is held by non-landowners and is in other words purely investment water that has nothing to do with providing agricultural outcomes. What about other suggestions as to where we go? I think you were here this morning when a suggestion was made about a minimum retail price and farmers being given a

percentage of that price. Do you see that as a viable option to improve your profitability, or the security of your income more than anything, I guess?

Mr MIDDLEBROOK: I think it would be a great idea, but how would you do it? Probably what stuffed us up with deregulation was it was a State-by-State issue and no-one could agree. Before we went to Finley we were dairying at Dungog, which is north of Newcastle. I was fourth generation up there, a dairy farmer and supplier. When they deregulated we were a small operation, my brother and my father, and we just could not survive at 53¢ a litre when 90 per cent of our milk was quota. When they deregulated we just were not big enough. That is why it moved to Finley. What we should have done was share the fresh milk. We should have just said that there would be one big pool right across Australia and whatever percentage went to the fresh milk market we shared it. If we had done that and then distributed it equally to each farmer maybe deregulation may have been stopped. We did stop it in New South Wales but not in Victoria. Once they decided to deregulate, that was the end of it.

That is about the only way you could do it. You would have to share that fresh milk. It would not be a big percentage overall. I do not know. We are probably at 50 or 60 per cent perhaps now. The milk pool across Australia is becoming very limited with so many farmers getting out. We have lost five farmers in Finley. They have walked out. The average farm size in finally is 500 cows. They are all pretty big farms. We have got a lot that are right on the edge and will not make it. I am telling you now, they will not make it. We are going to lose a lot more. The banks will sell them up.

The Hon. RICK COLLESS: You mentioned a while ago that your milk is going now to UHT to China. Do you think there is a move amongst the big processors to move away from fresh milk production and into powdered or UHT style products?

Mr MIDDLEBROOK: They are still looking to start factories. Australian Consolidated Milk [ACM] are looking at building another factory down there and Freedom are expanding. That is more into that field. I do not know. Somewhere or other they have got to wake up that they have got to pay more for this fresh milk market. Farmers up here need more money than us. I will admit that. They do need more money. Our scale and the price of our land is what keeps our prices down. But there is still no money in it where we are in the current climate. At 45¢ cents you cannot do it. Back to your question, it is a tough one.

The Hon. RICK COLLESS: The point is that we need to look at some form of regulation, whatever that might be—whether it is like we were in the past or whether it is regulating the minimum price that supermarkets can charge and guaranteeing a percentage of that price to go back to the farmers. There needs to be some sort of model put in place, do you think, to ensure that you are going to survive as producers?

Mr MIDDLEBROOK: I agree. It is nearly getting too late.

Ms MIDDLEBROOK: The supermarket is going to fight you all the way. As previous speakers said, they are just raping and pillaging us, basically. We have to have a decent price for what we do every day or there will be no-one young. There are about four young farmers who have come back. Our son is one of them. Other than that, our farmers are our age. We are 56, both of us. We have worked bloody hard. Sorry about the swearing, but we have.

The CHAIR: I have been told I am not allowed to swear, so you go right ahead.

Ms MIDDLEBROOK: We have made lots of sacrifices for this industry. To see it go belly up—and it is going to go belly up—it is distressing, extremely.

The CHAIR: Are you part of any of the representative associations, Dairy Connect or any of those? Do you belong to any of those?

Mr MIDDLEBROOK: I am an alternate delegate. I used to be on the board of Dairy Connect but the travel beat me. I had to drive to Albury and then fly to Sydney and I was away from the farm for two days. I did that for about three years. We moved from NSW Farmers to Dairy Connect. The fact being was that we would have an issue about milk and then they would say, "We'll discuss this when we get to a board level." This was NSW Farmers. By the time we got to the board level in three weeks it was all gone. We had a fair bit of money invested in our sales. We had \$1.3 million in the bank. We could not use that money to further our industry so we decided to break away. We talked to them and they would not listen. The bloke who was a former CEO, he has gone now, but they would not listen. We decided to go out on our own and form Dairy Connect. I think that was a good move. We have got a few dissidents in the area that sort of broke away and wanted us to keep NSW Farmers going. That has not been helpful. There were a lot of lies told there. That was the reason I stepped back, but I still do keep in touch with them.

The CHAIR: The comments that have been made by several witnesses that perhaps a retail price floor would be a good idea would not work if it was New South Wales only if you have farmers that are selling into a Victorian market.

Ms MIDDLEBROOK: We need to get Victorians back on board, basically back to the table. I think this is probably a good time to do it because they are so stressed as well.

Mr MIDDLEBROOK: Mental health is a big issue in our area. We had a farmer have a stroke. We have got blokes on the edge all the time. We have got blokes there that are 50 years old and looking 70. It has just been a really stressful time for all the farmers. This year is just really sorting them out.

Ms MIDDLEBROOK: It is not just for us. It is for our cropping people as well. We are a really amazing agricultural area. I know this is about dairy, but we grow rice, wheat, and cotton is coming in.

The CHAIR: I know the area well.

Ms MIDDLEBROOK: It is amazing. We have the ability in the Riverina, particularly in the irrigation areas, to feed the world, all that China area, but we need to have some infrastructure fairly soon or you are going to lose a lot of farmers.

The CHAIR: And more water.

Ms MIDDLEBROOK: That is it.

Mr MIDDLEBROOK: When it runs into the forest and runs out to sea, we have nearly had enough, I will be honest. Farmers are starting to want to do something pretty drastic, and that is not good.

The Hon. RICK COLLESS: In light of your comments about it running out to sea, what are the solutions? Do we need to look at the way the lower lakes are managed?

Mr MIDDLEBROOK: For sure.

The Hon. RICK COLLESS: There is a waste of water just through evaporation out of those lakes every year.

Mr MIDDLEBROOK: Yes, 1.2 gigs every year evaporation. Murray Irrigation had a footprint of about 1.2 gigs and now that is down to 800,00. Now they want to take another 450 gigs that they are trying to take out of the system. It is not going to come from up north, it will come from our area. So straight away that will take another 450 gigs. We are down to 400 gigs. We are not viable. Murray Irrigation is only just viable now and that is when they get a decent water allocation.

Mr MIDDLEBROOK: How do you think the lower lakes should be managed?

Mr MIDDLEBROOK: Pull the barrages out.

The Hon. RICK COLLESS: Thank you, that is all I wanted to hear. I fully support that.

Mr MIDDLEBROOK: Pull the barrages out; it is as simple as that. They are low mud flats and they used to be tidal. When they would go out, they would see mud. But when you have got Christopher Pyne, Sarah Hanson-Young—all the seats around the lakes, I do not know exactly where they all are—it is so political it is just wrong. They are supposedly flushing salt out of what used to be salt lake back out to sea. Of course, it is going to keep coming up out of the ground, those shallow lakes. They changed it all around down there years ago and South Australia is starting to get conveyance water for next year. It is coming out of the dam at the moment. The whole of Australia needs to know what is happening. You go and see that Murray running a banker—

The CHAIR: With everybody else it is conveyance water, with them it is evaporation water.

Mr MIDDLEBROOK: Yes. You blokes know a bit about it, which is good to hear. We worry that people do not know what is going on. It is a State by State thing. It is a Federal issue too. This year there would not be any water running down that river. To think they are flooding the forest when it only flooded a couple of years ago and they are flooding it again. It would not happen in a drought.

The CHAIR: It is not just the forest too, you have got production farms down there that are riparian farms that have had two lots of floods wipe them out, environmental water floods. Not good.

Ms MIDDLEBROOK: That is right, all those farms along the river. I have just thought of something else that I did not put in my submission. I want the Committee to note that the Federal Government has spent so much time and effort to get free trade agreements in place. If it does not pay attention to what is actually happening,

all its hard work is going to go belly up because we are not going to have an industry to supply its free trade agreements. All its hard work will be destroyed because we are going to be gone.

Mr MIDDLEBROOK: We are trying to control our costs. We are in the process of trying to put in a 100 kilowatt solar system. We never had any money to do it. A bloke came there to offer to put it in and supply and do everything and we buy it back at 10¢ a kilowatt. We are in the process of doing that. It takes up a fair bit of area but it is a 100 kilowatt system because our power bills have gone from \$17,000 up to \$31,000. It has doubled in the past couple of years.

The CHAIR: It has nearly doubled?

Mr MIDDLEBROOK: Yes, and that is in the submission. They are just things we are trying to get under control. We actually harvest our own seed now to try to get our costs down. Our irrigation infrastructure is where we have spent all our money. We have gone from bigger channels, higher flows to try to get the water on and off the paddocks as quick as we can, and two-foot pipes so we can get 10 mega litres going down a bay. Our bay is roughly 400 metres by 70 metres, about three hectares of bays roughly. We have got three lines on the farm. We have spent a lot of money on infrastructure, setting it up. We have got a 44-stand rotary feed pad, shade sheds for the cows to give them comfort. We just extended them at the start of this year and we wish we had not spent the money. We just put in a 1,000-tonne silo to grow corn with this beautiful water we were going to get this year. So it is sitting there like an ornament in the china cabinet—just looking at it. We are trying to set things up so we can keep pace with the industry but the drought and the water situation and the price of milk is just killing us.

The CHAIR: Do other farmers there also irrigate pasture for their own use?

Mr MIDDLEBROOK: Yes.

The CHAIR: Are any of them members of, for example, the Irrigators Council?

Mr MIDDLEBROOK: Yes, quite a few of them are. We have got Malcolm Holmes who is NSW Farmers and on the Irrigators. The representative on NSW Irrigators are croppers. We have a situation where we have the Berriquin Irrigators, Moulamein and Districts around there and they speak to one body which is Southern Riverina Irrigators [SRI]. We just had a change of leadership there. People are getting frustrated. Murray Irrigation had a bit of drama with the board and committee. I must admit the area is not totally united but we are working towards changing that. I just sent my young bloke in to become a director on SRI. He will learn about the water; he is smart enough to learn about it all. Yes, he has been thrown in the deep end but I do not know what else we can do.

The Hon. COURTNEY HOUSSOS: I thank you both for travelling all way from Finley and for giving us a slightly different perspective. Your submission is one of the few today that raised the issue of food security for Australia. I agree that it is an issue that not many people are talking about but it is emerging as one. Will you elaborate on it a little bit more? Historically your area has produced a lot of food for Australia and for our State and if you are not able to continue it will be an issue for our State.

Mr MIDDLEBROOK: Not long ago when the Hume Dam had 60 per cent we would get a 60 per cent allocation, regardless of the Dartmouth. The Dartmouth was up at 89 per cent and the Hume got the 60 per cent and we have still got no water.

The Hon. RICK COLLESS: But that is because of the carryover in the environmental water now, isn't it?

Mr MIDDLEBROOK: Yes, you are dead right. I do not know what we do about it. We have suggested we build a dam so it is just perhaps for environmental water, if that is the way we have got to go. There are plenty of dam sites up on the Darling River. Another problem is that a lot of our water comes down the Darling and when it does not come down the Darling it comes out of the Murray. That has been an issue this year, as you know, the drought is so widespread there is nothing up there. When it does rain up there the cotton farmers get it. They have given us a bad name as well because of what goes on up in that neck of the woods. We are not going to pick on them because they do not pick on us, so we will probably disregard that because we are all irrigators. Unfortunately irrigators do get a name.

Every litre of water that comes into our place is measured. Our land is really productive. We have got a short growing period—autumn through to the spring—but for those last few months we need two or three irrigations. We grow wheat, we have melons and every crop under the sun there. We have got a great place to grow rice; the soil has very little seepage. It is heavy clays and it is a big industry in our area. And then they grow

a wheat crop the following year, so people forget that. So it is a double crop type thing each year because of the moisture left in the ground from the rice, but that is all forgotten.

Everything is measured and trucks and trains just run full bore. We have piles and piles of stuff every year that comes out of the area, and this year there is nothing. It has got to have an impact somewhere down the track. That is a good question I would like to ask: what will happen to get wheat into New South Wales and our dairy farmers at a decent price coming out of Western Australia, which it will be? What is government doing to ensure that we can get that wheat across at a minimum price?

The CHAIR: There have already been a couple of boatloads come over.

Ms MIDDLEBROOK: Good.

Mr MIDDLEBROOK: Good, because that is a real issue for us this year. The milk jobs are going to break even but the water is going to be borrowed money. That is where I need at least 1,000, if not 1,200. I am hoping to get a 10 per cent allocation.

The CHAIR: The 1,200 would give you how much?

Mr MIDDLEBROOK: Ten per cent. I am buying 1,000 so I have got to spend \$400,000 to buy water and I am hoping to get a couple of hundred megs out of the allocation. I have got a 1,600 meg allocation. So 10 per cent or 12 per cent I hope that is enough to get me through.

The Hon. COURTNEY HOUSSOS: To address the lack of bargaining power across the supply chain, do you support the idea of having a milk commissioner or some kind of independent advocate to whom you can go and say "Listen, this is not fair. This should be what is actually happening."?

Mr MIDDLEBROOK: My word I would.

Ms MIDDLEBROOK: Yes.

Mr MIDDLEBROOK: We have got no voice. Even if you talk to government they don't listen. Littleproud said all the right things—exactly what we wanted to hear—but he is only one vote. We have got a Liberal in our area and she has been very loyal. She comes and listens and says all the right things but nothing happens. We get sick of that as farmers. Something has got to happen. We can talk to government, talk, talk, talk. We are getting sick of it.

Ms MIDDLEBROOK: We just have to have some action or else there will not be one standing. I know once again I sound emotive but I am out there, a little bit more feely, feely than Peter. He deals with the day-to-day stuff and I get out talking to the wives of farmers and it is bad. We have a friend who has had a stroke through stress. I do not want to make an issue of my condition, but stress plays on it, I have Parkinson's disease. There are other girls who break down. Our girls work as hard as our men. They are just there. I want to say that our families are losing it. We are just beaten. I am not trying to make a big song and dance because we are farmers, we are resilient, but this is pushing us to the level of—you have got it.

The Hon. COURTNEY HOUSSOS: Absolutely.

The CHAIR: We understand without you having to say it.

The Hon. COURTNEY HOUSSOS: We appreciate you sharing that with us.

Mr MIDDLEBROOK: To hear Ms Russell is milking 700 cows a day, twice a day, that is the thing, it is day in and day out.

The CHAIR: Like I said before, you cannot just stop milking your cows.

Mr MIDDLEBROOK: No.

The CHAIR: Thank you for coming all the way from Finley.

Ms MIDDLEBROOK: It is absolutely our pleasure. I thank you very much. We have tried so hard to get our voices heard. You have heard the other dairy farmers talk here. This is really good. I would love you to get it in the paper.

The CHAIR: There are enough newshounds on this Committee for that. I am sure that will happen.

Ms MIDDLEBROOK: That is great.

The CHAIR: There may be some questions that the Committee would like to put to you. We did not have much time, and I apologise for that. We are on a very short schedule now until Parliament rises. We want to get this report and some recommendations to the Government. Irrespective of whether the State Government can do something about it, it is imperative that the Federal Government and the Victorian Government see that this is taking place. I know that our Minister for Primary Industries talks to the Victorian Minister for Agriculture behind closed doors on a regular basis, so maybe he will read some of this transcript and talk it over. The ideas that have been put forward are going to be no good unless two or three of the State representatives put their heads together, hopefully with others from the Commonwealth. We will put those questions to you. Even though you are very busy, if you can get answers back to us within seven days of receiving them we would very much appreciate it.

Ms MIDDLEBROOK: Thank you.

(The witnesses withdrew)

(Luncheon adjournment)

SUE MARIE BOYD, Dairy Farmer, sworn and examined

DAVID HUGH BOYD, Dairy Farmer, sworn and examined

The CHAIR: Before we proceed with questions, would you like to make an opening statement?

Ms BOYD: Yes, please. First, thank you very much to the members of the Legislative Council for making the time and effort for this inquiry to take place and for the opportunity for us dairy farmers to be heard in this forum. The current drought in New South Wales has had a devastating financial impact on our dairy farm business. This is because on the South Coast of New South Wales, where we farm, we have experienced severe drought conditions for the last year, except for the little bit of rain we had at the beginning of October. So we have had to purchase and freight in a significantly greater volume of feed for our milking cows. However, due to the inland drought across most of inland New South Wales that most people are now aware of because of all the publicity, which is where all of our hay, grain, and stock feed pellets are sourced from, those prices have soared for all of those animal feeds which get fed to our dairy milking cows. Most people do not fully understand the feed and nutrition costs of milking cows. Most people do not fully understand the feed and nutrition costs of milking cows. I think it is because driving past they see dairy cows in the paddock and they have always got their head down eating grass. That is part of their diet; that is not all of their diet. That is what most people do not understand.

In terms of our hay this year, I am sure you have all seen film footage of the hay trailers. Our hay is being trucked from south-western Victoria, so not only has it been a lot more expensive to buy but also the freight costs have been a financial killer. Due to our low farmgate milk prices since the supermarkets dropped the price of their home brand milk to \$1 a litre in 2011, dairy farmers who produce the milk have been surviving on minimal prices from the processors, who pay us. The supermarkets do not pay us; the processors pay us. Farmers have become more and more efficient to try to make up for lower margins since deregulation. However, we cannot be any more efficient. There are no more efficiencies left. There is no fat left in the system.

In our opinion, we dairy farmers are very vulnerable because we produce and supply liquid milk. Milk is a perishable product that cannot be stored on farm for very long. Hence dairy farmers are in a weak bargaining position with the processors who supply the large supermarkets. We are at the bottom of the supply chain and are not able to pass on any of our rising input costs to anyone. Fresh milk is not a commodity like hay, wheat, other grains, cotton, lamb, wool and other things that can be stored and sold at a better price or a lower price or whatever. We cannot store fresh liquid milk. It also has to be refrigerated, which is another aspect of liquid milk.

All the milk produced by all the farmers in the South Coast and in the highlands goes straight to the Sydney market for the liquid milk market and for the flavoured milks. We did go through that collective bargaining process group that Greg Schofield spoke about at the beginning of today's hearing. We were part of that group. We have been there and done that. It did help us at the time, but then when processors change and come into the areas some are not very interested. A processor does not have to talk to you just because you are a collective bargaining group. They do not have to buy their milk from a collective bargaining group.

Basically we have no voice as the ones who produce the product, the milk. The other thing I will say before I pass on to David is about the idea of another position like a milk commissioner or something. Something needs to be done. With this opportunity today and for the other days that the Committee is listening, it is really good that the farmers are getting a chance to speak and for you people to then distribute that information and go through the channels of whatever has to happen. All I know is we have never worked so hard to lose so much money as we have in the last six months.

We have 35-plus staff. We employ a large number of people. We have had to let some people go in the last couple of months. We are restructuring our whole farm business. It is going to take us a long time. We cannot continue on the prices that we have. It really irks me when people complain about the price of fresh milk. I do not know who smokes but a packet of cigarettes is \$24, \$25 or \$30, whatever. Soft drinks and junk food, not a problem. But to suggest to put up the price of something like milk, it is ridiculous that it is so hard to do. Thank you for listening.

The CHAIR: Mr Boyd, would you like to say a few words?

Mr BOYD: There is a couple of things. I am just not sure how educated the Committee is between all-year-round calving and seasonal calving. One of the problems in Australia, it is a bit unique. In New Zealand, for instance, it is 99.9 per cent seasonal calving. To understand that, all the cows calve in one period, generally to pasture and grass. It is a low-cost system and very efficient. They utilise all that grass and turn it into milk, but it

gets turned into commodity products and exported. In Australia it is a bit unique. We have a high liquid milk market but we also have a manufacturing seasonal one in Victoria. It is not in any other State; it is only in Victoria.

From a farmer's point of view, when you talk about bargaining with milk, a processor can very easily go and target seasonal milk in other parts of Victoria and truck it up and basically nominate the price that we are going to get. But nearly all that milk is seasonal milk, so it is a lower cost of production. What I mean by that is that when you drink milk year round, our farming systems are year round—cow calves every day, 365 days a year, consistent, because that is the market. When you calve seasonally to grass, it is a 20 per cent lower cost to produce. It is a completely different market. All that goes into powders and into commodities which then can be traded. That is one thing to understand is the big difference there. People do not tend to understand that.

When prices are always quoted, they always seem to quote the world price. If you quoted the world price with wheat at the moment, the world price of wheat is \$250 or \$200. I am paying \$500 a tonne. That is the domestic price. The world price is \$250 but I am paying \$500. So you see the difference between world prices and domestic. And in milk it is the same. Because it is a liquid product which goes off within a couple of days, it is very hard to compare that. They do have the ability to move milk up and back, which impacts on our price, if you understand that. I am not sure of everyone in this room—I was not in this room this morning so I am not 100 per cent sure—but most of the ones that supply the liquid market calve all year round because that is their production system to be able to supply that milk all year round. Also when there is no grass it has to be either bought in, because when you have contracts or when you supply milk that is consistent all year round, grass does not grow all year round so you have to plug those gaps with either bought-in fodder or your own produced fodder. That has a big impact. That is what happens with every farm that calves all year round, so it is a higher cost. I hope you understand to compare those two, because a lot of people do not understand that.

The Hon. COURTNEY HOUSSOS: The Committee has heard consistently through the day that New South Wales is different from Victoria in that way. Is that a historical thing? What is the reason for that?

Mr BOYD: I think it has been. A lot of them do accountancy. What that means is they will say, "It's cheaper to produce in Victoria. We'll do the manufacturing stuff in Victoria and we'll export that." But processors will then go and target that. You might calve your cows in a certain area at a certain time and you might calve yours at a certain time. Technically they could cherrypick and send the milk up and push that in. Anyone who calves the liquid milk would be all year round. Seasonally they all calve and then there is no milk for two months—simple. Also they will hit a peak and then drop back off.

The quality level is not flat. The quality of the milk that you drink when you have milk every day is flat. When you seasonally calve your production goes up, all fresh, then it tapers off and they dry up for two months. You basically have two months of no production. It is very complex. I just want to show how with the wheat it works the other way. At the moment there has been drought and it is getting boated in from Western Australia. On the world price the wheat is whatever it is but domestically it is the other way around. I do not know why milk, when milk is scarce, does not go up in price. It is one of those things I do not understand.

The Hon. COURTNEY HOUSSOS: It seems like that is the million-dollar question: why are our producers not being paid more?

Mr BOYD: The only reason is it is the other way around—it is because it is fresh. If we could store it—my wife only mentioned some of those things. We have got hay from 3,000 kilometres away because we had to feed our cows. You cannot not feed them. It is an animal welfare issue. You cannot do that. And for the farmer 3,000 kilometres away to say, "I'm not supplying it this week," and it is hay, we were in all sorts of trouble. We had to restructure it. Here is a hay grower that can do that to us. We cannot do that with the milk and say, "Oh, sorry, I'm not going to supply it." We would love to but it goes off very quickly. It is totally unfair from a farmer's point of view that we cannot do that. It is a fresh product. It should not be allowed to be discounted in the supermarket either. You should not be able to discount a fresh product like milk and predatory price into a supermarket. Fair enough if it is getting near a use-by date, I have no problem with that. I have no problem with those things, but the supermarkets discount the fresh product just to get someone in the door. Smart marketing. It should not be allowed but it is allowed.

The Hon. COURTNEY HOUSSOS: Mrs Boyd, do you want to add to that?

Ms BOYD: I am not sure if I mentioned about the two ACCC Senate inquiries that have occurred. David and I actually attended the first one in Canberra. We sat there when Woolies and Coles were interviewed and all the senators asked very good questions. But out of that, and out of the second one, there was not very much that came out to hear what the dairy farmers who put in submissions were saying, which is what we are saying today. So these issues have been going on and we have been impacted for years with the low price.

But what has really been the killer in the last six months is the impact of the drought on our feed prices that we have had to buy in, and the prices are basically still the same. Basically the ACCC is really about the consumer, it was not about us. We are the ones who produce the milk that the consumers buy but our voice was like—in the last one it got recommended, and Mr Littleproud has said that he wanted to see improvement between all the different dairy industry voices in different States and parts of the country, and that everyone seemed to be not working together but apart, and that is true. So that is why this inquiry is our turn to have our voice for our industry, and we really appreciate it.

The Hon. COURTNEY HOUSSOS: Two points you made in your submission were crucial. First, you have reduced bargaining power because you have a perishable product that has to be refrigerated and processed within a very short period of time. Second, the existing factions are not actually protecting you. You made the point that the ACCC is really about consumers, it is not about farmers. That is an excellent point. Earlier this morning I mentioned that some people have called for a milk commission or some kind of independent advocate which would have the ability for you to have some independent oversight of your contracts and what is a fair price.

Ms BOYD: We definitely agree with the concept of \$1.50 per litre, so \$3 for a two litre bottle instead of \$2. That would be a fantastic start. Really it is not going to be the end of the world if that were to happen. But that is sort of how it is made out: it will be the end of the world if the milk was to go up in price. Like I said, people do not balk at buying packets of cigarettes. Fuel goes up all the time and we all complain about it but—

Mr BOYD: But when those inputs go up I don't think people realise that all our inputs go up; ours is major. They do not realise in the dairy industry it is not like sheep where you have a couple of motorbikes, a pair of moleskins and some Blundstones. They do not understand that it is really capital hungry, and we are two years out on decisions we have to make. They understand that a cow eats a bit of grass. We try to look after our business right through the whole stage of all our inputs. And that is right through, which is a little bit different to a lot of other dairy farms but we still get affected. Our crops still fail out west and we are still impacted by other things but they do not understand in dairy it is seven days a week, 365 days a year. It is not like saying, "Oh well, I won't rear those sheep." It is not the same, but the public does not understand that.

You are talking about millions of dollars for machinery that goes all the time, refrigeration is on all the time. That is the difference with, "Oh well I will just run some sheep or some cows." It is not the same. It is very hard to get people educated about some of those things but we are restructuring a lot of stuff, we are trying to grow a lot more feed. We are trying, but it is not that easy just to suddenly ramp up and grow all that feed. We are trying to reduce some of those bought-in feeds. We got caught out. We actually do grow a lot of feed but we still got caught out. When you talk about contracts and things like that for grain and futures and that we do those things, but you have got to come out of it some time and we have been caught in this situation.

The CHAIR: What percentage of your property, in terms of area, are you able to put down to pasture or crop, provided you have the water of course?

Mr BOYD: Our farm business in the Shoalhaven is all grazing.

The CHAIR: All grazing?

Mr BOYD: Yes. We graze all our cows but we do buy inputs in to help sustain that because grass does not grow all the time. We graze all year round but we have had to shut one of our operations down and the whole lot is going into crop to try to provide that feed because we cannot survive on those prices. We cannot pay those prices and we won't be here. No-one will be here on those prices. That is one thing we are trying to change around and it is very difficult for us. So we have been restructuring our whole business to try to do it. But it does not matter, you are still in trouble because the price at the other end just sits there. That is just embarrassing.

The CHAIR: The ACCC is a consumer organisation but "consumer" is not just about price, it is about availability. What happens if our dairy industry goes south and the availability is not there? Has the ACCC protected the availability of the product? No.

Mr BOYD: It has been really interesting for me in dairying, I would go to conference after conference, and a larger conference in New Zealand and Australia, so I have seen a lot of different ways. I would also go down to Victoria. It always irked me when I would come back because they could always do it cheaper. You have got to remember—and I go back to seasonal calving and all this stuff again—they were very efficient. Like New Zealand, they are very efficient at grass farming. You have got to remember that our market is not that though. There is no point producing something at a peak when there is no market—the processors would say, "See you later." So it is not the same. Things are changing such as water costs in Victoria and a lot of these things that are

changing impact on environments changing. So all of those sort of things are changing but I do not think a processor would care as long as the other one is still paying it. If they were paying \$4 per litre as long as the other one was paying for it, it does not matter. We have been told the same from supermarkets. It would not matter if it is \$3 a litre as long as the other one is paying at \$3 a litre.

Ms BOYD: The other supermarket.

The CHAIR: I understand.

Mr BOYD: Do you know what is really interesting? From a farmer's point of view at an ACCC inquiry they say, "Oh no, Saputo is not allowed to take over the other. They have got to divest that." How are supermarkets allowed to have such a monopoly? How did that get there? Talk about control government. Supermarkets control governments, governments do not control supermarkets. How on earth did that get allowed? That is actually what happens. Then you have a processor in the mix and I can tell you about some processors. We were in a collective bargaining group and that was not too bad but you have got to remember how it has evolved. When it deregulated I still remember that we actually supplied a co-op and the co-op said, "That is really, really good. We have got a great relationship with the supermarket and we will be able to supply the home brand milk." Within six months they lost the contract. Straight away you are in all sorts of trouble, and then they are trying to offload the milk cheap somewhere else.

Supermarkets control it and then you have got processors in the mix, which is complicated. Now in New Zealand that does not happen. The price it is sold to the shop as fresh milk is what it is sold at. In Australia it is the other way around. I mean a coffee shop owner can go and buy milk for \$1 from the supermarket, put it in their coffee and then flog it for \$5 a coffee. That is just embarrassing and it is allowed to go on in Australia. It is frustrating from a farmer's point of view. We are doing our best looking at some of those things but we can only look at input costs, and we are looking at all those things.

The Hon. COURTNEY HOUSSOS: If you do not mind me asking, which processor are you with?

Mr BOYD: Are we allowed to say?

Ms BOYD: Yes.

Mr BOYD: Parmalat.

The Hon. COURTNEY HOUSSOS: That seems to be the one that covers this region?

Mr BOYD: It is one of them. Parmalat were an Italian-owned company. They were not really into liquid milk. You have got to remember that supermarkets wanted a contract across Australia for the home brand or the unlabelled milk—I will not say "home brand" because it could be whichever one. That is what they did. So they are very, very smart at manipulating ones around. They wanted someone to supply it across every State, and they did. They awarded it to whoever it was, no problem. Next time it come up, "Oh no, we are not doing that." They will just split it up. So from a processor's point of view—remember, we are the other end—so straight away if they lose it we get paid nothing for our milk. You have got to remember that there is no manufacturing capability in New South Wales. So what they did—because it was cheaper to produce it in Victoria—nearly all the manufacturing for the powders and stuff is in Victoria, down there, but what has happened is that it has worked the other way around. Guess what? If there is too much milk in New South Wales they have to freight it down there.

Ms BOYD: It is very complex.

Mr BOYD: It is very complicated. But we are dealing with the liquid one because that is where our market is. Basically, we supply a litre in and a litre out. That is how we supply.

Ms BOYD: Basically, what we are saying is there is no fat left in our production system and we have got no-one to pass all of our increased costs onto. We have invested heavily in dairy and agriculture. We employ a lot of people. We feel like we do a good job but it is every day of the year and it is just getting harder and harder. If we want to have fresh milk in our State we really thank you for trying to assist the dairy industry by having this inquiry. Thank you very much.

The Hon. RICK COLLESS: Thank you for coming along today and for your submission. As to your last comments on fresh milk, do you think there is a push from the processors to go away from fresh milk and to powdered products and UHT products?

Ms BOYD: I think UHT has been on the shelves for a long time now. People still like to go to the fridge and buy the fresh milk. A lot of people do not like the taste of UHT. Maybe they might have it in their cupboard

for times when they do not want to duck out late at night. But I think there is definitely still a place. People are not turning away from it and I do not think they will if the price goes up.

The Hon. RICK COLLESS: I take on board what you are saying, but the question was do you think the processors want to move away from fresh milk supplies or are they still committed to it?

Ms BOYD: I do not think so.

Mr BOYD: The consumer wants it.

The Hon. RICK COLLESS: The consumer does want it. You are right.

Ms BOYD: I do not think the processor wants to go away from it.

Mr BOYD: Because that has always been there. That is actually one of the things that was happening. Before in New South Wales there was liquid milk but the Victorian one was coming up as UHT and it was getting some market share in UHT. You would have to look at some figures but I think it has sort of evened out because people want fresh milk as well. UHT is never going to go away but I can tell you something about UHT. I do not know if you are really familiar with it. The packaging is the dearest packaging you can buy and the milk that goes into UHT has to be the best quality you can buy to go in, but they offload it cheap to get market share. It is not the real value. They have been mucking—

The Hon. RICK COLLESS: They are subsidising it.

Mr BOYD: Yes, because they can because it has a use-by date and they can send it up. That was what was happening. There was not as much before but it has been happening.

The Hon. RICK COLLESS: Can I ask you how many milkers you have at any time?

Mr BOYD: We were milking 3,000 cows. We have just shut one operation down.

Ms BOYD: That was two dairies.

The Hon. RICK COLLESS: What about your average production per cow?

Ms BOYD: We could tell you our daily production. That is probably easier.

Mr BOYD: We were doing 25 million litres of milk a year.

Ms BOYD: We have just stopped one farm. Four weeks ago it was seven million litres a year. All those cows got sold to the abattoirs.

Mr BOYD: From our point of view, we have never bought an animal in other than a bull. For instance, biosecurity is one of the hardest things that we have been looking at. For a long, long time we have never bought in. We rear everything. We are one of the few farms that rear every male calf as well. Every animal is reared right through in our business. People do not understand that if you milk 100 cows you have 100 support animals. That is a problem, because you have got to feed those as well. It is very, very hard just to go and say, "I'll buy those, I'll buy those", from a biosecurity point of view. We have been looking at that for a long time. All ours are vertically integrated.

The Hon. RICK COLLESS: In your submission you mention, as others have, a crisis in the industry aside from the drought. What do you see as the driving force behind that? Is it deregulation as we know it?

Mr BOYD: Deregulation has not really worked. All it has done is give power to the supermarkets and away from farmers. When you say crisis, you have got hay prices at say \$500 to \$600 a tonne and grain prices at \$500 to \$600 a tonne and you are looking at two years recovery. You have got to remember that, and it is so widespread. Normally, what would happen is if it was a bit bad in an area here you could just buy some hay out west, or the other way round. You would not get it so widespread. You are getting it so widespread this time. Also other industries now like lamb, they would just not have the sheep; now they have fed the sheep. For us, we had grain tied up and we suddenly got told, "Oh sorry, I need the grain because I'm feeding my sheep."

Ms BOYD: It is worthwhile for them because lamb prices are good, whereas 10 years ago in the 2006-07 drought they said that they were getting nothing for their lambs so they did not feed them. That was another thing. There was just something on ABC Radio the other night about an egg producer down near Melbourne. A lot of big companies that buy grain out for a year for chooks for eggs and chooks for meat, for pigs or for beef in feed lots usually have a one-year contract maybe for their wheat supply. Well, now they are all coming due. They said they are trying to negotiate a higher price for their eggs in the supermarkets because 40 per cent of their costs are their feed costs. They do not want to put the price up. They do not really want to hear about it.

Mr BOYD: It is very interesting on some of those things. That is where that crisis comes from, with that feed.

The Hon. RICK COLLESS: But there is an underlying crisis over and above the drought issues you were just talking about, is there not?

Ms BOYD: Basically what has been happening for a long time is we have basically flatlined prices or they go up half a cent, up half a cent, down two cents, then up half a cent and up half a cent and we are back to where we were five years ago or four years ago. That is what is creating a crisis, because we have had to be operating our business on so little.

The Hon. RICK COLLESS: The fact that those prices have been kept at that flat line level is a result of what? Is it because of the activities of the producers?

Ms BOYD: The dollar a litre a milk.

Mr BOYD: It was totally embarrassing. It is interesting about the ones with the most money and the most power. I will go Coles. Woolworths gets blamed for everything but it was Coles. That Down Down campaign, if I was a shareholder in Coles they did a great job, but they have just screwed all the farmers. Coles are great, they go and sponsor Farmer of the Year and the next minute they are screwing the other ones at the other end. Coles did a great job. What it did though was it pushed that price down. We supply a liquid market. You would have to talk to processors because we are not privy to everything, but someone is suppressing the price, aren't they? If it is not in their interest, why doesn't the price go up? But when they went down to a dollar a litre, think about how much is in it. I did not hear anyone else talking about costs or things before, but at the moment the cost is just embarrassing.

The Hon. RICK COLLESS: My next line of questioning is about the farmgate price that you are getting now and the cost of production per litre.

Ms BOYD: It is way out of whack. We can take it on notice to give you some figures. We have not got that here.

The Hon. RICK COLLESS: The cost of production is higher than your farmgate price. Is that what you are saying?

Mr BOYD: Yes, 20¢ a litre higher.

The Hon. RICK COLLESS: That is probably all we need to know.

Mr BOYD: You have to remember that grain has gone from probably \$180 out west to \$500-something, so think about those costs. Hay has gone from \$170 to \$400.

Ms BOYD: Plus the cost of freight from Victoria.

Mr BOYD: Because freight is a major thing. It takes two days to get a load of hay. You are going to say, "Why are you relying on hay?" Normally in our area it rains. Normally we do a lot of work not to have to buy in feed. We are doing a lot more work to try and do that. If someone said that you are going to get this sort of drought—you would not have believed it if someone told you. Remember I said we had stuff locked up and tied up in price. Whole cotton seed went from \$180 to \$750 a tonne. All that impacts on us because we have to go into those markets at certain times. Not all times, because most things we can plan, but we do have to go into those markets because we calve all year round.

We are doing our best to try and grow a lot more of that feed to try and not rely on that. We have always grown lots of feed, but we normally make 10,000 bales of hay; we made 4,000. So straightaway you have to go to a market and buy that. Some things you can tie up. You might be astute if you tied up five years of hay, but when there is no margin, how can you afford to tie up five years of feed? There is no fat in there to tie anything up for a rainy day. That is why when something like this hits, it has a major impact. I cannot believe why it cannot be passed through, but it just cannot be.

The CHAIR: I have a point of clarification before you go on. At your peak production, you are talking about 25,000 litres. Is that 25,000 litres a day?

Mr BOYD: No, million.

The CHAIR: Twenty-five million litres a year?

Mr BOYD: Yes.

The CHAIR: Thank you.

The Hon. RICK COLLESS: In your submission, your first recommendation talks about needing government intervention. I have to explore that. How do you think that will work? What sort of intervention is required?

Ms BOYD: Well, what is being talked about today, a milk commissioner or some sort of role for someone like that that the government recommends to assist how dairy farmers get paid for the product that they produce. Because from your inquiry it is your opinion that we have been getting a raw deal and that we are going broke very quickly because of the impacts of drought and long-term low prices.

Mr BOYD: If I was the government, I would not allow the supermarkets to discount a fresh product like that. They can discount it if it is near a use-by date. I have no problem with that at all, but they are using it for predatory pricing. It should not be allowed. If I was in government, I would not allow them to discount the price. When it gets to a use-by date, I might wait for the last day and buy it cheaper. I have got no problem with that. That is normal retail, but they are not doing that. They are discounting it at the start.

The Hon. COURTNEY HOUSSOS: You mean that they are lowering the price permanently, not that they are discounting it?

Ms BOYD: Yes.

Mr BOYD: Yes.

The Hon. COURTNEY HOUSSOS: When you say "discounting", you mean discounting permanently?

Mr BOYD: Yes, that is what is happening.

The Hon. COURTNEY HOUSSOS: That is right. We want to be clear.

Mr BOYD: Yes, sorry. When they tried to do it to the beer company, it said no more beer. They can do it because they are big enough and they can keep it. I think it was Lion.

The Hon. RICK COLLESS: You can store beer.

Ms BOYD: That is right, they could store it and they would not release it.

Mr BOYD: But how is it allowed to be discounted? How on earth is a fresh product allowed to be—sorry, lower the price. When something gets to a use-by date, you cannot tell the supermarket you cannot sell it because they might want to move it. That is normal practice.

The Hon. RICK COLLESS: It happens with other products such as meat and things like that.

Mr BOYD: Yes. If I was in government, that is the first thing I would bring in.

The Hon. RICK COLLESS: What form would that take?

Mr BOYD: Well, it is not allowed to be discounted unless it is near its use-by date.

The Hon. RICK COLLESS: Are we talking about a floor retail price? They are not allowed to sell—

Mr BOYD: Below a price.

The Hon. RICK COLLESS: —below \$1.50 a litre, or whatever it might be?

Mr BOYD: Yes.

Ms BOYD: How that price is decided is the big issue.

Mr BOYD: It is done in America and it is done in New Zealand.

The CHAIR: Previous witnesses have suggested that a \$1.50 a litre floor price, provided there was some mechanism for equity down the chain, would restore reasonable profitability in the industry. What is your view on \$1.50, given that there is some sort of mechanism for equity? It was also stated before that the Australian Competition and Consumer Commission [ACCC] had found that milk at \$1.50 versus milk at \$1 would be no different in demand; people would still pay \$1.50 for milk.

Ms BOYD: Yes, we think people would still pay \$1.50. If the extra 50¢ a litre became the floor price, if farmers got—

The Hon. RICK COLLESS: A proportion, whatever it might be.

Ms BOYD: Yes.

Mr BOYD: I think you have to be careful with floor price and things like that.

Mr SCOT MacDONALD: It does not have good connotations.

Mr BOYD: That is right.

The CHAIR: It has not got good connotations for a free market.

Mr BOYD: It is like quota is bad as well. I understand from a supermarket's point of view that it has to be able to move products as well. From a consumer's point of view—Woolworths has told us this—they have to give consumers a choice. If one is sitting at \$1 and one is sitting at \$3, unless you have got a conscience, which I try and tell our kids, they are probably going to buy the \$1 milk.

The CHAIR: If no-one is allowed to sell at \$1, they can only sell at \$1.50, they can compete all they like around the \$1.50 and upwards, can they not?

Ms BOYD: Yes.

Mr BOYD: Yes.

The CHAIR: It becomes a question for the ACCC whether the consumers of Australia, New South Wales or Victoria are being served properly by having to pay \$1.50 for a litre of milk. If the answer is yes, then it is doable. If the answer is no, there are too many families on the breadline and cannot afford \$1.50 a litre and can only pay \$1, then you have to come up with a different—

Ms BOYD: Different tact.

Mr BOYD: The trouble with the ACCC is everyone gets older. In 10 years time none of them will be will there. The price of milk could be the other way around. Next they will have another inquiry why it is so dear. Some of these things are ridiculous and you know it goes around and around. So someone makes a decision. When you see there are no farmers left—sooner or later—there will always be milk. It just will be at what price? They will truck it from Victoria and it will cost 20¢ to truck it.

The CHAIR: No, we will have to import it from China.

Mr BOYD: Well, that will be sad.

The Hon. RICK COLLESS: We talk about the price of milk at \$1 a litre. One of the previous witnesses drew the comparison between cigarettes, Coca-Cola and junk food and such things that are selling for dollars more than a litre of milk, which is a health food product—

Ms BOYD: Yes, people do not blink about that.

The Hon. RICK COLLESS: They do not blink about that, yet they are fighting over 50¢ extra for a litre of milk.

Mr BOYD: I will give you another example. You have heard of the A2 milk company. This is really interesting. When Coles dropped their milk to a dollar—great campaign, "Down Down"—the A2 milk company came in and had the dearest milk on the shelf. They have 16 per cent of the market now. It is the dearest milk on the shelf but the shoppers are going, "I will buy this, it is a bit different." That is interesting. Someone got market share and expanded in a market that was selling milk for a \$1 and they have grown the company to what it is today. It is very impressive.

The CHAIR: I am sorry, we are out of time. Some members who did not ask questions might like to put some questions on notice. I know you are extremely busy, but we would appreciate answers to any questions on notice within seven days of you receiving them, given the short time frame of this inquiry. Thank you for agreeing to give evidence today and thank you for your submission. We love seeing a submission that has a page on it headed, "Recommendations".

Ms BOYD: Thank you.

Mr BOYD: Thank you.

(The witnesses withdrew)

IAN JOHN LEAN, Managing Director, Scibus, sworn and examined

The CHAIR: Before we proceed to questions, would you like to make an opening statement? You may very well elucidate on what Scibus is.

Mr LEAN: That is timely. I realise that my personal background looks a little academic but it is worth pointing out that Scibus consults across Australia and the world. We consult through dairy farmers, beef farmers, and occasionally sheep farmers. We also consult companies and work with government on different projects. It is a company that is research and consulting, or consulting and research, but contains a substantial practical presence on a lot of New South Wales farms, in particular, but also Victoria, Queensland, Tasmania, South Australia and occasionally Western Australia.

The CHAIR: Thank you. Would you like to make an opening statement?

Mr LEAN: The opening statement is encapsulated in the recommendations I make. Fundamentally, there is a need for a plan. We have worked with the market for about 35 years and allowing the market to be a plan, and the market is not a plan. The industry is in crisis and this is not just New South Wales, it is across the board. About the only State at the moment that is doing well is Tasmania, but States fluctuate in their performance relative to the other States. We have a situation that really reflects a long-term economic trend and that is really simple—it has been since the agricultural revolution—returns to farmers have declined in real dollar terms. We are now at a point where a lot of that was covered by gains in efficiency so farmers became more efficient—tremendous gains right across cropping and certainly dairy. The problem is now that the returns have reached a level that no longer allow sustained investment into efficiency and you are finding that a lot of farmers are now at a point where they are no longer viable.

We have seen the evidence for that. It is very clear. We have got loss of farms. We have now got even loss of milk in the country. We are now looking at a situation where the world, not just Australia, needs more animal protein coming into the future. It is a really substantial issue. Unless we start to plan we are not going to be ready for the crisis that is coming. It is symptomatic, the current situation. I think David Boyd really eloquently put it. We have got a crisis caused by a drought but, really, when you think about the drought it is only a harbinger of the more substantive problems that are structural in terms of industry change. We have really supported these industries poorly. Basically we have taken a lot of money out of the table and we have transferred it to large corporates. The farmers are placed in an invidious position, but it is not just the farmers it is the whole of the supply chain. The processors, if you note, have almost all changed hands in the past 10 years.

What you have got is intense pressure at the processor level as well as the farmer level. There is a massive transfer of funds—I estimate about \$1.2 billion a year, New South Wales alone, from farmer pockets to supermarkets.¹ This situation cannot be allowed to continue because simply we will not have the farms. I totally concur with David Boyd's statements. We are seeing right across Australia farmers retiring, getting out of the market. It is very simple. I wrote a textbook in 1987. The average equity for Australian dairy farmers was 90 per cent in all States except Victoria which was 88 per cent. We have now 67 per cent of the produce being lost in Victoria; the average equity is 62 per cent.

I do not think you need any more data or any more understanding, other than that nice figure from the ACCC showing the volatility in pricing and the lack of returns to understand that this is a real problem. We need now to actually plan a series of outcomes. I have put some recommendations. They might look simple but, in fact, I know they are damn bold. I guess we can probably talk to those. I do have one minor edit. Point 12 of my submission should read "Following the establishment of the Woolworths home brand milk, and preceded the \$1-a-litre milk initiative of Coles". That estimate was based before the Coles intervention.

Mr SCOT MacDONALD: Through your submission, are you confirming that there is market failure?

Professor LEAN: Absolutely. There is not a market. There is an oligopoly and then we have got the tail wagging the dog. We have got corrupt international markets setting the price for internal milk. It is completely illogical.

¹ In [correspondence](#) to the committee Professor Ian Lean made a clarification to his evidence:

The figure \$1.2B is for all dairy farms in Australia – the NSW figure alone would exceed \$144 million per annum. I meant to provide that figure at that time.

Mr SCOT MacDONALD: How do we redress that without distorting the market? I think you have alluded to distorting market signals in your submission and presentation. If you go back 20 years farmers were small, maybe they were not as professional or as financial in some respects. They did not have scale incapacity, things like that. How do we avoid the wool reserve price scheme type intervention—I know it is not apples and apples—and governments setting a price that distances the producer from the market at the end of the day? It might take five or 10 years but it ends in tears. It is in tears now but it can equally go the other way.

Professor LEAN: If you took a business-as-usual approach we will not have a market. I think if you come the other way and say "What are we going to do that is logical and exposes farmers to the pressure of the market?" If you ignore the pressure of the market you are building an inefficient system. I have no problem with the premise. Incidentally, that was the premise that drove deregulation and other things. It was also premised on the fact that there was a real market, and there is not. There is an error back there that has played out in a very obvious and predictable way. If you come back and say, "How do we do it?"

I think if you say that producers have to be exposed to the real cost of production at an efficient export level then I think you have got a reasonable rationale for it. Now this is not a north-south argument because we have got lots of farms in New South Wales that are very efficient. It is really about age of farms and the development cycle of farms. I want to make that very clear that this is a more global issue than New South Wales but it does relate back to the inefficiencies in any sort of manufacturing process. If you have got an old facility then you become less efficient. A lot of New South Wales is old. What you have got is a need to maybe come and say "Who among the producers are producing efficiently?" At that point then you say, "Okay, we have a mechanism to perhaps set a market price." It seems illogical to have a market price for internally consumed milk that is below the cost of production simply because there is a corrupt export market.

Mr SCOT MacDONALD: Who said that? When the wool industry took responsibility for that it was disastrous. It started off with a good intention and literally within five or 10 years it went from 500 to 1,000¢ or whatever it was.

Professor LEAN: The devil is always in the detail so it has got to be an independent body but it should be an expert body.

Mr SCOT MacDONALD: Distanced from industry?

Professor LEAN: Correct. Distanced but with input. You have got to have an independence for that setting mechanism.

Mr SCOT MacDONALD: Immediately that commissioner, or whatever they are called, becomes everybody's enemy. There are arguments about the cost of production and you will never satisfy anybody.

Professor LEAN: If you posit that you can also look at the alternate, and it is not satisfying everybody, is it? Let us put that on the table and say that whatever mechanism we develop has the potential to be flawed.

Mr SCOT MacDONALD: Like an IPART type of thing, that really seems to be distant from the stakeholders. They go and say "This is what your council rates should be and this is what your costing of water should be"?

Professor LEAN: I do not see any problem with an independent body but it has got to obviously have input from people who know.

Mr SCOT MacDONALD: At IPART hearings anybody is allowed to go along and say "This is our cost of production. This is impacting on us" et cetera.

Professor LEAN: Yes.

The Hon. WES FANG: I thank you for your detailed submission. The model that we use in this country is far from ideal, and some would say broken. Have you experience with other models from other countries, for example, New Zealand? Are there lessons that we can learn from the operation of those models that we can implement in New South Wales that would see some wholesale changes to fix a broken system?

Professor LEAN: I guess the two systems that I have observed in some detail—and I have spent a lot of time in the United States because I worked there. There is probably the United Kingdom system where we saw Tesco intervene themselves in the market and establish a market price and to try to establish a return to producers. They worked very closely with producers on a return model. It has got some merit but it is a little bit like leaving the fox in charge of the chicken coop.

The Hon. WES FANG: As opposed to what we have got now?

Professor LEAN: It is. It is very much what we have got now. The other situation is the New Zealand model where because it is a small percentage of the market they can afford to have an internally set price for milk. One of the things that buffers them, of course, against the external market with which they are thoroughly involved is that buffering that comes from achieving a sensible internal price. Underpinning these businesses with some degree of viability by sustaining an internal price that merits the value of the product sold, not just the cost to the product produced but the value of the product sold, puts them into a much better position. It is the only tool we have against the corruption of the export market. We have somehow naively believed that we can change Europe. I do not think so. At the end of the day the question becomes: how do we handle the sorts of challenges we are going to face in the future? I could see a situation where with continued investment into the Australian market we will see export pricing parity mechanisms used by those who wish to keep the Australian price down and move the price up and do the Alcoa model and take the pricing and profit elsewhere.

The Hon. WES FANG: If we were to use a blunt instrument like setting a minimum price—I will not use the words "floor price" because we obviously discussed that earlier—for milk to be sold in a domestic market, do you think that would be an appropriate and beneficial lever to be pulled or do you think it will not have the desired effect?

Professor LEAN: I think it is an interesting thing and I would really want to talk to an economist who understood all the flow-on mechanism. There are issues around consumer fairness, but at the moment the unfairness lies against the farmers. It is a way of redressing that disparity. You would really want to think about that would be a sufficient and sensible mechanism in and of itself. Allowing milk to be used as a loss leader and allowing the power of the supermarkets to provide that attractive pool of milk which the processors must go for because of the scale of that purchase means that they are able to push the price down. And this is the one thing, I thought the ACCC document was terrific, and congratulations to Mick Keogh and the other commissioners on it, but the one error they made, and it is a serious error, is not to understand the problem of the dollar-a-litre milk. I have taken them to task about it. It is an issue that they have misread because they failed to understand the power of the oligopoly. When you have only got two substantive markets to sell to and there are many of you and few of them, the obvious outcome is going to occur. This is not a market.

The Hon. RICK COLLESS: You talked about New Zealand having an internally set price for their fresh milk, I presume.

Professor LEAN: For fresh milk only.

The Hon. RICK COLLESS: Do you know what that is in round figures?

Professor LEAN: No, I do not.

The Hon. RICK COLLESS: Is that set at the farm gate or at the retail level?

Professor LEAN: I think that is set at the farmgate level. I will take that on notice because I want to check it.

The Hon. RICK COLLESS: In your submission you have reference to Roger Corbett from Woolworths at the time saying that he had overseen \$500 million per annum being moved from producers to Woolworths. That seems like an extraordinary amount of money to be taken off our producers, does it not?

Professor LEAN: It was. It was an unusual boast but it went into press. I assume the *Australian* had the quotation right. It came from the *Australian*.

The Hon. COURTNEY HOUSSOS: Thank you very much, Professor. I think you began your submission by apologising for its brevity and its lack of references and I would like to say it is packed with information and probably better referenced than a lot of the submissions that were received. So thank you very much. I want to ask you about a loss leader. The comment that my colleague referenced from the chief executive officer of Woolworths, Roger Corbett, said that he had actually transferred profits from farmers to Woolworths, yet milk is a loss leader. Can you unpack that for us?

Professor LEAN: Essentially what you have done is you have allowed it to come in. They make a profit and they make it on turnover, but in terms of it being priced at a competitive price to other beverages, it is not. I think that is the unpacking that really needs to happen: Yes, they make a profit on that milk but they make it at the expense of the farmer. That is where the loss happens; that is where the pressure points are.

The Hon. COURTNEY HOUSSOS: The fundamental problem is that there is a lack of transparency over the supply chain, is it not?

Professor LEAN: I do not know of anybody who intimately knows the supply chain. Perhaps the commissioners on the ACCC have unpacked it fully but I do not know of anybody who knows all the intimate detail and I do not know that they were privy to all the particular contracts, so I am not sure how that really runs.

The Hon. COURTNEY HOUSSOS: Do you think there is a role for more transparency in that supply chain?

Professor LEAN: I think there really is. That would help because you can look at that and think, if you're Woolworths you can probably run at a very small per cent margin on that, providing you are turning it over 10 and 12 times a day, so that shelf space then takes a different dimension because of the turnover effect. Whereas if you are a farmer and you are dealing with maybe 1.6 million or 1.8 million litres, which is about where the average sits, a 2¢ margin is not much of a margin. This is one of the things that is not well understood. Very small changes at the farm gate make a big difference to profitability. If you are making an unreasonably small profit, let's say you are making 2¢, and you achieve another 2¢, you have increased your profit 100 per cent. But if you are still a small farm, it is negligible. This is where the difficulties come in the structure of understanding how this impacts on the different segments of the groups. Naive readings do not lead to in-depth understanding.

The Hon. COURTNEY HOUSSOS: From where I am sitting, and you reference it in your submission, the inequity in the bargaining power over the supply chain and the lack of transparency means that you have this unique set of factors that allows one particular part of it to be dictating to the others, which is clearly unfair. One issue that has come up in other submissions—and I also raised it this morning—which I obviously quite like is the idea of an independent advocate. Some people have called it a milk commissioner, the idea that there is someone there who is keeping an eye on all of this, making sure farmers get paid a fair price. What do you think of something like that?

Professor LEAN: That is the sort of mechanism that Scot MacDonald referred to as well, although I do not think his enthusiasm was that great. If you look at it perhaps as a way of equitably distributing this I think it is really important because you need somebody to understand all those costs at different levels and you also need to understand the complexity of the industry because it is far from homogenous. If you are talking about biscuit manufacturers, there will be more homogeneity in those different enterprises than in farming enterprises. You need to understand those issues around the costs of production.

It is a reasonable suggestion but it would need to be pretty independent just as stated there. I think it would need to be highly skilled, obviously. It may be one mechanism forward. Obviously we have been really strong on a mandatory code. I think the mandatory code is essential so that there can be equity in discussion between farmers and milk manufacturers, also scale, allowing farmers to band together. But effectively what you have said is that that milk commissioner would be effectively a person who would represent the farmers en masse. I think that is a really viable way of rebalancing the pressure. We are going to need to rejuvenate this industry to be able to face the future.

At the moment I can tell you that right across Australia there is no appetite for young people to come into this industry. One thing many people would not understand is that these are incredibly complex business. Not only do you have to understand the animal agriculture, you have to understand agronomy, you have to understand agronomics and economics. I am constantly amazed that I can have a very high level discussion about their finances or the nutrition of the farm or the disease on a farm and then they go and pick up a welder and fix a fence and do something else. The number of skills that are within this community are truly extraordinary and they are truly hugely undervalued at present.

The Hon. COURTNEY HOUSSOS: I am very sympathetic to your first recommendation which is saying that leaving it to the market is not a plan. That is something we have really seen today. My final question is about the capacity for research and innovation. You talked about the ageing infrastructure of the dairy industry in New South Wales but also the lack of capacity for research. You gave the example of the University of Sydney. Is there anywhere else that has traditionally undertaken this research that no longer does?

Professor LEAN: I have got to say that I am an adjunct chair for the University of Sydney. I think I am actually up for renewal so I am not sure whether or not I am speaking to you today as an adjunct chair. Anyway, don't worry about that.

The Hon. COURTNEY HOUSSOS: I am not picking on you.

The CHAIR: We can take your evidence in camera, if you wish.

Professor LEAN: When I was in faculty, we had a faculty of nine core people and we had probably four other ancillary people. We had an internationally regarded powerhouse; there is now one person. Professor

Yani Garcia is a really good man, but we are now left with one person as opposed to an international powerhouse. This has been part of the narrative that we have heard about in the efficiency in the Victorian dairy industry and investment in Victoria, but the Victorian Government has invested in research in that State and we have lost resource because of that investment. It is a competitive space. If we wish to have high-quality education and deliver people who are valuable to the industry, we need to rejuvenate that as well. I say that with some vested interest, but the bottom line is that we have largely lost that capacity. It is at the point where it is really broken and needs refixing, but that will only come I think with engagement of government and investing in there.

I just make the point about the other bit of resource that New South Wales does have, and which is in a healthy state, Biosecurity NSW, and particularly the EMAI facility, is absolutely world-class. It is the only really world-class facility in the country in that position. If I go to other States, which I do, I find that they are much less well prepared for serious disease outbreak than this State. Unless we protect that valuable resource, we are going to lose them as well. It was parlous a little while ago. They have actually pulled back in a lot of grey beards. They are also doing some training to retrain a young cadre but it was at the point of breaking.

The CHAIR: That is an interesting concept. Rather than rebuild the research capabilities within an academic institution like the University of Sydney, what would you say to using what is an extension facility within a government department, which is what that is, as your basis for rebuilding or carrying the research forward without necessarily having to start again?

Professor LEAN: There is a bit of a hub really at Camden EMAI, ourselves and the University of Sydney—so you have got a group there that could be used to rejuvenate it. The particular housing of people is probably irrelevant and where you base them is largely irrelevant. It is really about the value of having a university engaged and there is another facility that I think would be useful. There are several other facilities in the State that could be useful. One is the University of Technology Sydney [UTS]—that has some very useful technologies going on there—the University of New England and the other is Charles Sturt at Wagga Wagga. All of those could potentially play a role but it is critical that you have somewhere you can house PhD students. That is the reason for probably allowing one of the universities to be the lead because they can pull in the students and that retains those infrastructures.

The CHAIR: That sounds to me like the kernel of a question on notice to you. We might ask you for your opinion on what is the fastest and quickest way to coalesce what needs to be done. We will ask the secretariat to formulate a question and send it to you.

Mr SCOT MacDONALD: Again, to be the devil's advocate, why should the public pay for that when the primary beneficiary will be the farmer?

Professor LEAN: No, the public will be the primary beneficiary. The reason that the public will be the primary beneficiary is that ultimately you will have viable communities. Instead of non-viable communities you will have local wealth, you will be able to supply the consumer into the future with a well-priced product and you will not see the sort of explosion in costs that will come if you do not have internal production. You see that up through Queensland now. Queensland has lost its viability and it is being sustained by New South Wales. So the beneficiary of good investment into research is the public. I mean it has always been the public. There is no great benefit for researchers. They would be far better off doing something else if they wanted to make money.

Mr SCOT MacDONALD: I come from a cotton industry background and its reliance on the government sector and research and development from the public sector has always been low. There is a bit there but it has always been low. The cotton and the rice industries by and large self-fund their own research and development. They are industries that can sustain that but you want to be careful in asking for public money unless you have a very strong case.

Professor LEAN: Let me posit that strong case.

The CHAIR: Before we go any further, is there a question there?

Mr SCOT MacDONALD: A challenge.

Professor LEAN: I accept your challenge and I will just posit this.

Mr SCOT MacDONALD: If I do not challenge it, the Treasurer will challenge it.

Professor LEAN: I understand that. Let me just put this position. If you take those industries, they do have some matched investment. We have matched investment through Dairy Australia but the vast majority of the funds flow to Victoria. Victoria now only has 62 per cent of the milk; it used to have more. The decline in Victoria is even more rapid than in the northern States bar Queensland. What you have got is a situation where

the Victorian Government in a competitive space has invested for research that suits Victoria. We have not invested in research that suits New South Wales. So it is a competitive space that gives you an outcome that is adverse to our farmers at times; sometimes it is beneficial. Not all of the research is misaligned with us but a considerable amount has been, and certainly the extension has been misaligned with us. What we have is an issue where we need to create a different extension model.

Mr SCOT MacDONALD: That is a good challenge for us.

Professor LEAN: Yes.

The Hon. WES FANG: Further to what my colleague has asked you, while other industries may fund their own research, the Committee has heard testimony today that there is no fat left to fund profit, let alone to fund research. Do you believe that is the case?

Professor LEAN: You know there is a levy that goes to Dairy Australia and New South Wales farmers pay that levy. So they are already being taxed for that levy. I do not think there is a second levy, it is just not viable.

The CHAIR: Professor, I can guarantee you that there will be some questions on notice. It would be very much appreciated if we could have replies to those questions within seven days of your receiving them. Thank you very much for providing us with a document with some suggestions and recommendations, some of which look very clever. We may perhaps come back to you to expand on a couple with a bit more detail.

Professor LEAN: That is no problem. I thank all Committee members for their time. I have greatly appreciated it.

(The witness withdrew)

TIM COCHRANE, Dairy Farmer, Terara, sworn and examined

CATHIE COCHRANE, Dairy Farmer, Wogamia, sworn and examined

The CHAIR: Would either of you like to make an opening statement?

Mr COCHRANE: I am one of three brothers dairying in the Shoalhaven; one at Terara, one at Wogamia and one at Pyree. As sixth-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 proactive farm succession plan and provided employment for employees and not just family members. Solid business practices combined with a wide technical and academic and experiential skill base 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 New South Wales safe foods Act among many other legislative requirements but are being paid at a commodity price. The farmgate price of 50¢ to 53¢ litre is the same as was paid in 2011. But the cost of production has increased, along with the consumer price index 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.

The CHAIR: Could you give us an idea of the scale of your operations?

Mr COCHRANE: Between me and my three brothers we produce about 11 million litres of milk annually.

The CHAIR: On the Shoalhaven you have obviously been impacted by the drought, like other areas along the coast?

Mr COCHRANE: Yes.

The CHAIR: You are importing feed for your farms, are you?

Mr COCHRANE: Yes, we obviously buy a lot of grain and hay. Hay we had contracted this year. We could not get a contract price on grain, so we have been paying the exorbitant pricing for the whole year.

The CHAIR: What about availability? Have you been able to get your hands on supplementary feed?

Mr COCHRANE: Yes, the hay we had contracted for this 12 months. I got the last load only two days ago. Then next season the price will be the market price. We have been able to source grain the whole way through but at a price.

The CHAIR: In a normal year's operation, would you need to buy in much feed or none?

Mr COCHRANE: We normally buy in grain every month and we also buy hay. We have obviously been asked since deregulation to improve efficiency. One of those efficiencies is milking more cows, therefore buying in more fodder. When the fodder price doubles in six months, that puts strain on businesses.

The CHAIR: Do you produce any of your own fodder on farm?

Mr COCHRANE: Yes, we grow a lot of silage. This year I have put in 140 acres of corn for silage. We had a winter crop that we were harvesting. One of the staff is at home there today mowing silage.

The CHAIR: I do not know whether you were here earlier in the day but a couple of dairy farmers talked about their cost of production and the size of the losses that they are making in trying to continue to produce. We heard that at least one operation has scaled down rather drastically to try to stay in business. What do you believe is the future for your family enterprises if something cannot be done? Let us say the drought finished tomorrow and miraculously feed became available in north-east Queensland or somewhere and you were able to continue operating. Given the circumstances you describe of being paid 52¢ or thereabouts a litre at the farm gate, what do you believe the future of your enterprises is, if any?

Mr COCHRANE: If the drought magically finished tomorrow grain prices are still going to be the same for 18 months minimum. Hay prices may come off a bit. There are only so many cows that we can sell before we became unviable. Cull cows are keeping our businesses viable at this point.

The CHAIR: Sorry, what cows?

Mr COCHRANE: Cull cows. They are cows that we are no longer wanting to milk, those type of animals. There are only so many of those before you run out of them.

The Hon. RICK COLLESS: What you are saying is they are keeping you viable as you sell them off. Is that correct?

Mr COCHRANE: Yes, we are selling truckloads of cows to the abattoirs every fortnight and that is essentially what is keeping the business.

The CHAIR: Obviously that is a null equation. Sooner or later you are going to run out of cull cows.

Mr COCHRANE: That is right. At one point you have decided, "That's it. I can't sell any more." Then you start selling viable stock, and that is obviously to the detriment of the business and to the entire industry.

The Hon. COURTNEY HOUSSOS: Thank you for your time this afternoon. How many cattle do you have at the moment to produce 11 million litres across the three farms?

Mr COCHRANE: We as a family have 1,400 head, milkers, plus the young stock of course.

The Hon. RICK COLLESS: Does that include some of your dry cows?

Mr COCHRANE: No, that is just milking cows. There are about 1,400 milking cows. I do not know exact numbers at the two other farms.

The Hon. COURTNEY HOUSSOS: One thing we have been talking about today is that across the supply chain there is a lack of bargaining power for farmers. Would you agree with that?

Mr COCHRANE: Yes.

The Hon. COURTNEY HOUSSOS: Instead of everyone across the supply chain being able to have a reasonable conversation about what the price should be and what a fair price is, there is a stopper at the end, which is the dollar a litre milk.

Mr COCHRANE: ²We believe dollar-a-litre milk is putting a ceiling on the price of milk. As farmers, that is what we see. Other people tell us differently, but we see that. I do believe the Australian Competition and Consumer Commission made a fairly big error of judgement with that claim that they said it did not have an effect. But it is a ceiling in our market that we do not seem to be able to break.

The CHAIR: So that dollar-a-litre milk is a path to unsustainability? If that stays, you are finished? The industry I mean, not you personally.

Mr COCHRANE: Since 2011 when that first came in we have not had a price increase. All our costs have gone up each year, so effectively we are going backwards at twice the rate of inflation. Every year we go backwards, go backwards. There is only so much efficiency that we can produce on farm to counteract that. Like I said, most people in the room who are farmers are beyond that point of being able to increase efficiencies. A lot of farms have increased efficiencies by buying in feed. When we can we are trading in commodities, hay and grain, to produce food. So it is about food sustainability that this needs to be sorted out.

The Hon. COURTNEY HOUSSOS: Have you done the figures for what a sustainable farmgate price would be for you?

Mr COCHRANE: My brother has got figures here. He reckons he is 63¢ a litre, his cost of production. That would be no margin on that. That is just what he believes it would cost. If you put a margin on that, 70¢.

The CHAIR: Do you think that 70¢ is indicative across your whole operation?

Mr COCHRANE: Yes.

The CHAIR: So being paid 50¢ every litre of milk, it is costing you 20¢; you are losing 20¢?

Mr COCHRANE: At this point we are simply making it up with culled cows.

The CHAIR: That was not the question.

² In correspondence to the committee Mr Tim Cochrane made clarification below to his evidence:

It is also the perception that this price - \$1/litre – equals its worth/value, and that is the problem for us as food producers under the NSW Safe Foods Act.

Mr COCHRANE: We believe so, yes.

The CHAIR: Are you a dairy farmer, not a beef farmer.

Mr COCHRANE: Exactly. It is good that beef comes off a dairy farm, but that is another conversation.

The CHAIR: I know that. I am talking about your main game, which is dairy farming.

The Hon. COURTNEY HOUSSOS: I am going to ask a question that Mr Colless asked earlier today. Does that 70¢ include a reasonable wage for you and your family?

Mr COCHRANE: I take \$1,500 a month out.

The Hon. RICK COLLESS: So it does not include a proper wage for you?

Mr COCHRANE: That does not include my wage, no.

The Hon. COURTNEY HOUSSOS: Across the three farms you have your three brothers working. Do you have other family members pitching in as well, instead of employing staff?

Mr COCHRANE: I employ six staff. How many does Dan employ?

Ms COCHRANE: He has got about four.

Mr COCHRANE: And my other brother employs about three or four as well. We all employ external labour. You cannot milk 500, 600 cows by yourself. It does not work.

The Hon. COURTNEY HOUSSOS: But there is no reasonable wage for you built into that 70¢ price?

Mr COCHRANE: No.

Ms COCHRANE: This nominal amount of expenses that are taken out as a wage, we consider that to be like an investment in the farm. The balance would be the investment in the farm.

The CHAIR: We understand that, yes.

Ms COCHRANE: The hours worked would not come up on a time and wages sheet because it is often over 15, 16 hours when you are on call.

The Hon. RICK COLLESS: In that case, if the shortfall in your wage is seen as an investment into the business, what is your return on your investment?

Mr COCHRANE: I do not know the answer to that one.

The Hon. RICK COLLESS: It is not very much, though, is it?

Mr COCHRANE: No. Dairy farmers have a lot of money tied up in capital. My farm and one of my brother's farms has \$2 million tied up in capital in the dairies themselves, let alone the cost of the land. In the Shoalhaven we have to compete against Sydney money, investment farmers, people who want lifestyle blocks. We are paying against that type of money to buy blocks of ground. I do not know if any of you deal with tax law, but something else should be done with the tax system. Those hobby blocks, often people get a tax deduction for being a primary producer and they have 10 cows or something.

Mr SCOT MacDONALD: Not anymore.

Mr COCHRANE: Is there a mechanism for dairy farmers that if they annex their block—getting ground is our biggest problem. At the moment in Shoalhaven we have had rain so we are cutting silage, but we do not have access to a lot of the blocks. A lot of the blocks are just idle. If we were able to use that ground—and the owners of the ground got the tax deduction because it is linked to our dairy licences. I have not got that written down, but that would be something else that—

The CHAIR: I would be talking to every one of the owners of those blocks within 50 kilometres of your farm.

Mr COCHRANE: We attempt to but we have to compete against other dairy farmers doing the same thing.

The CHAIR: I understand that. I was being facetious. Forgive me.

The Hon. COURTNEY HOUSSOS: One question I have proposed to almost every witness today is the idea of an independent advocate who would help you even up the bargaining power across the supply chain.

It would allow someone to give more transparency to these contracts and for you to be able to say, "This is what is a fair price for me." Would you support that?

Mr COCHRANE: Yes. I believe the dairy farmers need a representative in the room when there are negotiations between Coles—sorry, supermarkets. I will not say Coles.

The CHAIR: You can say Coles.

Mr COCHRANE: I hate Coles.

Ms COCHRANE: He might just say it nicely. I have explained to him what language to use.

The CHAIR: I did explain at the start not to name any person, like Sir Frank Coles. You are not allowed to say anything about Sir Frank.

Mr COCHRANE: In negotiations between the supermarkets and the processors there should always be a representative of the farmers in those rooms to say that is not a good deal for the farmers. Where is the farmers' margin in those deals that are done? We believe a lot of the deals are done with two lots of middle management working on commissions or bonus scenarios. A lot of these deals get done and we get left out. Yes, I think someone needs to be in the room to sign off on all those deals, for all fresh food not just dairy, so that someone can say, "yes, that is enough money". What do dairy farmers like doing best? Spending money, and that money gets spent with all different facets in our local area. If we do not have the money to spend, it is a detriment to the entire community. It is not just for us, it is for everybody, because the more money we have got—yes, we do not like driving around in a 2004 model second-hand Commodore.

The CHAIR: What is wrong with a 2004 Commodore?

Mr COCHRANE: Nothing. It goes like a race car—4-wheel drive one.

The Hon. COURTNEY HOUSSOS: Is your processor Parmalat?

Mr COCHRANE: Yes.

The Hon. COURTNEY HOUSSOS: That is what we heard. They seem to be the processor in this region.

Mr COCHRANE: I will make a statement regarding that. When Parmalat came into New South Wales, they did not have any milk in this State when they won the Woolworths contract.³

The Hon. COURTNEY HOUSSOS: How does that happen?

Mr COCHRANE: I do not know. You tell me. They bought a factory and they had to get suppliers for it and they got the contract, I believe. I might be wrong but that is what I believe.

The Hon. COURTNEY HOUSSOS: Has the price decreased?

Ms COCHRANE: It was good to start with.

Mr COCHRANE: And Murray Goulburn did not have any suppliers either when they won the Coles contract in New South Wales. So they came into New South Wales, had to attract suppliers to get the contracts.

The Hon. COURTNEY HOUSSOS: I cannot remember if I read it in your submission but the price Parmalat paid you decreased. Is that right?

Ms COCHRANE: That is what we have said.

Mr COCHRANE: It has basically stayed the same. It goes up and down marginally here and there but it has basically stayed the same.

The Hon. COURTNEY HOUSSOS: Thank you for your time today.

³ In correspondence to the committee on 26 November 2018 Mr Tim Cochrane made the clarification below:

When Parmalat came into New South Wales they did not have any milk in the Sydney milk market – they bought the factory, they had to attract suppliers, but still did not have enough milk to fill the Woolworths contract they had won and then set about attracting new suppliers with attractive prices. This included our family.

The Hon. WES FANG: Thank you for coming to the hearing today. It is really important that we hear from people like yourselves who are at the coalface of this issue.

Ms COCHRANE: We do not use the word "coal".

The CHAIR: It is not the coalface, it is the milkface. Wrong word.

The Hon. WES FANG: Apologies. Having read your submission, it is interesting to me that you lack the ability to renegotiate a contract halfway through a term. As you say, you deal in commodities. You buy in grain and hay and all those things which have increased exponentially in cost, yet you do not have the ability in your contracts to factor that in and you are still expected to supply milk at a margin which puts you into debt. That is not sustainable for a long-term future.

The CHAIR: You mean a loss?

The Hon. WES FANG: A loss, yes. How do you see a mechanism like that working? How important would it have been if you had had that within your contracts?

Mr COCHRANE: The ability to be able to negotiate up? A lot of contracts we had before always guaranteed a minimum price. Our contracts do not have minimum guaranteed price anymore going forward for a number of years, even the ones we have been asked to sign going forward after December. There is no guaranteed minimum price for 12 months time or for two years time when we are asked to sign longer term contracts.

The Hon. RICK COLLESS: What is the wording in the contract if they do not guarantee you a price?

Mr COCHRANE: We are given a price.

The Hon. RICK COLLESS: They will guarantee to take the milk. Is that all it is?

Mr COCHRANE: Essentially, and pay us a signing-on bonus for paying. That is essentially the only two things that are on that contract.

The Hon. RICK COLLESS: They will tell you the price per quarter?

Mr COCHRANE: We get a price update every six months. We get a 12-month pricing to start with and every six months we have got six or 12 months of pricing at the best in front of us. We are always given that next six months in advance.

The CHAIR: With the emphasis on the word "given".

Mr COCHRANE: Yes, we cannot negotiate that price. We are stuck with these prices now for 12 months, our input costs, and we have no ability to negotiate that price. We gave our 90-day notice at the end of September to say we were looking at options for our milk company.

The Hon. WES FANG: You have no mechanism within the contract to acknowledge that your commodity price that you buy into your farm has increased?

Mr COCHRANE: No.

The Hon. WES FANG: You are just given the price by the processor who says, "This is the price we are going to pay you for the milk that you produce"?

Mr COCHRANE: Yes, and we have to work out how we can do that, or we sell up.

The Hon. WES FANG: Do you believe that that is a fairer and more sustainable model for the dairy industry in New South Wales moving forward?

Mr COCHRANE: Not with the ceiling of \$1 litre milk there. The processors at our last meeting told us that they only made such a small margin, and basically said that the \$1 litre milk was hurting their business. Lion bought Dairy Farmers. The \$1 litre milk started not long after that. I would love to know how many billions they wrote the value off their company and now it is for sale. Where did that money go? Coles and Woolworths.

The Hon. WES FANG: If this Committee were to look at implementing a minimum price, that milk can be sold within New South Wales, predominantly across the country. Do you believe that that would go part of the way—even though some might say it is just a blunt instrument that can be used—to assist farmers achieving a fair gate price for their milk?

Mr COCHRANE: If we could guarantee our cost of production in that mechanism. But if we are just told that, like I say, the supermarkets apparently are not making any money. They could take 50¢, the processors

take 50¢ and we still get our 50¢. Unless there is a guarantee that we are going to get it—Canada's supply model, they have a guaranteed price.

The CHAIR: Farmgate price?

Mr COCHRANE: Farmgate price, but obviously Trump has watered that down a little bit by giving away his market. I have talked about the free trade deals that have been done and have sold out dairy farmers. We are getting cheese dumped into Australia under the cost of production in Australia. How is that? And a lot of that is subsidised from America, Europe; I do not know about the New Zealand stuff. It is being dumped on our market cheaply under the cost of production in Australia.

The CHAIR: That supply of cheese coming in from New Zealand is very slow because two blokes take so long to load the truck.

Mr SCOT MacDONALD: You have to put in your submission that people are leaving the industry. I refer to other agricultural commodities and industries. Cattle numbers are down, lamb numbers are down, I think, and certainly wool production is down. Over a decade or so it has been very painful but now we are seeing recovery. Do you see a realignment of supply and demand when power might return to the supplier? You can ask us to regulate until the cows come home—

Mr COCHRANE: Yes, I know what you are saying. Do you think enough farmers are going to go out so the processors will be chasing our milk?

Mr SCOT MacDONALD: Yes.

Mr COCHRANE: While ever the free trade agreement is bringing in the cheap product—they refer to what we produce as food and we have a New South Wales food licence. But they keep referring to it now as a commodity and to that commodity as the export price. They are just going to keep winding us down. I know what you are saying. Will there be a point where the New South Wales consumer demands fresh milk?

Mr SCOT MacDONALD: I am not saying that.

Mr COCHRANE: We handed them the New South Wales fresh milk market on a platter to pay the New South Wales suppliers more when the Murray-Goulburn campaign happened. I was on that Facebook campaign: dairy farmers need your help. We handed it to the processors. We gave them the market share and they sold us out.

Mr SCOT MacDONALD: Do you see the point where power returns? We can all see the current power imbalance. Do you see that power imbalance correcting itself?

Mr COCHRANE: I hope my kids can see that, if we are still farming at that point. I cannot see it happening any time soon.

Mr SCOT MacDONALD: Why is that?

Mr COCHRANE: While ever the supermarkets keep milk at \$1, import cheese at \$7, they are both below the cost of production in Australia. How many more farmers have to go out before that is achievable. We are already below domestic supply now. With what is imported into the country and what is exported, we are actually below domestic consumption.

Mr SCOT MacDONALD: Your statements are exactly what I heard 20 years ago in the wool industry. It took an incredibly difficult time but it corrected itself. Should government step in and hasten to get to that point? How would you do it fairly?

Mr COCHRANE: To maintain an industry?

Mr SCOT MacDONALD: Yes.

Mr COCHRANE: I guess this is what we ask ourselves every day. Does the Government want a dairy industry? Does it want our value-added product? Does it want us to be able to spend money in a community?

Mr SCOT MacDONALD: At the end of the day the Government will respond in some part to the consumer. And the consumer every now and then says "yes" but for the other 360 days of the year they do not care. They just walk into Woolworths, Coles or Aldi and pick up the cheapest bottle of milk they can find.

Mr COCHRANE: The cheapest bottle of milk they can find, and still pay \$4 for a bottle of water.

Mr SCOT MacDONALD: Twice a year you will get a campaign on Sunrise or somewhere else to back the farmer and everybody agrees and the next day they go and buy the \$1 milk.

Mr COCHRANE: And as farmer numbers keep reducing, I do not know the answer to that one.

Mr SCOT MacDONALD: Does the representative industry, like Dairy Connect or whoever it is, see that point?

Mr COCHRANE: I am on Dairy Connect. I am one of the farmer representatives, and I do not believe so.

The CHAIR: We will be interrogating them.

The Hon. RICK COLLESS: You referred to the trade agreements. If you were to withhold your milk, would that simply encourage products to be imported?

Mr COCHRANE: If farmers are to withhold their milk? We have had that discussion recently.

Mr SCOT MacDONALD: But that means tipping it down the drain—

Mr COCHRANE: And we get nothing for it. We are actually going out backwards faster.

The Hon. RICK COLLESS: I understand it is not a long-term option.

Mr COCHRANE: It is not a long-term option. We do not have the cash reserves to do that.

The Hon. RICK COLLESS: If fresh milk were not available in Australia, would Australia only be able to import process milk, UHT and the like?

Mr SCOT MacDONALD: Essentially, yes.

The Hon. RICK COLLESS: Is it possible to import fresh milk from New Zealand?

Mr COCHRANE: They export fresh milk to China, so anything is possible.

Ms COCHRANE: And to Singapore.

Mr COCHRANE: Anything is possible but there would be a cost to that. Does the consumer want to pay the cost in China? Our fresh milk into China equates to about \$10 a litre. I do not think the Australian consumer wants to pay that.

The Hon. RICK COLLESS: No.

Mr COCHRANE: That would be a very small niche market.

The Hon. RICK COLLESS: What is the logical solution? We know you have got to get more money for your milk. By what process does that happen?

Mr COCHRANE: I like the idea of a commissioner who could sign off on any deals between the supermarkets to make sure there is a fair price for the farmers, to guarantee we have a fair price for our milk. At one point we had the tier two milk, like I have stated. I sent half my milk in at 13¢ a litre. For five months, half my milk went in at 13¢ a litre.

The Hon. RICK COLLESS: Was this in the days of regulation?

Mr COCHRANE: No.

The Hon. RICK COLLESS: Just recently?

Mr COCHRANE: Yes. The \$1 litre milk started on 26 January 2011. They did an ACCC inquiry into the dairy industry. They found that everyone was being paid the same as before, which was true. Come 1 July 2011, I believe it was that year, we got paid 13¢ a litre for half our milk because our family had done the succession plan. We had expanded. We had done everything the industry had asked us to do and half our milk was going in at 13¢ a litre for five months. That was actually worse than the Victorian clawbacks when they got paid those two months and they got their 13¢. We had that for five and that put a lot of farmers out. Market forces could have changed it then if they just changed the way they dealt with the tier two milk.

There was the milk that was needed for the fresh bottle milk, and then there is the milk that is required for manufacturing. Whether it is the re-regulated industry where they regulate a price, I do not think that will ever happen but you can only suggest it. The milk that is needed for New South Wales—we are talking about New South Wales in this thing—and the milk that is not. You have a price for one and you have a manufacturing price

for the other. You produce the milk in the winter time when it is most required, that becomes your baseline for the milk you produce in the spring when milk is supposedly readily available and cheap, which is not correct.

The Hon. RICK COLLESS: If we had the advocate, commissioner or whatever you want to call them, what sort of powers should that person have?

Mr COCHRANE: The dairy commissioner?

The Hon. RICK COLLESS: Yes.

Mr COCHRANE: Like I said, he needs to be able to sign off everything. Every agreement between a milk processor and a supermarket needs to be able to be signed off by someone like that or the farmers need a representative in that room to make sure that we are not being undersold like we are now.

The Hon. RICK COLLESS: What you are getting at, I guess, is that the commissioner would have the power to set the price.

Mr COCHRANE: Not necessarily set the price but make sure the farmers got a fair price for their product.⁴

The Hon. RICK COLLESS: But that is what you are talking about there: a minimum price, really. Do you see where I am coming from?

Mr COCHRANE: But like you are saying, the minimum price 12 months ago would have been a lot more than what it is for the next 12 months because of the supply and demand issue with hay and fodder. We know. That is something you have to be careful of. When seasons are really good, that gives them a mechanism to wind everything right down because you are only going to go for the bare minimum return or profit, everything like that, and when things are really bad you are still only asking for the same. If you got a reasonable return on average for a lot of years, you would be able to invest in things.

The Hon. RICK COLLESS: You could absorb that yourself.

Mr COCHRANE: You can absorb it yourself. Like I said, we are selling off cull cows and we are still absorbing that. We have sold a lot of steers off, so we have other facets of the business that we are selling off to maintain to be able to buy feed for the milking, our core business. You sell off a lot of other stock to achieve that result. Not every business can do that.

The CHAIR: We have a body that actually listens to inputs from a supply chain, whether it is water or power, and then makes a determination as to what the market price should be. That body is called IPART, the Independent Pricing and Regulatory Tribunal. It does not consider the dairy supply chain, to the best of my knowledge. But something like that would give you what you feel you need in that the establishment of the retail price should take into account, on a variable basis from year to year, the cost of inputs. IPART does take those things into consideration. We have seen some interesting determinations by IPART where it has taken into account the capital cost amortisation in particular irrigation districts, for example, and stuff like that.

Do you think something like an IPART commissioner or a person like that who not so much sets price but looks at the contracts and the content of the contracts to make sure that those contracts can deliver an equitable exchange throughout the chain for different and varying circumstances as you go forward through the years? Is that the sort of thing you would find acceptable?

Ms COCHRANE: We would have to look at the fine print.

Mr COCHRANE: I guess so. As long as the farmers—

The Hon. COURTNEY HOUSSOS: It is not a trick question.

The CHAIR: No, it is not a trick question. I am not trying to get you to make a recommendation. I am just asking you—

⁴ In correspondence to the committee on 26 November 2018 Mr Tim Cochrane made the clarification below:

This is similar to a VETO in the United Nations – not setting the price – but being able to veto in order to gain a fair price.

Mr COCHRANE: Yes, I believe something like that would be good. It gives the farmers a seat at the table. We do not have that at the minute.

The CHAIR: Well, this is something a little bit more than a seat at the table. It is a statutory requirement for that person who is doing that job to have considered the input from the farmer, to have considered the input from the duopoly and who has had to consider the input and the costs of the processor and the transport component, all of those things.

Mr COCHRANE: Yes, I think that would be good, because at the moment we do not have a seat at the table and that would give us one.

Ms COCHRANE: Can I just say a couple of things?

The CHAIR: Yes, of course you can.

Ms COCHRANE: Something that has benefited the dairy industry in the past and is being wound down has been the offering of the TAFE courses at the local level for dairy farming. At the moment they are travelling a long way, or apprentices travel. They are not being educated locally. That has been a stronghold of giving integrity to the young people who are studying, learning and forming a base of the workforce.

The CHAIR: You have just taught me something. I did not even realise there was a TAFE course in dairying.

Ms COCHRANE: Yes.

The CHAIR: There you go. Where would any young people you want to train have to go to from the Shoalhaven to get training?

Ms COCHRANE: I think they are now going up to Tocal. I would have to—

Mr COCHRANE: Some go to Yallah. I do not know if they go to Yallah or not.

Ms COCHRANE: Yallah maybe, yes.

The CHAIR: In that regard, your industry is no different from 100 others.

Ms COCHRANE: Maybe that needs to be a recommendation to you too, to make the TAFE system more robust.

The CHAIR: All right.

Mr SCOT MacDONALD: Courtney is nodding her head.

The CHAIR: Yes. I happen to agree too, being TAFE trained. Thank you very much for agreeing to come and see us. You have travelled up from the Shoalhaven. I hope you can continue to farm until we can see whether a solution can be found to the problem. It is quite evident to us from one day of hearing, having heard from, say, four dairy farmers, that the timing is now critical. We are at the eleventh hour. Thank you for agreeing to come and see us. We will send you some questions on notice. Could we have the answers back in seven days?

Mr COCHRANE: No worries. Thank you.

The CHAIR: Thank you.

Ms COCHRANE: Thank you.

(The witnesses withdrew)

EVAN WILLIAM HAYES, Dairy Farmer, sworn and examined

The CHAIR: I note that we have not received a submission from you; however, you are going to provide us with one.

Mr HAYES: Yes, I will.

The CHAIR: We are taking the opportunity here to give you 15 minutes to perhaps put on the record some points that you think we should consider.

Mr HAYES: I would like to thank everybody for this opportunity for the industry as it has been in decline for many years. The problem with the industry is we are never being paid enough to put away for times like a drought. If dairy farmers were paid enough in good times we would be able to withstand these bad times. Since the dollar a litre has come in—and no-one has talked about it—the market share with on-the-shelf space between the processors' brand and the home brand has shifted away from branded milk to home brand, the \$1-a-litre milk, which is where the money has come out of the industry. My view is the supermarkets cannot be accountable for the industry. They have no connection to the farmers, so why should they have their branded milk on the shelf dictating the price that the farmers get paid when they are competing against a processor's product on the same shelf space. There are enough processors on the shelf that the market should be able to sustain competition on the shelf without the supermarkets having their branded product on the shelf.

As you have said, the market should be able to regulate itself. The problem is it cannot regulate itself while ever there is \$1 a litre on the shelf, because they are competing against that \$1 a litre. If you take that \$1 a litre away from it, the processors' branded milk would reduce because they have to make their money that they are losing on that \$1 a litre up on their branded milks. If you got rid of the \$1-a-litre supermarket brands off the shelf, while ever there are two or three processors on the shelf there should be enough on that shelf to maintain competition within the marketplace. It will give that market share wholly to the processors, from which they can then gain more money. The supermarkets will still gain their part of that litre of milk. It will then put more money back into the industry to sustain the industry.

We have made the decision to sell our farm and move to Victoria where the cost of production is a lot less. We have found that we cannot grow our business. We have got two young sons coming onto the farm. We milk 250 cows—we got up to 400 cows in the good times—and we produce between 2.5 million litres and we got up to nearly three million litres of milk. The problem is we are forced to push our farms to their limit in a good time. So when a bad time comes we have got to rely on bought-in feed and because this drought has been so widespread we are at the mercy of the elements of the drought. So we are really becoming unsustainable because we are forcing our farms to produce more and we cannot afford to expand because we are not getting paid enough.

Farmers should be able to buy their neighbours' land, if it came up. This area that we live in, we cannot afford to buy our neighbours'. It came up, it was \$20,000 an acre and we could not afford to buy that. We would have went broke if we bought it. So it is better off to take our money. Yes, they are getting out in Victoria but we can go down there and be debt free. Since the commission into the banks, they have tightened their lending criteria and it will be harder for farmers to gain funds in the future, I believe. In the last 12 months we have just now had to borrow another \$140,000 to cover—we thought we may have been able to get through but we couldn't.

The CHAIR: You have made the decision to stay in the industry?

Mr HAYES: Yes, we will.

The CHAIR: You will recapitalise and reinvest?

Mr HAYES: Yes.

The CHAIR: Is it just the cost structure in Victoria that is lower? How does the farmgate price down there compare with the fresh milk market up here?

Mr HAYES: The farmgate milk price down there will always be—we were always told that our price is set by Victoria plus freight. So we are paying freight to freight our fodder from the other side of Victoria at a higher rate than what they can actually contract their milk to get it into Sydney. So we are actually going to go down there, be in the middle of the grain belt so we can actually source failed crops and stuff like that.

Mr SCOT MacDONALD: Feed grain.

Mr HAYES: Feed grain at a cheaper rate.

Mr SCOT MacDONALD: In my view, a good part of the drought support measures the Government has put up is rural financial counselling—I think it might be State and Federal. Would you see a role for some more financial literacy and the State Government underpinning some real farm planning in, for example, viability and sustainability, to make the sort of tough decisions that you are obviously making?

Mr HAYES: We did have the financial counsellor come in and do our loan—that was one of the criteria for the banks—and they are a great resource to use. We have never asked for any—to date we have not asked for any money off the Government. We have not got any drought assistance. The problem with the drought assistance is the amount of rigmarole. We made a profit last year so we are technically probably unable to get any money. We are a viable business but we cannot access any drought subsidies. The problem with the drought subsidy is that it is either a loan, which you might as well go to the bank and be deemed to them, but if the drought subsidy was on the GST that you pay—a profitable business pays GST and our biggest problem at the moment is that we are still paying a massive amount of GST each month. If they gave as a drought subsidy your GST in an average year as your bonus or your drought subsidy, each farm runs at a different level—

Mr SCOT MacDONALD: I interrupt you there. Before you thought about going to Victoria, did you go to your accountant or an adviser annually and say, "This is how we are tracking."? Is that prevalent in the industry? Is that something people think about?

Mr HAYES: We see our accountant monthly. Up until the last 12 months everything has been—we have wound back, we have not spent money on anything. That is how we made profit. We are lucky that we booked in grain at a good rate last year. We are still paying last year's prices, which we have a good relationship with a grain merchant.

Mr SCOT MacDONALD: That grain grower is probably kicking himself now.

Mr HAYES: He is a grain merchant, so he buys it and stores it for us.

Mr SCOT MacDONALD: He could probably be making another \$200 a tonne right now.

Mr HAYES: It went up \$100 a tonne overnight. With our silage, we make a lot of that on farm. The last 12 months we—if we stay here we have got to droughtproof our farm, which we are pretty much a wholly, solely dryland operation—the only irrigation we have got is our effluent. We cannot put a bore in and buy irrigation water because you have either got to buy it off somebody who is willing to sell it, and that is at exorbitant prices—I hope I can say that—because Hume Coal is inflating the market. We saw that we will never get a return on our investment. If we spend \$1 million on water, it is going to take us a long while to get it back and if we ever sold the farm it is never going to get that \$1 million back, so we might as well go to a farm that has already got it.

The Hon. WES FANG: Do you think part of the problem is the price of land around here? The Committee heard earlier in evidence about the value of weekend farmers and weekenders around here. That is obviously having an impact on neighbouring farms and properties. Is that part of the problem in this area?

Mr HAYES: To me at the moment it is not a problem because we are trying to sell. But for us if we wanted to stay here, that was the reason why we decided to sell. The farm has been in the family since 1912, so it is a generational farm. We would have done this 18 months ago if our father was on board but because he was against it—the only way we got him around was our great grandfather came here and it is now his turn to take us somewhere else. None of the dairy processors are investing in New South Wales and there must be a reason for that. They are building factories everywhere in Victoria. I believe that they do not see a future in New South Wales for milk. That is the sad reality. If they can get it out of Victoria at a cheaper price—

The CHAIR: They will.

Mr HAYES: They will.

The CHAIR: Thank you.

Mr HAYES: Can I just add one thing? We supply DFMC, which is different to the other ones. We get paid a good price. We are getting paid nearly the highest price in New South Wales, and that is purely because they do not have any affiliations with the supermarkets. They did have both supermarkets because they bought Lion and Lion had Coles and Woolworths. The reason we got to 13¢ is because they lost one of the processors and the supermarket chains went too. Well, they lost Woolworths because they had too much milk. It forced everybody to go to Parmalat. Then they lost Coles and the price dropped again, so everybody had to go to Murray Goulburn. The processors have always been at the mercy of the supermarkets. Thank you for your time.

The CHAIR: Thank you very much. Make sure you get that submission in. A late submission is better than no submission.

(The witness withdrew)

IAN ZANDSTRA, Dairy Farmer, sworn and examined

Mr ZANDSTRA: I am a dairy farmer but I am also on the NSW Farmers Dairy Committee.

The CHAIR: We do not have a submission from you to which we can refer. I will suggest that you open the floor, tell us what you want to tell us and we will try to formulate some questions from that.

Mr ZANDSTRA: Okay. I suppose where I come from, I am a dairy farmer, first generation. I started off myself, both my wife and I.

The CHAIR: At what location?

Mr ZANDSTRA: At Nowra, New South Wales, on the coast. I have spent a lot of my time in representation. I was on the board of Dairy Farmers since 1998 to 2004 and then became chairman of Dairy Farmers Milk Cooperative. I feel that and my farming background gives me a good insight into the past history of the dairy industry and even the current status.

The CHAIR: I do not know whether you were in the room to hear previous speakers, but the general tenor—I think I am correct, I will soon get pulled up if I am not—is that most of the dairy farmers here today are of the opinion that the limitation on the survival and/or the growth of the dairy industry in New South Wales is the dollar-a-litre milk in the supermarkets. Would you agree with that statement?

Mr ZANDSTRA: I do agree, but I hope I can elaborate on that.

The CHAIR: You may.

Mr ZANDSTRA: The problem with dollar milk is that it is bid for by processors. We could say it is just part of their mix, but some processors have bid for it as an individual contract. So some are looking for that. The big issue with it in New South Wales has been the risk of losing those contracts, because those processors have those milk volumes in the pipeline. That leads to some sharp bidding, perhaps, but also hopes that they do not lose the contract. So that is a pretty tough commercial situation. They have the milk from us. They have a lot of it. It was 110 million litres in New South Wales for Woolworths and about 70 or 80 million for Coles. The margin is very low, but there is a risk in losing it as well.

The CHAIR: The production in New South Wales for those two major chains is about 200 million litres?

Mr ZANDSTRA: That is private label milk, Coles and Woolworths, about 200 million litres. It has had a history of being part of the milk usage since deregulation. It started off in small volume because all milk was the same price pretty well on the shelf, to the processor and to the farmer. It became a brand in its own right and then it was used very cleanly. Since it was a processor and retailer brand, they had a fair bit of muscle in determining what they would pay for it. They cannot necessarily determine that about everything. But it was their brand. So it has been bidded down to very marginal returns for the processor in New South Wales. Since it is a lot of milk, the revenue of processors to pay their costs—and milk is a cost—really comes from the strength of their overall business. One dollar milk is a poor part of a processor business. Quite frankly, if it was not there they would have a better margin on milk and perhaps have the wherewithal to pay farmers more. That is really being tested now at this time of drought when I think there is a general consensus that a milk price increase is needed. All margins have always been tight, but \$1 milk is just a stream of revenue with no upside for processors and hence farmers.

The Hon. WES FANG: We often describe some of the specials that supermarkets put on as loss leaders to attract people into the supermarkets. The way that the supermarkets have approached their pricing with dollar milk is almost like it is not so much about loss leading as about volume. As in, they are not actually making a huge loss; they are transferring that loss down through contracts with processors and those processors are then transferring that on to the dairy industry. Is that a reasonable thing to say? If we had an increase in the minimum price that we paid for milk in supermarkets, do you think that may have a flow-on effect to be able to get a farmgate price increase?

Mr ZANDSTRA: I think if the retail processors had more revenue they could pay farmers more. Milk is really worth what you have to pay for it where you want it. That is supply and demand plus other factors. It really is not reflecting the value of drinking milk in the two northern States and Western Australia, which is nearly all drinking milk. If it was all \$1.50 on the shelf, obviously those processors would have more money. It is just a poor part of the market and a poor part of the mix of business units in a process. Nearly all businesses have got

those sorts of business mixes, but at the end of the day they all contribute to what they can pay for milk. The processors have got a weak one in \$1 milk.

The Hon. WES FANG: If we did set a price, what do you think we could do to ensure that the flow-on went down the chain so that any increase in revenue generated by setting a higher price was not kept by the retailer? Can you see some mechanism that could be put in place to make sure that it flowed down the hill?

Mr ZANDSTRA: It is pretty hard because I know some of these retailers and they will blatantly say even recently that if the price was increased they would just keep it, or the processor would not pay it to the farmer. We cannot be sure of that, but their attitude says they are not doing anything about this; therefore, farmers are not getting more. Currently a branded milk comes back to the farmer, you might say. Maybe not enough. But with \$1 milk there is no hope of much being there.

The ACCC got it wrong, and very wrong. It is all right talking about economics and so on, that the farmer gets the milk price, and if they have the wherewithal in the contract to lift the price the processors do. But if it was so easy they would have done it, wouldn't they? There is not much in it for them, anyway. It is really about the muscle of the retailer. There are other factors. One reason the processors do not willingly do it in the first instance is they bid for these contracts. The second one is, undoubtedly, if you want a good relationship with a retailer you have to play ball along the line, and this is one of the parts of the category where they do have a bit of muscle.

The Hon. WES FANG: Since 2011 there has been \$1 milk, and we are still paying \$1 for a litre of milk. There has been no increase in the price, no consumer price index [CPI] increase, no acknowledgement that prices have increased across the board. Milk is still the same price it was seven years ago. In effect there has been a cut in the price because there has been no CPI.

Mr ZANDSTRA: Effectively.

The Hon. WES FANG: Do you think that is a sustainable model? So in 10 years without a price increase, is milk at a \$1 litre enough to cover the costs of the supermarkets and processors and the dairy industry, or are we looking at a model that is unsustainable and we will see the dairy industry going backwards?

Mr ZANDSTRA: Well, if you listen to the ACCC, it is not unsustainable, is it? They are taking it in its own little component and not realising it is part of the business units part of a processor. From the retailers' point of view, Coles' behaviour in 2011 was an absolute gimmick. Milk for \$1 a litre had been around before then, but it was not \$1, it was about \$1.07 or \$1.08 and Coles really crashed it with high publicity to get people through its doors. It had to reset its business, whatever way it could go about getting traffic. But it also was the end of the vendors in Sydney. Coles were blatantly using all the rhetoric they could—"Do not go to vendors, go to Coles to get milk for your coffee shops", "Processors are making higher margins and a higher return on capital than us; processors are foreign owned". They used every rhetoric they could to bolster their status of using this gimmick. It was meant to hurt others, not themselves, and of course the consumer got cheap milk. The main damage of \$1 milk is the price was decreased on the brands of lite white and skim and those modified brands.

The Hon. WES FANG: That cost more to produce.

Mr ZANDSTRA: They were brands in their own right. They trashed those. It is unsustainable. It is a gimmick. It seemingly does not bother them. There are these things in Europe where it is a price point, it is clean and neat. It is not parts of dollars or cents. The rationale that it is still going, quite frankly, is crazy, but as you can see with the drought levies and so on, even though there is a drought levy on it, there is more buying going towards non-brand and private labelled milk. This is quite unusual around the world, but it has become entrenched since deregulation and they have got the muscle to keep playing it. They have got the ACCC saying it is okay and they have got the processors being cautious. There have been plenty of Senate inquiries that have been cautious of criticising the retailer. It is terrible to say it is jammed in there, and it should not be, but if you ask John Durkan, he has got every good reason to do it.

The Hon. RICK COLLESS: Mr Zandstra, you said you had not been in the industry very long, you are a first-time—

Mr ZANDSTRA: No, I am a son of a migrant. My father sold his farm when I was a young bloke. I started dairying when I was about 34 or 35, in my own right.

The Hon. RICK COLLESS: You have only been in it for a couple of years, in that case?

Mr ZANDSTRA: A long time.

The CHAIR: You silver-tongued devil.

Mr ZANDSTRA: It seems like yesterday—well, you know what I am talking about.

The Hon. RICK COLLESS: How many milkers do you have?

Mr ZANDSTRA: We have about 750 to 800 on the farm in Nowra. I also have a dairy farm in Victoria, so I know how the wheel turns in different places.

The Hon. RICK COLLESS: You can compare the farmgate prices, the cost structures between the two States?

Mr ZANDSTRA: Yes, everything.

The Hon. RICK COLLESS: How do they stack up?

Mr ZANDSTRA: It has changed for everyone. If we talk of shrinkage in the Australian dairy industry, it is Victoria. Queensland has lost about 400 million litres since deregulation. It will be interesting to see how the drought affects New South Wales—probably only 100 million. We are hanging in there in New South Wales, and this is part of the pressure on farmers. The work and the expense they have done for half the number of farmers to produce nearly the same milk, that is where the pressure is. This is unmeasurable and most of the cost of growth is the cost of staying in business. Victoria has shrunk very much so, especially northern Victoria where the water problems exist. If there is any part of New South Wales that is really dusted up, it is southern New South Wales currently with no water in the Murray system.

The Hon. RICK COLLESS: You mean southern inland?

Mr ZANDSTRA: Southern inland. There is pressure everywhere because of cost, but there is this inherent pressure and test on our farmers of getting their businesses right for their future. Naturally there is more homegrown feed and purchased feed for cows and cows perform better, less 100 per cent reliance on homegrown feed. You are bringing it in because your farms are not twice as big. These are the sort of things we have positioned ourselves with. They really have been impacted by the cost of feed and the scarcity of feed in this drought. I think things were tightening anyway, but it has really been impacted by this drought.

The Hon. RICK COLLESS: In respect of the farmgate price, how does that vary between the two?

Mr ZANDSTRA: The average farmgate price in Victoria is in milk solids. It is probably now 44¢, 45¢. When it was low, Murray Goulburn Co. was about 39¢. It is lower than this northern area. In my part of the world, and others would have spoken to you about pricing, probably from about 50¢ to 53¢ in New South Wales. It is higher, for sure.

The CHAIR: What is the margin like between the two States, the cost of production and farmgate price?

Mr ZANDSTRA: It has to be a higher margin in Victoria, you could say, because of the history of milk growth and milk volumes in Victoria. They have been challenged by trying to get bigger and be better and staying in. The margins—

The CHAIR: I am talking gross margins.

Mr ZANDSTRA: They are a bit stronger here. They are more volatile down there. I mean, when things are good down there, they are phenomenal. Hay is cheap, grain is cheap, it is next door. Northern Victoria is probably the toughest area to make money in Victoria, but when things are normal, it is the best. So it is the volatility.

The CHAIR: Particularly when they have got water?

Mr ZANDSTRA: Yes, water, and a bit of rain, all these factors. The critical issue now is that you are a bigger farmer. Every area of our dairying country has been developed by small farmers, soldiers, settlers, families. Now that everyone is bigger, those people work hard but now the whole business enterprise easily hits stress.

The Hon. RICK COLLESS: On your Victorian farm, do you run a seasonal operation?

Mr ZANDSTRA: No, year round. I lease it now. I have had managers, but I have leased the farm out.

The Hon. RICK COLLESS: Who are the processors you supply to?

Mr ZANDSTRA: I supplied Murray Goulburn. I stood for the Murray Goulburn board in its crisis time but did not make it. We were entitled to a northern director. I supplied them here too, and still do. We supply Australian Consolidated Milk now. They are all much of a muchness.

The Hon. RICK COLLESS: What do you see is the solution to the crisis we are in?

Mr ZANDSTRA: New South Wales has held its milk volumes but the issue has been the test upon farmers not thinking about everyone else, really, about getting their business right for the future and being bigger. I think scale is an issue. More scale, more stress but more money. Farmers have realised they have got to set their business up for the future with more milk volumes or more cows or whatever. Whether it is a business model challenge—the drought has been a challenge and the test but whether there has to be a rethink of the business models that farmers have developed due to volatility. I think cost pressure is clearly all over the place—electricity, grains, labour. Years gone by, labour was easier. You did not have to worry about people working for you because they worked with you. It was smaller and more comfortable. Now you have got more labour units and more cost and more compliance, all those things.

The CHAIR: I am not a dairyman so I do not know whether 25 million litres or 100 million litres is big or small. What do you regard as a reasonably large or viable size dairy? How many million litres a year would they need to produce, at a guess?

Mr ZANDSTRA: It varies so much of what is underneath the business. I reckon 300 cows now and you probably would not have a long-term future because you need the margin to reinvest.

The CHAIR: Fifteen hundred cows would be more comfortable?

Mr ZANDSTRA: That is too big for me.

The CHAIR: Say, 700 cows?

Mr ZANDSTRA: I would say 500 to 700 cows is—

The CHAIR: Manageable?

Mr ZANDSTRA: It is manageable today. It is surprising what people can manage today. I have a share farmer who runs my farm. He is a good operator so that is manageable. A lot of brought in feed, a lot of dear machinery and all these things. But we want to be farmers. What you really want to do as a farmer is stay in business and do more of what you think you are good at, otherwise you have got no challenges. You do not want to sit still. Sometimes doing that puts you in a better position long term, and more money drops out the bottom for yourself.

Mr SCOT MacDONALD: I ask you what I asked Mr Cochrane. Do you see the alignment of supply and demand getting back to where it should be or getting to where it should be? You talked about volumes dropping in Queensland, a big drop in Victoria and a bit of a drop in New South Wales. Is the day going to come when the processors and retailers do recognise the power of dairy farmers? Do you see that realigning itself?

Mr ZANDSTRA: That is a hard one because volume is completely out of alignment in Queensland.

Mr SCOT MacDONALD: Was there too much milk?

Mr ZANDSTRA: No, miles too little. Milk is pouring into the place. They have halved milk production since 2000. Mind you, a lot of manufacturing-style dairy factories have closed. I do not want to get too detailed but milk is pouring into New South Wales as well, especially in winter time. The supply and demand is working because they are getting enough milk for the needs of processors but they top up in Victoria. Most said they would sooner have too little milk than too much. This is not counting Saputo who took the Murray Goulburn business over and who trade milk in New South Wales. If they have got too much they have got to look for a home for it. They would sooner have too little and bring in what they need. Now that might cost a lot of money but farmers have got to realise the economics of this, even though it is not nice, that is only for some of the milk, not all of the milk. They top up and pay more. But they are pulling it out of Victoria which must be an issue for Victoria long term as well. The big issue for supply and demand is in the year 2023 Australia will be a nett importer of dairy foods.

Mr SCOT MacDONALD: Just park that and put aside whether that is good or bad.

Mr ZANDSTRA: Yes, I will try to help you.

Mr SCOT MacDONALD: Surely that puts you in a stronger position. If you negotiate today you are negotiating from a point of having no power, you are a price taker, but if you fast-forward five years like you are saying and you are supplying milk into an area where there is strong demand, do you see that empowering you to the point of getting 60¢ or 70¢ or whatever it might be?

Mr ZANDSTRA: It has to be force free, doesn't it. The consumer eventually pays the bill. So if the processors have got to bid higher for milk, they might bid their margins away for a while but they cannot do it

forever and then the retail price has to lift and the consumer has to pay more, which we do not like the sound of. That is supply and demand working, quite frankly. Can it happen in your equation? It just must happen. What is the lag time? How much? What does the consumer pay? I think we know, and you might have been told, I do not think the processors are making much out of drinking milk. Dairy Farmers sold to Lion. Lion put National Foods and Dairy Farmers together at a cost of \$3.7 billion and will they get \$1 billion for it? We know they have written off \$2.3 billion.

Now that is an Australian domestic dairy business. I can say from Dairy Farmers days there was not a lot of money in a lot of the things it did but it was done because it had farmers. Lion has rationalised. Murray Goulburn in my opinion got into trouble in paying farmers too much. Fonterra is now going through it in New Zealand. Westland did. They have all got balance sheet problems which is a bit like saying nervous bankers. There is not a lot of money in processing. We have got to be thankful for the guys that are there. If only we could all make more money margin out of the supply chain. I would say, others say differently, retailers are keeping the slammers on. It could be said well that is competition.

The Hon. RICK COLLESS: It is not true competition, is it? Basically it is competition between Coles and Woolworths basically that is determining the price.

Mr ZANDSTRA: It is competition for the consumer dollar. The consumer is the king really. They both want that consumer dollar. Aldi is there. Others are coming. Who will bid for their business? Who knows? One of the factors is definitely that pool of Victorian milk which can go to better values when needed. What is made in Victoria is not so nicely priced, such as yoghurt, for example, which used to be nice. They are all competing and Coles or Woolworths will screw them.

Mr SCOT MacDONALD: You have talked about people who want to be farmers, want to make decisions and want to be in the dairy industry. Is that not problematic? Are people going into it with their eyes wide open? Yes, they might like being dairy farmers or farmers on the land which I understand. Is it being looked at in the light of the day like a builder or any other business who ask "Is this financially viable?" It is not about being in the industry and staying in the industry because that is what their family have done. Are we being hard-nosed enough about it?

Mr ZANDSTRA: Firstly, I do not think anyone is capable of entering the industry of the normal farmer type. The investors are floating around in Victoria and I do not know really how long they will be satisfied. Macquarie Bank has dabbled in some.

Mr SCOT MacDONALD: Gerry Harvey got out of it.

Mr ZANDSTRA: Yes, Gerry Harvey, just up the road from where I am. For the rest of us I think we have already done that cold, hard thinking. The stayers are left, you might say, half the farmers in New South Wales. What you are asking is if you are not efficient enough, or business is too tough, should you make that decision? I think farmers are, especially in a generational sense. It is one of the reasons farmers are leaving. The farmers of Queensland which have halved their production and quartered their numbers were not inefficient 20 years ago. They were efficient under the economic terms of the time, and that is what is happening.

If we think we were well off 10 years ago, we are not inefficient now. Our costs have just taken off on us. We are the same farmers and probably better. We are not getting the benefits of our efficiencies. We are virtually investing to stay in business, to keep families fed and to keep cash flow and assets going and so on. The cold, hard reality is farmers are facing those. Some are leaving, some are staying and some are growing. With the sustainability of the industry, the farmers are leaving and milk volume is shrinking in, say, Victoria. At the end of the day it is a farmer's decision whether he thinks he is sustainable, if he or she wants to stay. It could be generational: "We know the son is coming home and we can finally get him a little cash pile." It could be making no bloody money whatsoever and finally saying, "I've had enough of just working for a living. I'm out of here." It is about us looking after the individual farmer. We can talk of industry and all these things but it is the individual farmer who makes that decision.

Mr SCOT MacDONALD: Do we have enough tools for people to make those decisions—skills, if you like? It is something the Committee can look at.

Mr ZANDSTRA: A lot of work has gone into farm financial management. What you are asking is a very good question. Is the farmer, as well as just running his business and having the financial management to run his business and all of that sort of stuff, even the finances, capable of making the big decisions he might have to make? One of them is probably getting better or buying the farm next door—do you understand? Those step changes—one might be getting out. I think there is too much emphasis on the finer things of farm financial

management and not enough—and I have learnt this from Dairy Farmers so I am smarter because I have been around, not as a farmer—on the importance of equity. Working from operating costs and an operating margin, which is the real key. There are decisions you can make with that, a bit like the free cash flow. Go for that and you might be able to make some decisions. A lot of farmers just run their farms and spend their money and get some margin and know they have to make a profit and pay tax on that. I sometimes think farmers have not learnt enough about the four or five big boxes of financial decision-making.

The CHAIR: Given that you did not make a submission, members will no doubt read the transcript and think about all the questions they should have asked you while you were here. If we send you some questions, we would like answers, if you have the time, within seven days.

Mr ZANDSTRA: Okay.

The CHAIR: Thank you very much for agreeing to appear.

Mr ZANDSTRA: Thank you very much.

(The witness withdrew)

(The Committee adjourned at 15:33)