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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE

Reference: Australian dairy industry

TUESDAY, 20 JULY 1999

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SENATE
RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES
COMMITTEE

Tuesday, 20 July 1999

Members: Senator Woodley (*Chair*), Senator Crane (*Deputy Chair*), Senators Calvert, Forshaw, Mackay and O'Brien

Participating members: Senators Abetz, Bartlett, Boswell, Brown, Brownhill, Colston, Faulkner, Ferris, Harradine, Margetts, McKiernan, Murphy, Watson and West

Senators in attendance: Senators Calvert, Forshaw, O'Brien and Woodley

Terms of reference for the inquiry:

- (a) future domestic and international marketing conditions facing the Australian dairy industry and those factors which are influencing Australia's competitiveness in these markets;
- (b) the pressures on the current industry regulatory arrangements such as the introduction of new technologies and competitor supplier countries such as New Zealand;
- (c) the impacts associated with the removal of the Domestic Market Support scheme on:
 - (i) the dairy industry and rural and regional communities, and
 - (ii) state marketing arrangements; and
- (d) measures which may be taken by government to facilitate the transition to a less regulated environment.

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Committee met at 9.05 a.m.

CHAIR—I declare this public meeting of the Senate Rural and Regional Affairs and Transport References Committee open. The committee is meeting today to continue its inquiry into the effects of the deregulation of the dairy industry. The terms of reference are well known and copies are available from the secretariat if required. The committee advertised the reference in national and regional newspapers in March. To date, the committee has received 109 written submissions from industry groups, including the major industry groups, farmer organisations in most states, manufacturing organisations and many from individual dairy farmers themselves. These submissions have been published by the committee.

Over the next two weeks the committee is holding public hearings into this very significant matter. The hearings are public, open to all and a *Hansard* transcript of the proceedings is being made. The *Hansard* will be available in hard copy from the committee secretariat next week or via the Parliament House Internet home page. It should be noted that the committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990, concerning the broadcasting of committee proceedings.

Before the committee commences taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Parliamentary privilege means special rights and immunities attached to parliament, its members and others necessary for the discharge of functions of the parliament without obstruction and without fear of prosecution. Any act by any person which may operate to the disadvantage of a witness on account of evidence given by him or her before the Senate, or any committee of the Senate, is treated as a breach of privilege.

While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present part or all of that evidence to the Senate. The Senate also has the power to order production and/or publication of such evidence.

I should add that any decision regarding publication of in camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing. Today, the witnesses are the chief executive officers of the two major cooperatives, Murray Goulburn and Bonlac. We will start with Murray Goulburn.

[9.08 a.m.]

**GREENAWAY, Mr Ross, General Manager, Field Services and Strategic Issues,
Murray Goulburn Co-op Co. Ltd**

O'ROURKE, Mr Stephen Joseph, Managing Director, Murray Goulburn Co-op Co. Ltd

Mr O'Rourke—We appear on the basis, I believe, that we have written a letter in support of the submission of the UDV to your inquiry.

CHAIR—We have that before us and we have read it. If you would like to make any opening comments in support of your letter or on issues that you think are relevant, we would be very happy to hear them.

Mr O'Rourke—Thank you. I will briefly explain Murray Goulburn's role in the dairy industry in Australia. Murray Goulburn collects just over 2.8 billion litres of milk per annum from its suppliers. That represents approximately 28 per cent of the national intake of milk. We have approximately 3,300 farmers who supply our company and who are shareholder suppliers to our cooperative. Those predominantly reside in Victoria, although we also have a small supply base in southern New South Wales and another small supply base in south-east South Australia.

About 93 per cent of the milk that we take in from our suppliers goes to manufacture dairy product and, of that milk, 65 per cent, or about \$800 million worth in the last season, is exported. We are primarily a global player on the export market. Our total turnover is about \$1.3 million per annum. We employ about 1,500 people, predominantly in Victoria.

Our business is growing at the rate of about 10 per cent per annum—consistently—and we have no doubt at all that our future is in our ability to be a globally competitive player. That means we have to be as efficient as we possibly can, both at farm and at factory level, in order to succeed going forward and to make value out of the 10 per cent growth that we continue to experience. On the other hand, only seven per cent of our milk that we collect from our suppliers goes into the regulated VDIA system in this state—that is the market milk side of our business.

As a cooperative, we have been an advocate of deregulation for some time. The reason is that we are employed as management and as a board to represent the best interests of Murray Goulburn—each shareholder supplier—and all the work we have done over a number of years tells us that our suppliers will be better off going forward, and that there will be more opportunities provided to them in a deregulated market in Australia. That is the premise behind our advocacy of deregulation. We have not put our mind to anything more than that. That is our responsibility to our suppliers.

Why do we think that? We believe strongly that a number of commercial opportunities that currently do not exist will present themselves in a deregulated market. We certainly believe that we will be able to compete more effectively, both domestically and internationally, and that we can be more competitive once the dairy industry is totally deregulated. We believe that Murray Goulburn as a co-op has made the investment—both

on-farm, through its farmers, and at factory level—over a number of years with significant investment, capital expenditure and market development well in anticipation of deregulation. Deregulation has been a step process for us in Victoria for a number of years now. We feel we have got to the point where it is right to take the final step towards total deregulation. We have made the investment and we are ready to move on. We believe strongly that, in going forward, we must do everything we possibly can to encourage the most efficient of producers and processors, and we feel deregulation will provide that opportunity.

Murray Goulburn believes in deregulation for its suppliers. We also very strongly support the Australian Dairy Industry Council's contention that a national, orderly approach to deregulation is the right way to go and, as part of that, the transition package approach. There has been significant consultation throughout the industry, not only in Victoria but in Australia, and we certainly respect the Australian industry—the various farmer bodies, who are charged with the task of looking after the best interests of the farmer, the cooperatives and all the statutory bodies. They have spent a lot of time in consulting and coming to the conclusion that deregulation in the manner put forward, with a transition package being paramount to that, is the best way for us to go. We certainly have no reason to dispute that. All the various parties within the industry have decided on what is right for them, just as we have done in determining what is right for our suppliers; we strongly support the conclusions reached about the way forward.

We feel that an orderly, national approach, with a transition package to help farmers with that transition, is certainly a much better way to go for the long-term future of our industry than the alternative, which is a much more disjointed, possibly state by state approach. We are here in that capacity—as a support generally to the industry's decision to push down this road.

CHAIR—That is helpful. Mr Greenaway, did you want to add anything?

Mr Greenaway—No. I will assist with answers to questions.

CHAIR—We will move to questions.

Senator O'BRIEN—Given that you are supporting the move to deregulation in Victoria and the Dairy Industry Council's proposed restructuring package, what picture of the industry would you paint for dairy farmers post that package for the three years from its implementation on 1 July next year, if that occurs?

Mr O'Rourke—To be fair, I have to answer that question in relation to how Murray Goulburn suppliers will be affected. My responsibility is to those farmers. I do not have a strong view as to what the impact might be on suppliers to other states and to other companies. It is not my responsibility, per se, or primarily. My primary responsibility is Murray Goulburn farmers, and I can talk about what I think will happen to them.

Senator O'BRIEN—Yes, you can, and you can limit your answer if you so choose, but this committee is looking at the national industry. You are supporting a package of measures that the state of Victoria is proposing, it appears, to deregulate—notwithstanding that other states have decided to delay that—and that has ramifications. It would be interesting to

obtain a picture of the industry so that this committee can give a full report. No doubt in other states processors will have a view and it would be of benefit if this committee could balance that view against other views.

Mr O'Rourke—I respect that but, if I may, I will look at it from Murray Goulburn's point of view because that is what I know—and then maybe I could expand on it. From a Murray Goulburn supplier's point of view there are two issues with deregulation. There is the issue of the domestic market support levy, which has been in place for a number of years and has been a good scheme. It has definitely been of value to our suppliers over a number of years. That is due to cease on 30 June next year. With that going, there is likely to be a negative impact on the return to our farmers in the short term. It is very difficult to measure that because there are a number of market forces that have an impact as well. There is a levy that is paid by us as a cooperative and by the farmers. There is a pool payment made back to the farmers and that pool payment has been reducing over a number of years. We have also seen, through that system, the impact of imports, like New Zealand imports, eroding the benefit of that scheme. It is difficult to measure exactly what it will cost when that goes, but I would suggest there will be a negative impact on our suppliers' returns of the removal of DMS.

I think strongly that DMS has to go. Our best chance of going forward as an industry in Australia is to be globally competitive and to use our strength, which is efficient production and processing, to compete effectively in the world market. One of the things that restricts our ability in the world market is definitely the restrictions that exist on access and subsidy arrangements in places like the EU and the USA. If we want to improve any chance we have, and I have spent quite a bit of time in Brussels, to effect any minor improvement in those issues of access and subsidy, we cannot afford to carry any DMS ourselves. They will laugh in our faces. Although you might think we are kidding ourselves to think we can get any reduction in the level of regulations that exist in the world market, any small improvement to access and any minor improvement to subsidy levels will make a huge difference to our overall bottom line. We cannot afford to do anything beyond July 2000 on the DMS side which would put at risk our ability, as best we can, to negotiate for any small improvement in access or subsidy worldwide.

The other side of regulation for us, obviously, is market milk. Seven per cent of our suppliers' milk goes to market milk. They receive a pooled premium price for that under our VDA system. The short-term impact on their returns of that are very difficult to measure. We believe that we can protect their premium. Certainly, in the medium to longer term we believe commercially there are enough opportunities for us to take which will inevitably make it the right move. In the short term it will come down to our ability to negotiate effectively with processors and with other people. I cannot say exactly what that will be until it happens. But there is likely to be some sort of short-term impact. We intend on it being very short term and we intend on protecting premiums. But you have to be a realist in business and it will come down to our commercial ability. So short term there is likely to be an impact on our farmers as well. That is Murray Goulburn.

As for the impact on the rest of the country, I come back to the point that we have worked very solidly with the ADIC on this matter and with the various farmer groups throughout the country. We respect their contention that there is likely to be some negative

impact in areas of the country as a result of deregulation. We therefore very much respect that the best way to protect and help the farmers through this transition is the package system, which gives everybody an opportunity to decide on what is right for them going forward. Do they want to use the transition to become more productive and more efficient so that they can compete, effectively going forward, or do they want to use the transition to do other things? I think it is the most fair way for us to take our industry forward.

So I repeat: I respect the people who have decided what is right for them in their various states and for their various farmers. It is not for me to say how a Queensland farmer or a New South Wales farmer or a Victorian farmer, for that matter, who does not supply Murray Goulburn, is going to be affected. But what I can do is respect the consultation process that has gone on and respect that those various people charged with that responsibility have come to the conclusion that this is the fairest way for us to go forward. I am also very pleased that those various organisations understand that if we want to kick on in future as an industry and take the next step, we have to get globally competitive. If we do not encourage our most efficient producers and our most efficient processors at that rate, then we will not get anywhere. We will continue to push into a commodity world that is difficult. That is the only way I can answer that.

Senator O'BRIEN—The last time we were in Victoria we were told that the national production of milk has risen from about 6½ billion litres in 1991 to a projection of around 11½ billion litres next year. So with the demise of the DMS and potentially deregulation we have a marketplace which has nearly double the amount of milk that it had nine years before. I guess that is fine if that volume does not have an adverse effect on price and therefore causes some sort of mini-collapse in the industry. The model you are talking about seems to be predicated on an ever-increasing international market, given that our national market is relatively finite, unless we knock the New Zealanders out of our market here. What is that going to do to the price of the milk at farm gate, given this ever-increasing volume of milk existing in an environment where some of the safety nets are going to be whipped away on 1 July next year?

Mr O'Rourke—Again, I must say that I talk on behalf of Murray Goulburn; that is what I know. The ability for us to pay a price to our farmers very much depends on the world market: 65 per cent of our turnover is export business. Most of our growth in milk intake has to go to export. Our domestic market is very finite.

Those returns are very much impacted on by simple world supply and demand issues. Supply and demand is the main driver of our ability to get a milk price. The second main driver is, obviously, the access problems that we experience in the world and the subsidy problems that we are up against, that we must continue to fight. To me, that is the real deregulation issue this country has to address. It is trying to deregulate the rest of the world, not here, because we are heavily reliant on net export. The third main issue for us is currency and the movement in the dollar. Our farmers' returns will be infinitely more affected by those three things than by any transition out of the local deregulation issue. There is no doubt about that, overall. That will always be the case.

Our ability going forward to be good is not just about growing our intake but about growing it efficiently. We have to make sure that the milk that is being produced is

produced to the most efficient level. Not only that—processors do not get away with it; we have to process it to the most efficient level. It starts with the farmer and it goes through the co-op. It is not just about the price you get; it is about the margin you make. At the same time as we work on the market we have to work to ensure that we are more productive. It is the margin you make. That is how you make a quid, not by the price you get by itself. We have seen in our company a huge difference between the best producer and the worst in terms of his cost of production. That is what we have to work on as well, going forward. We have to encourage everybody to get to a point where they are producing to the lowest cost, not the highest.

Senator O'BRIEN—Just on the dollar fluctuation, how critical is that per cent of movement to our international markets?

Mr O'Rourke—It is extremely critical. Any movement in the currency one way or the other has a massive impact on any exporter of dairy products returns. The world dairy market trades in US dollars predominantly. Any strengthening of the Australian dollar against that has a major negative impact. Any weakness in other currencies—for example, the European currencies against the US dollar—has an enormous impact on our return also because it forces those prices down. I have often said that a 1c movement in the dollar means a hell of a lot more to us and our ability to pay a decent price than a lot of these other issues.

Senator O'BRIEN—Is there a datum point for price fixing or is it just continually moving? Is there a particular time of the year that is critical?

Mr O'Rourke—Not really. Generally, it is supply and demand. There are all sorts of reasons across the world why demand can go up or down. There is no doubt about that.

Senator O'BRIEN—The question that, in particular, dairy farmers in New South Wales and other states, I am sure, will have at the back of their minds is: what sort of price pressures are going to be put in place if there is strong competition between interstate processors for the market milk sector? I am sure that would allow supermarkets to play some price games with what in some sectors is a critical commodity from the point of view of the survival of the industry.

Mr O'Rourke—From my point of view—again, I can only look at it from Murray Goulburn's point of view—we are a major exporter, as I have pointed out, and most of our future is there. However, I am not underestimating our obligation to our suppliers, our shareholders, to perform in the local market as well. We have a large domestic market—a \$350 million domestic market, or more. Market milk can and should form part of that for us if there is a dollar in it. The only way I can answer that question is to say that we believe in a deregulated market. Our farmers, our shareholders, get the right to compete effectively and fairly. So if we can sell milk in any form anywhere at a price that adds value to their returns, then we should be entitled to do so. That is all we have said. We have said very strongly that we are not about dumping product around and destroying the market. We are about giving our farmers, our shareholders, an opportunity to improve their return. If we have a free market that allows us that opportunity, then I believe we should be able to take it.

Senator FORSHAW—Could I follow up on some of the issues that have been raised by Senator O'Brien's questions. I am sorry if they might sound a bit repetitive. For a start, we have had the announcement from the Victorian government. So to a large extent it could be said that the whole issue has been gazumped anyway, the decision has been made, and inevitably deregulation will occur. That is a view that is out there.

Putting that aside for the moment, the picture you paint and the picture we have heard is that on the one hand this will make the industry more efficient, particularly in Victoria, and that it will improve the opportunities internationally, where the real opportunities supposedly are. But at the same time I hear and I read that prospects, price-wise at least, internationally are not all that great. Nobody has said to me that we are looking at tremendous opportunities opening up internationally. Mr O'Rourke, you have pointed to the fact that there are a whole range of other pressures and subsidies—the EU, competition with New Zealand and the dollar. There is no great, golden pot sitting there waiting to be snapped up.

We also hear that this is not going to mean a better return for the farmer, at least initially, or a better deal for the consumer. The question that one asks is: whilst one can argue that removing the regulation that is currently there and freeing it up is good in a world trade sense and a theoretical sense, why should we inflict more pain upon sections of the industry for some benefits which at this point in time appear to be somewhat illusory, particularly when we are hearing such a strong message? Whether it is a message that has been carefully thought out I am not so sure, but we are hearing a strong message from regional areas in Australia that it is about time we drew a line on deregulation and economic rationalism. That is partly a political sort of statement; do not necessarily take it that it is expressing a view. But a lot of people are saying to us: 'At the end of the day who is going to benefit from this if we are not looking at a great improvement in the export sector, we are not looking at cheaper prices for the consumer and we are probably looking at farmers getting pushed out of the industry and a reduction in the price at the farm gate for their return?'

Mr O'Rourke—You have raised a fair few issues there. Firstly, if I have indicated to you that the future for the dairy industry is not good, I should not have done that. That is certainly not my intent.

Senator FORSHAW—I am not suggesting that.

Mr O'Rourke—There are numbers of negatives, which I have indicated, that make it difficult for us to get a decent price out there. They are there and they are real and they have a much greater impact on our returns than anything else—that is for sure. Given those sorts of pressures, given supply and demand pressures for fairly average product out there and so on and so forth, we have to do more. Contrary to what you say, the opportunities are presenting themselves daily for us to continue to grow. There are many opportunities for us to make more of our industry than we have in the past—to use our technology, to use our marketing—

Senator FORSHAW—When you say 'us' are you saying Murray Goulburn?

Mr O'Rourke—I will talk about Murray Goulburn. Again, I represent Murray Goulburn. That is what I am paid to do. If I look at the opportunities that are afforded to us, then they still remain. We have to start to produce product that is better than the world product, of a higher quality and higher specifications. We have to look at more R&D and more marketing so that we can get away from the old commodity traded market.

We are doing that, but we are doing it under a fair bit of difficulty. I keep coming back to the fact that we need to be encouraging efficiency. We need to be able to get the most efficient farmers in there producing milk at the lowest cost so that there is more ability for the company to retain profit and, therefore, to invest in research, development and marketing so that we can take the next step.

You are right: if we keep affording ourselves commodity traded markets, with the ups and downs and vagaries of the market, we will not go very far. What we must do is encourage efficient production and processing so that we can retain more profit in the business, knowing that the farmers can continue to do well, and we can then put that money into something that gives us better returns. Ultimately, those returns go back to the farmers. We have to get off the treadmill of world commodity trader. We will not get off it while we cannot retain a bit more money in the business that we can ultimately put into the returns to get back to the farmer. That will take a little bit of time but not a lot of time, because there are a lot of opportunities out there that we can see. It is about our doing what we do best. We produce milk on-farm, and we process it, pretty much more cheaply than most places around the world. We can do that.

To come to your second question about the negatives, I said that there will probably be a negative impact with DMS on our farmers up-front. It is difficult to measure. I cannot measure what the impact will be in real dollars of New Zealand dumping product against us when they have not had to pay the levy for the last few years and when we do not have to, but I do know that the farmers at the moment get a return and they are going to lose that. I am telling you now that, going forward, we will not give ourselves any chance at all of trying to loosen some of these world regulations if we persevere with DMS. It is a no-no. It is a negative for little old Australia trying to get some access improvement. We have to get rid of it. That goes, as far as we are concerned.

You have said with respect to market milk that it is a negative for our farmers. I have said to you that I cannot measure the time at which we can turn it around, but we believe strongly that we can protect the premium that our farmers will lose by losing their market milk over a period of time. That period of time will depend on how well we operate commercially in our negotiations with processors.

Senator FORSHAW—Are you factoring in to that a reduction in the number of farmers overall in terms of your co-op?

Mr O'Rourke—No.

Senator FORSHAW—Are you working on existing numbers?

Mr O'Rourke—There is a general fallout of farmers from year to year in this industry. We are not predicting whether that will accelerate, decelerate or stay the same, but we are assuming it will probably stay the same. The pace might be slightly different but, in the overall scheme, it does not have an impact on our thinking. For us, market milk could be a negative for our farmers up-front. We very much believe that we have a number of commercial things happening which will protect that, which we are strong about. That is Murray Goulburn. I come back to the fact that, as far as the negative impact on the rest of the country is concerned, we are not in a position to be able to stand up and comment about that. What we are in a position to do is respect the people who are in that position and what they think is right. That is why I come back to the package.

People who should know are saying, 'Yes, there will be that negative impact initially for farmers.' But these same people can see that, beyond that, our industry will be far better off for taking the next step. We strongly support these people who are saying, 'There has to be some transition for those very people who you are talking about to help them through and help them make some pretty big decisions about where they want to be in all of this.' Beyond that, these people are saying that it is right for Queensland, New South Wales and everything else, too—not Murray Goulburn. We have not made any comment about the rest of the country; we comment about Murray Goulburn. But we respect these people in industry who are saying that this is the best way forward.

For me, another issue you raised about Victoria and its decision is that it is still critical, federally and nationally, that you do what you are doing and we go through the process towards a package. That is the step that is required to effect a national, orderly approach. Our industry has come a fair way. We do not want to be mucking around towards the end, in taking the final break, by having state by state arguments. Let us do it in an orderly manner.

Mr Greenaway—We hear too much of things between state and state, and we need to look at the sector. The dairy industry is a very exciting industry. One sector of the industry has become very world competitive. We sit on the edge of the fastest growing dairy import market in the world—Asia. Despite the Asian collapse, the Australian dairy industry has performed very well over the last 12 months in its efforts into Asia.

Driven by Commonwealth legislation, one sector of the industry has undergone a progressive adjustment to where it is world competitive. In 1986, the Kerin plan was introduced, and there was a subsidy, a support, for manufacturing milk returns of 45 per cent. Currently, that is down to five per cent, in theory, and, as of 1 July next year, it will be zero per cent. As a consequence, that sector of the industry has undergone significant adjustment. That is not in just one state; that is across Australia.

The people who have been focused on that industry have gone ahead in leaps and bounds and have adjusted and become very efficient dairy farmers in world terms. Unfortunately, state legislation has put barriers on the adjustments that have occurred in the other sector of the industry. As a consequence, we have come to a precipice where, in our business, 93 per cent of the business will be totally deregulated, while the other end has had no adjustment at a farm gate level in terms of pricing.

Even within that, there has been adjustment within Victoria in terms of access, because quotas were purchased out, et cetera. It is important to recognise that that has resulted in significant differences between regions across Australia. We have suppliers in southern New South Wales who have no access to market milk at all and would be amongst the most efficient dairy farmers in Australia. They live totally from manufacturing milk returns. They supply us and, as a consequence, are totally driven by the world price—the returns they have taken.

This imbalance in regulation between the sectors has created tremendous differences in efficiency. As a consequence, we have producers in Australia who are world efficient, yet we still have producers in Australia who milk by hand, believe it or not. This is a ridiculous situation when we are well placed to compete globally. The bottom line is that we cannot contract that. More than 50 per cent of Australia's milk now goes onto the export market. We cannot contract back to fortress Australia because, across the Tasman, we have, again, a world competitive producer. If we try to take that tactic, we will end up having their product in here.

Our future is the world market. We need to have every sector of the industry as efficient as possible to maximise the opportunities that are there. We are saying that, given what we are exposed to, we believe Murray Goulburn suppliers can benefit in that environment.

Senator FORSHAW—Thank you. Listening to Mr O'Rourke and then your subsequent comments, it seems to have come through strongly that this is in large part about—excuse the pun—weaning off the guarantee. You say that the section of the industry that is left has to be put on an essentially equal footing with the rest of the industry, and then the market will ultimately determine it, presumably.

I have just gone through another inquiry being conducted—which relates to retailing—where concerns are being raised about some of the big supermarket chains, who will have a major influence in terms of price, no doubt, because of their purchasing power. On the one hand, that may be seen as ultimately beneficial for the consumers, because they can deliver lower prices. On the other hand, what does that do to the small independent business out in a regional area who cannot compete? That is some of what we are hearing here: there are those farmers who are essentially tied into the market milk sector. Even with a payout under the package, it is not going to be, in their view, sufficient to do much to improve their farms. They are not in a situation or in a region where their co-op is very strong. How do they turn around and try to break into the manufacturing and the export sides of it more? They do not see the benefits, at all. They see themselves being ultimately driven out of the industry. It is not my view that I am putting to you; I am putting to you what you know.

Mr O'Rourke—You must remember that it is not my view either. It is not for us to say what the position of those farmers is. But it is up to us to respect that the industry, as a national industry with all the key national players, has decided that what is being put forward is the best way forward. We all take advice on things that we do not know about, and we choose to accept it or otherwise. I am not here to say that I am an expert about how this might affect a farmer in northern Australia, but I am here to say that I have listened to and consulted with all the key players who should know, and I respect their opinion that this

outcome is the best outcome for the national industry. That is about where it has to stop for us.

Senator FORSHAW—The question I am about to ask of you is one which probably would be more appropriately directed to the Victorian government but, as you are here, I will direct it to you for comment. In a press release yesterday from the Deputy Premier—this relates to the review from the Centre for International Economics—it states that the ‘CIE concluded that removal of the price and supply controls on market milk would result in a net public benefit for Victorians’. I am not quite sure what they mean by or how they measure ‘net public benefit’, although I can think of a number of interpretations. Do you have any comment about what a ‘net public benefit’ might be for Victoria? Presumably one might be a continuing increase in export income.

Mr O’Rourke—That is one. As a company, as a cooperative, we have done a lot of work—we would be delinquent in our job if we did not—to decide on what deregulation means for us. As a cooperative, we believe that numbers of opportunities will present themselves—not just internationally but also potentially domestically. As a result, we believe that we can improve the returns for our suppliers. From that point of view, if it starts there, it has to flow into the larger community—into the rural communities and beyond.

Already we have spent significant amounts of capital in the various regions in which we have facilities, factories and investments. There are other things that we can do, but we need to encourage that efficient production to be able to more easily retain profit so that we can do more. People are not happy about the price they get for milk because, as soon as the world’s commodity market crashes, our price goes with it. We have to do more and more to alleviate that pressure, and you can only do that by investing in other areas. That is what we can do. I think there can be a flow-on effect out of our organisation to the greater benefit of the state, and I am sure that the other companies would say the same thing.

Senator CALVERT—Do you envisage in the future there being fewer manufacturers? Do you see us following the trend that is occurring now in New Zealand of larger cooperatives and fewer, smaller manufacturers? Do you think that trend will continue?

Mr O’Rourke—It is possible. Very simply, it will happen in Australia if it is right for the farmers and the companies concerned. If the companies can convince themselves and then their shareholders that it will add value to their bottom line, to their return, then it will happen; if that cannot be done, then it will not happen. But it will not happen just because it is happening everywhere else in the world.

CHAIR—Is Murray Goulburn involved in any discussions about those kinds of amalgamations?

Mr O’Rourke—If we were, I do not know that it would be fair for me to say that we were here. The way I can answer that question is: as an organisation, we would be stupid not to consider any and every opportunity every day.

CHAIR—Have you talked to your suppliers about that possibility for the future?

Mr O'Rourke—Absolutely. One thing I should point out: we talk to our suppliers as much as we can. We have supplier meetings where we go around and talk to our suppliers every six months in a formal manner. We have other means and ways of communicating, via newspaper and so on. We had 1,800 suppliers attend our last round of suppliers' meetings. This deregulation issue was obviously high on the list of things to talk about, and we had a very positive response in those meetings from our suppliers.

We will only do things, if our suppliers want us to, in a democratic way. We have a number of suppliers. They vote democratically for their farmer board which is charged with the responsibility of pushing this company in the right direction. We will do nothing—whether in the form of mergers, takeovers, deregulation or anything else—unless we are convinced that it is right for our farmers. That is the only reason I sit here, that I have a job—to try to deliver that.

Senator CALVERT—The situation in New Zealand, for instance—and they are always held up as a sort of a benchmark by some—is that there are only two major co-ops there now and they are talking about amalgamating and going to one. Do you really think that is healthy for the industry—to end up with just one?

Mr O'Rourke—Not necessarily, no. But again, there are good reasons and not so good reasons why you might do that. I believe in competition and I think competition can drive better results. But on the other hand, if the world market takes you to a position where the benefits of that additional strength and size outweigh the loss by being not so competitive, you have to consider it. Just to comment on New Zealand: firstly, they are held up as being fantastic—but do not underestimate Australia on that point because some of the farmers in New Zealand do not get paid so well. Neither do ours, but I think there is a difference there. Secondly, New Zealand is coming together as one, but in a lot of ways they have a monopolistic situation already. They have a dairy board that is already just one selling board. They are going to merge with two big supply co-ops which effectively collect supply in different areas. So there is not a lot of competition there now; it is really just bringing them together administratively.

Senator CALVERT—What about the export market, though? You were talking earlier about Asia. How are we faring there in comparison with New Zealand? Are we doing a head-to-head with them and knocking them off?

Mr O'Rourke—We can compete effectively with New Zealand. There is more than one way to compete. It is not only about price. Price is obviously the driving factor, but if we work hard enough on our relationships and our ability to service our customers and give them the products they want, then we can compete with New Zealand—no question about that.

Senator CALVERT—Yesterday in Tasmania when we were receiving evidence, there was talk about deregulation—lowering the price of milk by between 13c and 16c a litre. If that were to happen, would all that be passed on to the consumer or would the co-ops retain more of that and return it to the growers through their profit margins?

Mr O'Rourke—I do not think that is going to happen in the medium to longer term—no way. But again, talking about Murray Goulburn, any additional profits that Murray Goulburn generates out of a deregulated market—and we do expect there to be some—will go back to our farmers. We are a cooperative and that is our responsibility: to maximise the price to those farmers for their milk.

Senator CALVERT—So if it costs you less for your milk, the growers will still end up benefiting from better profits from the co-op.

Mr O'Rourke—From Murray Goulburn's point of view, that is right.

Senator CALVERT—I think one of you said earlier that you had not seen any figures on what is likely to happen and the cost to individual farmers. We were given a document yesterday—and I really do not think any of us have had a chance to have it analysed—and, to give you some idea, although they seem to think that Victorian and Tasmanian farmers are probably the most efficient, they will lose the most. The loss per annum to the Victorian farmer is suggested to be about \$22,000 and to the Tasmanian farmer about \$25,000. I guess those figures will be well and truly gone over.

Mr O'Rourke—Again, we would be derelict if we did not do the sums for our company and for our 3,300 farmers, and if our sums have indicated that that was the case, we would not be advocating deregulation.

CHAIR—Thank you very much for the evidence you have given us this morning. I think we would all like to have a lot more discussion with you, but this is an opening attempt and we note that you have said in your submission that you are willing to answer questions as we go along, and we may need to come back to you.

[9.56 a.m.]

DAINTON, Mr John Ernest, Chairman, Bonlac Foods

LACEY, Mr Richard Hugh, Business Manager, Consumer International, Bonlac Foods

SCANLAN, Mr Phillip Halford, Managing Director and CEO, Bonlac Foods

CHAIR—Welcome. If any or all of you would like to make an opening statement, we would be happy to hear such. We can then ask you questions.

Mr Scanlan—The mission of Bonlac Foods is to become Australia's sustainably competitive, value adding dairy company in a rapidly emerging global market. We are Australian owned and controlled by 3,077 Australian and Tasmanian dairy farmers, and we believe that it is very important to keep our company Australian owned and controlled.

Why we are here: during the 1970s, approximately 60 per cent of dairy farms went out of the industry during a period of domestic regulation. There were 30,000 dairy farmers in 1975, 19,000 in 1985 and 13,000 in 1998. In 1975 the UK voted to join the EC. Australia did not adjust to this and we were left out in the cold. New Zealand did adjust and they have benefited by \$100 million a year through quota access.

Two decades ago the Australian government told dairy farmers to sink or swim. In 1985 the Kerin plan was supported by all mainstream political parties through the parliament. Bonlac Foods was created in 1986. Milk production grew 85 per cent and exports quadrupled; there was an increased focus on being internationally competitive and a reduction in export dumping and policy distortions from other countries. In 1992 the Crean plan was also supported through the parliament by all mainstream parties.

WTO pressure: it is vital that we use this avenue for reform, and it is equally vital that we do not reveal a method to circumvent export subsidies. The year 2000: as we look ahead the federal government has announced that DMS, domestic market support, will phase out in June next year. The federal government has implemented a national competition policy review of all state regulations, including market milk. With this in mind, at government initiative, Bonlac Foods since 1996 has realised this process is under way and we are preparing ourselves for deregulation.

What are the issues at hand? Firstly, greater certainty for farmers; farmers want clarity as to where to from here. Secondly, there is global competitiveness. The dairy industry is our third largest rural industry. It is by far the largest rural and exporting industry in which Australian owned and controlled companies are major manufacturers and processors. It provides one of the few chances left for Australia to develop one or more truly internationally competitive food companies. The momentum already generated must be maintained to meet the restructuring that is taking place in New Zealand, Europe, the Americas and elsewhere.

On equity: it is in the national interest that industry and state and federal government get the process of deregulation right. We must address the cost of change, but not impede it, to

strengthen the industry overall. The public policy imperative is to marry economic efficiency—in other words, to enable our competitive players, on farm and commercial operations, to meet the best that the rest of the world has to offer—with social responsibility to address the challenge from the perspective of all dairy farmers across Australia. The outcome will be to maintain the momentum towards a sustainably competitive Australian dairy industry that is predominantly owned and controlled by Australians. The focus of this will be in south-eastern Australia, particularly but not limited to the region of Victoria and Tasmania.

The mechanism: following federal government decisions to phase out DMS and the reviews of state market milk regulations, it is essential to construct a responsible adjustment package that is the best way forward. In this way, market reform would occur at an early date. This would be accompanied by a \$1.25 billion adjustment package that would make funds available directly to Australia's dairy farming families in a manner that allows 'them' to make a choice about the future of 'their' farms. The package is supported by farmer organisations and major commercial players, and farmers are expecting similar support from political parties.

In summary, across the Tasman the New Zealand government is, as we speak, addressing legislation that enables that dairy industry to adjust in order to compete beyond the year 2000. In Australia the Kerin plan in 1985 laid an appropriate foundation for substantial reform within our dairy industry. It led to the formation of Bonlac Foods, for example, Australia's most successful globally focused value adding dairy company. The Kerin and Crean plans were supported in parliament by all major political parties.

The transition plan now before the industry builds on that progress and will do so in a responsible, timely manner. The gains from change will be a more competitive industry, a stronger player in the global market and more innovative products to consumers. The transition plan would allow this to occur while providing dairy farmers throughout Australia with a way forward. The \$1.25 billion dairy industry package is a model of responsible, constructive adjustment policy designed to advance the development of Australia's showcase agricultural industry. Thank you very much, Mr Chairman, for the opportunity to address you.

CHAIR—Thank you, Mr Scanlan. Mr Dainton or Mr Lacey, do either of you want to say anything?

Mr Dainton—Not at this time.

CHAIR—You will have heard the Murray Goulburn submission. Two of its key points, from my point of view, were in the statement that in the long term their suppliers would be better off but in the short term there would be a negative effect from deregulation. Do you see that as being, in general, also the position of Bonlac in terms of your suppliers?

Mr Scanlan—As I indicated in my earlier statements, Bonlac Foods has been preparing itself for this with the understanding that we have been deregulating for 20 years in this industry. Our strategy has been to move as fast as we possibly could to build a value added component in terms of our overall revenue. I agree with whatever was said about there being

no long-term future simply following the vagaries of the commodity cycle. I think probably the reality of that has set in on most internationally focused players.

In terms of the short-term impact of deregulation, there is no doubt that the removal of elements such as domestic market support as well as market milk regulatory support on their own would have an impact. But let us just consider what this industry, as it is united, is proposing.

CHAIR—That is not the question I asked you. You have given me a long answer about something else, but it would be helpful if you gave me an answer about what I asked you.

Mr Scanlan—The question was focused on the impact in the short term and the long term on Bonlac Foods suppliers.

CHAIR—Yes.

Mr Scanlan—This is the answer to it: the industry package, as we are proposing it, depends on whether or not the federal government does support the adjustment package. The reason for that is because the adjustment package is taking what is already a consumer transfer by way of market milk regulatory support and combining that over a period of years with equivalent market milk support payments and paying it in a lump sum free of tax to the total level of \$1.25 billion. So you get the benefits of market milk deregulation up front, one of which is a more innovative industry, and each dairy farmer across Australia, not just in Bonlac, gets the equivalent of a combination of market milk support payments in one lump sum.

Clearly, if that adjustment package is approved and goes through, that will have a marked, positive impact for our Bonlac food suppliers over and above if it does not go through. Our concern—I am sure shared by you—is that we would not look too kindly upon a situation where deregulation took place for our Bonlac food suppliers without the adjustment package being supported by the federal government.

CHAIR—All right. That is for the future. If I can tie the question down a bit more, we have had lots of evidence that there will be a loss of farmers from the industry. The figures we have been given on a number of occasions range between 1,000 and 3,000 across Australia. My question to you is this: do you believe that Bonlac will lose any of its suppliers? Another question is this: do you predict a loss of income in the short term even given a transition package for your suppliers? Is this what they are facing in the short term, or do you believe that you will not lose any suppliers and, in fact, with the transition package, they will be in exactly the same or a better financial situation?

Mr Scanlan—You will have been given evidence to the effect that farmers will be leaving the industry because farmers are leaving the industry every year anyway. The exact impact of deregulation upon farmers leaving the industry remains to be seen. However, the impact upon Bonlac farmers of a 10 per cent reduction in returns does place at risk a small percentage of our farmers who may not reinvest in their business to grow themselves to become more efficient. That is certainly in an analysis that we have done. But, I come back, and I am not trying to be difficult: it is not a black and white situation.

CHAIR—I am sure it is not.

Mr Scanlan—It is not a black and white situation. Bonlac Foods' position right from the beginning—and I want to clarify this because I know you have already received a lot of evidence about a lot of things including Victorian company attitudes—

CHAIR—I do not know that we have received any evidence about Victorian company attitudes that I am aware of.

Mr Scanlan—By way of submissions I believe that is the case. In any event I want to make it clear that our position is that we have been preparing for deregulation for some time, so it is not as if it is a new story. Therefore the efforts we have been putting in to create some value added businesses over recent years are also bearing fruit. The fact that we can continue to do that and be more innovative in the marketplace will be the momentum that has been generated because of the Crean and Kerin plans beforehand and the realisation that deregulation—the final transition, if you will, to a truly competitive global market—is one that we encourage because it will give us more opportunity to leverage the momentum that is in the industry already.

That includes the domestic market here in Australia. We have just launched the first national brand of dairy beverage in our country's history, and in your state it is going gang busters, notwithstanding the very fierce price competition by the market milk players. I noticed that Senator Forshaw earlier on discussed whether there was any benefit to consumers, but deregulation is not simply about price and consumer transfer; it is about encouraging innovation in the marketplace. As far as we are concerned, the whole foreshadowing of deregulation has enabled Bonlac to move much more quickly and put ourselves into a marketplace positioning as far as the domestic beverages marketplace is concerned that augurs very favourably for our immediate future.

Mr Dainton—Can I make a comment on this particular point? As you realise, I am a dairy farmer and Chairman of Bonlac. We were, at Bonlac, a product of the Kerin plan. That was the reason for our amalgamation. Four years ago our board realised that with the winding up of domestic market support and deregulation of liquid milk we had to be very proactive. We went out and got a new CEO; we have new leadership people within the company—all aimed at being Australian owned and in the value adding business. Our board made a very strong decision to move, to take advantage of deregulation when it came because we knew it was inevitable. I think most of our suppliers at supply meetings have been told repeatedly about the inevitability of the year 2000. I would just like to make that point.

Senator CALVERT—Can I just clarify this? You said there were 30,000 dairy farmers in Australia and it is now down to about 13,000. If there is a 10 per cent shake-out as you mentioned from your farmers, and that is across the board—

Mr Scanlan—I did not say that. I said that there would be a small percentage of our farmers who would be at risk if there was a 10 per cent reduction in returns.

Senator CALVERT—I am sorry.

Mr Scanlan—‘At risk’ I should define as being farmers who will batten down the hatches and will not necessarily reinvest in their farm to maintain the momentum of efficiency on the farm.

Senator CALVERT—We had evidence yesterday from Gerald Bennett who said there is a big reduction in dairy farmers across Australia and in fact milk production has gone up.

Mr Scanlan—That is true.

Senator CALVERT—There were more efficiencies. If someone were to exit the industry—and that will happen anyway according to you, and I think you are probably right—do you expect milk production to still increase because of efficiencies?

Mr Scanlan—Yes. In fact, the big issue for companies like ours is to manage milk flow with value added marketplace opportunities. We do not have a commercial challenge in terms of accessing milk flow in Australia as we look ahead. The key issue for our company is to continue to grow total returns to our farmers—in other words, cash for their milk, as a supplier of milk—but also to grow the value of their investment in Bonlac Foods because they are also a supplier of capital. In recent times we have seen significant increases in the value of their investment in Bonlac Foods because of our value creating strategies. So I think the analysis that you present is valid.

I also would emphasise that our strategy is not to be bigger in a certain geographical part of the earth. What we are doing is picking niche strategies that are globally focused and following those around. That is the key for an Australian owned and controlled food company which builds value on its dairy base. The issue is not to get big for its own sake at all. There is no future in that. But it is to concentrate on those areas where we can find niches in the marketplace.

A domestic example of that is our beverages strategy. An international example of that is our bioscience product. We have taken a science out of Melbourne University, which has been patented, which has the capacity and has the wonderful characteristics of nature at work—re-mineralising early signs of tooth decay. Next week I will be in the United States where a major company will relaunch across America their product, which is a brand leader across America, and it will have our trademark on it. That is a first out of here.

In other words, we have a situation where Australian science was born in an Australian university—in this case in Melbourne—it was taken by an Australian company which patented manufacturing technology and also trademarked it because of the robustness of the science, giving access to the rest of the world. Top players worldwide in their industries are selling it as an ingredient. We also have a royalty stream because of the fact that we have trademarked it, bringing it back to benefit Australian farmers because they own the company but, more importantly, the royalties stream comes back and goes through the university, in this case the University of Melbourne, back into refinancing research. That is the strategy we are adopting.

We are not simply a commodity player. Of course, we are impacted by the vagaries of the commodity price. We have probably got about 25 per cent of our revenue of \$1.2 billion

in value added at the moment. That is a lot further down the track than we were and we have to continue going down this path. So, looking at it from a commercial perspective—building value and keeping it as an Australian owned and controlled processed food company, which will be one of the very few left that is over \$1 billion; it is still Australian owned and controlled with Australian brands, trademarks and intellectual property—we still have a way to go. But if I give you that analysis it will demonstrate why our strategy has to be to match milk flow with marketplace opportunities.

Senator CALVERT—You are saying that, because your co-op has got bigger, that has allowed you to spend more money on research to market better products, downstream your products better. Is that right? Is that one of the advantages of getting bigger?

Mr Scanlan—No, not precisely.

Senator CALVERT—As for the discoveries and the new products that you were talking about, would they have happened if you had a lot of small manufacturers?

Mr Scanlan—They happened because of what the chairman said, which was that we brought people into the company who have a skills set. They know how to bring in the global manufacturing and marketing rights, know how to deal with universities and science and know how to deal with the top multinationals on earth and to get them to take our ingredient forward. So it is not just because of size, but you have to have a respectable size and you have to have a strong enough balance sheet to enable you to bring those people in and develop a strategy that way, so that is absolutely correct.

The second point is that we did not merge with United Milk Tasmania to get bigger. We merged with United Milk Tasmania for one reason only: it was to the direct benefit of all the suppliers in UMT, on the one hand; it was to the direct benefit of all the suppliers of the then Bonlac, on the other; and it was a better opportunity than either company could see elsewhere at the time.

In fact, what UMT has done is combine with Bonlac so that the new Bonlac Foods, if you like, has to develop the number one quality cheese source out of Australia to the worldwide market as well as to our domestic market. It has given us the opportunity domestically to chase the number one player in branded cheese, Kraft, with our own brands. We are chasing Kraft and we intend to overtake it as the number one branded cheese player in Australia. We are already the number one quality cheese supplier out of Australia to key markets offshore, like Japan. It enables us to more strongly compete very successfully in the ingredients business with players like New Zealand.

So, however we operate in each of the components, we have an ingredients business and we have got a consumer business. You will be familiar with our brands of cheese—Bega, Bodalla and Perfect Italiano—and Western Star in spreads. In our beverages business we bought back Spring Valley beverages from Campbells, a foreign company. Originally an Australian milk company—Spring Valley beverages—we bought it back and brought it into Bonlac and that is now the distribution basis for a very successful beverages business. Bonlac Foods' aim in the beverages business is to be the number two long-life beverage distribution system in Australia. We have already doubled the investment of \$45 million and

that business is worth more than twice that. We have Gatorade, Spring Valley juice, Spring Valley water and our flagship is Wave, which is the first national dairy brand of beverage in our country's history.

So it is very important when you look at Bonlac Foods to note we are not 'just a co-op'. We are in fact out of a cooperative heritage—and we are very proud of that—but we are an unlisted public company; we are defined by the Corporations Law of Australia. The majority of our board members, as you would appreciate, are farmers. But we also have non-farmer directors on our board, which rather distinguishes Bonlac from a lot of other companies that are seen to be like us.

Senator CALVERT—Did you hear my question earlier about getting bigger?

Mr Scanlan—Yes.

Senator CALVERT—In New Zealand, they may get down to one large co-op. Do you think that is a healthy situation?

Mr Scanlan—I think it is a natural process that the New Zealanders are going through, but I think also that the commerce commission over there is fully aware of your appropriate sense of a lack of good health in what they are doing, Senator. As we know, the New Zealand legislature—the government—is looking at that issue right now but I think what we will see, as other people have said earlier this morning, will be a folding of the dairy board into what is loosely described as a mega co-op. We will wait and see what happens over there, but we already have a small business in New Zealand, a very profitable and successful one. We have a very good New Zealander who runs our business over there. We are already in the trade. We are already supplying the trade in New Zealand. We see Australia and New Zealand supermarkets, for example, as being just part of the same market.

Senator CALVERT—I have a quick question for you, Mr Dainton, being a dairy farmer. Some of the dairy farmers in Tasmania claimed yesterday—and we have yet to back this up but I think it might be true in the short term anyway—that the uncertainties of deregulation had led to lower cow prices and lower land prices in Tasmania. Has that happened here because of the uncertainty in the industry? Have you detected that?

Mr Dainton—I have no evidence at all to suggest that. In fact, I would be quite surprised because I would have thought that the industry would gravitate to the more efficient areas of Australia and, in actual fact, I would class Tasmania as one of the areas that would be an efficient area. The longer term view anyway would be that land prices would hold and would perhaps even increase.

Senator CALVERT—Some New Zealand farmers have come across to here because of that very reason—lower land prices—but I was surprised when I heard that yesterday. I am aware of the conservative views of dairy farmers. I have been involved with them for 40-odd years. I used to be in charge of the dairy section of the Royal Hobart Show for some 30-odd years, and I got to know some of your guys, too.

Mr Dainton—I have heard comments like what you are saying, but I think they are predictions of doom and gloom down the track by individuals. I come from the Goulburn Valley, so I can speak a little bit about that area. Land prices for dairy farms are not going down. In fact, land prices are tending to go up in the irrigation area because of pressure from other businesses, like wine and horticulture.

Senator CALVERT—Quite a few of the dairy farmers expressed concern at the fact they had not been consulted enough about the proposed changes. Has that been a criticism here?

Mr Dainton—With UMT, as you would realise, we have only just merged, so I guess the consultation processes have not been restricted, from the Bonlac point of view, in the last six or eight months. We have a list of the meetings and, in fact, we pride ourselves on our consultation and feel that we consult more than any other dairy company or any cooperative that we can name. In the last 12 months or so we have had 21 supplier meetings. We have a monthly newsletter. We break the company up into zones of about 30-odd farmers in each zone, to which a director and some management go along; we have had 146 of those. We have a representative scheme which meets quarterly, we put press releases out and we have also had—because of the downturn in commodity prices—workshops called ‘Sharing Experiences’. We have had about 1,100 suppliers attend those.

At all those meetings, deregulation is discussed. I just cannot believe the comment that there is a lack of consultation. There has been input at meetings from suppliers. What I hear overwhelmingly is that there is concern but there is also inevitability, and I think the interest is more towards the package and how that is going than anyone getting up and just criticising our company or deregulation in general. In fact, if I think back, there were only three questions in all the supplier meetings regarding deregulation, none of them exactly negative but more of a concerned nature.

Senator FORSHAW—I think all the issues I wanted to raise have already been addressed.

Senator O’BRIEN—You say that a 10 per cent reduction in returns will cause severe problems for dairy farmers. There has just been a 15 per cent reduction in milk prices, so you are paying your co-op, or shareholders effectively.

Mr Scanlan—There has been an opening price which, on a cash-for-cash comparison, in our case is about 10 per cent lower than the opening price last year. We have also had an innovation in the last couple of years where we have been able to raise \$100 million in unsecured notes. They have been listed. That was the first company of any type in Australia to do that. In fact, it has subsequently been followed by the NAB, Westpac and Macquarie Bank.

Along with our opening price, we have announced that there will be a share off-take option. In other words, those of our suppliers who wish to take all their milk price in cash and not reinvest back in the company, because it is constrained—there are times when there are some constraints for a number of our suppliers—can do so. Equally, there are other suppliers of Bonlac Foods who have the option to reinvest more in the company.

I would like to emphasise that a significant proportion of our suppliers, notwithstanding the downturn in commodity price impacts this year, have elected to reinvest more of their milk price in taking up shares in the company than in taking cash. At the same time, we have given the option to those who want it all in cash to take cash. This is a responsible policy adopted by the board of Bonlac Foods at a time when we know some of our farmers—and I said some; a small percentage is what I said—see themselves at risk because of the 10 per cent downturn.

Senator O'BRIEN—But the 10 per cent you talked about is on top of that?

Mr Scanlan—No, I did not say that.

Senator O'BRIEN—I am not sure what you said, so I am asking you the question so that you can clarify it.

Mr Scanlan—I will be very, very clear. I said that the 10 per cent reduction in commodity returns, the risk factor that we are looking at, reflects what is in our opening price. So it is one and the same.

Senator O'BRIEN—Thank you for clarifying that. How tradeable are the shares? They are not listed, so what is the trading mechanism?

Mr Dainton—The shares are supplier shares. They can be traded only between suppliers as they are not publicly listed. Generally speaking, they are \$1 shares and they trade at \$1 within the company. There is no intention of publicly listing them or anything like that. I think it is very significant, though, that the direction which Bonlac has chosen to take is supported by a large number of suppliers in a downturn and the industry wanting to put more investment in that side of the business. I think that is the maturity of dairy farmers looking at the business as a whole rather than just at milk price.

Senator O'BRIEN—That would in some ways reflect the relative gearing level of different dairy farmers whose commitment to repay debt would preclude them from taking advantage of the scheme you offer. They would need to take their price when you offer it whatever it is.

Mr Scanlan—Actually everybody is taking advantage of it. I would not agree that it would, to take your words, preclude them from taking advantage of the scheme we have offered. The scheme we have offered allows every one of our farmers to take advantage of it. Those who have a debt issue, who therefore want more cash, are now able to take their total milk price in cash. This was not available to them before, but now they can avail themselves of the scheme we have introduced. Equally, those who are inclined to reinvest further in the company by way of shares are also able to do so. So it is an innovation that actually applies to every single one of our suppliers.

Senator O'BRIEN—Could you give us the proportion of your suppliers who would be taking their price in cash?

Mr Scanlan—We are going to run this on a phased basis throughout the year, so this would not be a final position. You are probably looking at around 25 per cent wanting to take cash, but you have a significant number saying, ‘I will wait and see.’ Not all the votes are in on this. Those are the indications so far, and then you have a significant percentage who will be wanting to reinvest as well. I do not know what the answer is going to be, but you are probably going to get something like a normal distribution there.

Senator FORSHAW—I notice the written submission states:

Currently around 65 percent of Victoria’s milk is exported as manufactured dairy products.

I assume it follows on from that that around about the same percentage of your manufactured product is sold as export? I am trying to get a figure for the milk, but what is the proportion for the actual product produced—the split between domestic and export?

Mr Scanlan—There is \$1.2 billion in revenues and a bit over \$600 million exported. We have a very significant presence in the domestic market.

Senator FORSHAW—Are you and Murray Goulburn about the same?

Mr Scanlan—I think they are probably a little more in exports and we would probably be appreciably more in the domestic market—meaning cheeses, spreads and now beverages.

Senator FORSHAW—Who are the biggest purchasers of your product—the supermarket chains?

Mr Scanlan—On an ingredients front domestically there are a number of players. You have Nestle and people like that who we supply on an ingredients front who in turn provide products to the supermarkets. We are solid suppliers to the supermarkets as well. Can I just emphasise that our strategy on beverages is not to be caught up purely by the supermarkets. We bought Spring Valley Beverages because that is the only other long-life route beverage distribution system available in Australia, apart from the Coke system and the Schweppes system. We bought it for that purpose. Our flagship national brand beverage, Wave, is predominantly going into the corner stores, the convenience stores and the service stations rather than into the supermarkets. We have a relationship with the supermarkets as well, but the clear majority of our dairy beverages go into the non-supermarket channels, which give higher returns, as you would appreciate, than the supermarkets.

Senator FORSHAW—I am taking liberties because, as I indicated earlier, there is another inquiry going on that has some interesting ramifications and connections.

Senator CALVERT—While we are on beverages, you did mention earlier to the chairman that a particular beverage was going gang busters in Queensland. What was that one?

Mr Scanlan—Wave.

Senator CALVERT—What is it?

Mr Scanlan—It is dairy beverage. It is about 97 per cent milk but, because of deregulation coming down the track—this is a very interesting story—the current food standards would not allow us to call it a flavoured milk. It shows you that sometimes regulations can be less than sensible. In full consultation with all the authorities in this country, we had a dispensation to call it a flavoured dairy beverage, which is what we have done. This is a long-life beverage, it has six months shelf life, it tastes better than fresh and it is outperforming all the other players in the market at the present time. I just used the chairman's state as an example, but it is actually going extremely well in New South Wales and Victoria. It has just been launched in South Australia, we have just launched it very well in New Zealand and it will be going across to the west later on as well. It is going extremely well.

CHAIR—It is sold as Wave?

Mr Scanlan—Wave.

CHAIR—I will have to see if I can find it.

Mr Scanlan—You should be able to find it.

Senator CALVERT—You must have a very good advertising scheme. You do not use John Laws, by any chance, do you?

Mr Scanlan—We have only just begun to advertise because the product has very significant legs in its own right. We have just kicked off advertising in the middle of this month to give it a further lift as we launch it in South Australia.

CHAIR—Thank you for your evidence.

Committee adjourned at 10.35 a.m.

