

Dairy Industry Senate Inquiry

Submission by Craig and Rachael Dettling

We are dairy farming in south west Victoria, milking 220 cows as owner/operators, having moved here in 2005 from Taranaki, New Zealand. We purchased a small, under developed dairy farm, and have been supplying Murray Goulburn continuously from the farm purchase.

We are both actively involved in numerous dairy industry groups, including local discussion groups, focus farms. Craig is President of UDV Wannon Branch UDV.

There is much opinion and confusion around the actual mechanics of the revision of the milk price forecast imposed by Murray Goulburn on April 27th 2016. The full year milk price forecast of \$5.60/kg MS was dropped to \$5.47/kg MS, which was implemented by dropping the forecast milk price over the remainder of the season (11th May – 31st June 2016) by 15%.

This price adjustment was placed only on milk supplied in the future, which therefore is not retrospective, and had no effect on the price of milk supplied previous to 11th May 2016.

If you chose to leave Murray Goulburn to supply a different milk processor from 11th May 2016, you were not and are not liable to reimburse Murray Goulburn for any “overpayment” of milk supplied prior in that season. This therefore refutes the negative commentary which ensued, that there is any element of retrospectivity to the price adjustment.

Murray Goulburn’s decision to “soften the blow” of the lower than expected revenue of its suppliers, was implemented by introducing the “Milk Supply Support Package” (MSSP). The MSSP covered the difference between the price paid to farmers (\$5.47/kg MS) and the distributable milk pool milk price (\$4.75 - \$5.00 /kg MS) which is expected milk price paid to suppliers as the result of Murray Goulburn’s income received from sales less processing costs.

This action shows that the intentions of the co-op was to support their farmers through this tough

time, as passing on the full drop of farm gate milk price to their suppliers would have been too harsh a blow.

In contrast, Fonterra Australia reduced their farm gate milk price paid to suppliers over the May/June period by 68%.

The MSSP is a debt owned by Murray Goulburn as a company debt, unlike the loans offered to Fonterra suppliers, which are individual supplier debts and are yours to repay regardless if you change processors or cease supply.

The Australian dairy industry needs a strong and well performing co-operative processor to ensure the future prosperity of this important industry.

The aim of a co-operative is to maximise the financial returns to its shareholders. In the case of Murray Goulburn, it is to return the highest farm gate milk price for its farmer suppliers. This core principle drives the dairy industry milk pricing, in that other proprietary companies benchmark and reference their milk prices from what Murray Goulburn pays their farmers. For example, the Bonlac Supply Agreement, which governs the milk price Fonterra Australia is required to pay their suppliers, states that it must “at least match the bundled return of the leading processor in Victoria (Murray Goulburn)”. Without the co-operative, there is nothing to prevent proprietary companies from driving down the farm gate price to enable them to maximise their returns to shareholders, whom are largely overseas investors.

In summary, we are firm believers that the Australian dairy industry has a bright future, and that there is much potential and many opportunities yet to be realised, and the industry needs to work together to put itself in the position to achieve this.