



October 2009

Senate Economics Committee
Parliament House
Canberra ACT 2600

To whom it may concern,

On behalf of the Bonlac Supply Company (BSC), I would like to provide the following input to the Senate Committee Inquiry into competition and pricing in the Australian dairy industry.

BSC is owned by more than 1,300 dairy farmer shareholders in Victoria and Tasmania. The company is governed by a board of directors representing the different farming regions and operates on co-operative principles.

BSC acts as an agent for Fonterra Australia Pty Ltd ('Fonterra Australia') for milk supply in Victoria and Tasmania. Our shareholders are suppliers to Fonterra and our shareholders' equity is invested in Fonterra Australia in the form of Unsecured Capital Notes. Fonterra is a New Zealand based cooperative and its Australian business operates major dairy manufacturing assets (many of which were acquired from Bonlac Foods).

We work proactively with Fonterra to further our shareholders' interests and to negotiate the terms of the milk supply our shareholders provide to the company. There is currently a Milk Supply Agreement in place between Fonterra Australia and BSC that lasts until 2014. Under this agreement, Fonterra is obliged to purchase all milk from BSC shareholders (subject to minimum quality standards) and to offer a uniform price for this milk to all our shareholders (subject to cost standardisation).

In 2008–09, our shareholders produced 1.3 billion litres of milk that was sold to Fonterra Australia under the Supply Agreement. This represents more than 80% of the milk Fonterra collected in Victoria and Tasmania and Fonterra paid out more than \$500 million to our shareholders for this milk.

Central to the Supply Agreement is a commitment from Fonterra to pay its suppliers a guaranteed minimum return that is not less than that paid by the volume leading Victorian milk processor. In the year ending 30 June 2009, Fonterra's payments to farmers exceeded this minimum bundled return by \$28 million.

Importantly in the context of the recent concerns expressed about farmgate competition in Tasmania, the Supply Agreement guarantees our Tasmanian suppliers receive the same price as their Victorian counterparts (subject to a relatively minor adjustment for higher energy and farm milk collection costs in the State). This means our Tasmanian shareholders gain access to the Victorian manufacturing milk price, the most competitive in Australia. In addition, they enjoy the certainty that Fonterra will collect all the milk they produce.

The BSC-Fonterra Supply Agreement does not guarantee farmers will receive a price that is above their cost of production. Farmgate milk prices are set by a number of factors, including commodity prices and the currency exchange rate. However, it does ensure that our shareholders have a guaranteed buyer for their milk at a competitive price. Through BSC, dairy farmers also have a powerful collective voice when interacting with Fonterra.

Thank you for the opportunity to provide these comments to the Inquiry.

Yours sincerely

A handwritten signature in black ink that reads "Noel Campbell". The signature is written in a cursive, flowing style.

Noel Campbell
Chairman
Bonlac Supply Company