

Submission for the Senate enquiry into competition and pricing in the Australian dairy industry.

Fiona Waters

Background:

Stephen and Fiona Waters own and run a dairy farm at Deniliquin in the Southern Riverina, NSW. We have three boys; Ronan 7, Charlie 5 and Angus 2.

We milk 150 cows and have, because of the drought of the last five years, reduced our milking herd from 300 to 150.

This year we are faced with very low water allocation, continued drought and now a severe cut in milk prices.

Terms of reference to be addressed:

A) The economic effect on the dairy industry of reductions in milk prices paid to milk producers by processors....

B) The impact of the concentration of ownership of milk processing facilities on milk market conditions.....

C) The impact of consolidation of the ownership of the market or drinking milk sector with the manufacturing milk sector.....

F) Any other related matters:

- **Income support/ gov intervention**
- **Social impact**
- **Environmental impact**

A) The economic effect on the dairy industry of reductions in milk prices....

We pride ourselves on running a good business. We are continually reassessing our position, doing budgets and making critical decisions. We hire a farm consultant service which assists in the economic and farming decisions we make. We are in contact with our bank and answerable to them at any time. To be able to do this we also have to be in contact with our milk company who give us income estimates from which we can then construct our budgets.

The 2009 calendar year was looking to be a positive one, with milk prices for us averaging 42-45c a litre. Because of the drought and no water allocation we would be able to afford to buy in the feed we needed to survive and break even.

In December 2008; two days before Christmas; Murray Goulburn, our milk processor, announced the decision to almost cut our milk prices in half. There was no real explanation, apart from the global economic crisis. We were told that we would be lucky to average 28c a litre - and it costs us 30c to produce a litre of milk! On current budgets this year we are going to make a \$150000 loss. We have no choice but to do this, as we would lose more by getting out. We also have the extra stress now of a failed crop, continuing drought (especially in the southern Riverina) and a very low water allocation. We will now have to buy in all our feed, both fodder and concentrates. For those of us who wish to sell some of our water assets to cover this loss, an embargo by the state has been put in place and we are put in limbo because of this.

The cut in milk prices has completely devastated us!

It is important to note that those dairy farmers still around are the smart ones. The drought, water prices and natural attrition have got rid of the rest. We pride ourselves on our business management, as does our financier. We borrowed money to expand based on the great prices we were told we were going to have. Now it looks as though we will be lucky to survive and can only hope for a better autumn now as spring and summer will be a complete ride off.

B. The impact of the concentration of ownership of milk processing facilities on milk market conditions

The monopoly that a few milk processors have on the industry should be discussed. It is interesting to note that one processor seems to set the price for all the others. It is also interesting to note that some processors which had contracts with their suppliers were able to honor them and continue to do so at higher prices. **Yet our milk processor is unable to do so!**

Murray Goulburn, in its latest letter, announced a step up in milk prices, which still does not get us anywhere near where we need to be to break even. It also mentioned that there would be further step ups but only to those suppliers who stayed with them from now till January and then beyond. **In other words don't shop around!**

We are very limited in our location and there seems to be huge discrepancies in the price the dairy farmer receives for their milk depending on their location. A governing body needs to act as a watch dog on this and assess the needs of different farmers at different times. The milk pricing of today is enough to kill the dairy industry in our region and several other regions that we are aware of.

C. The impact of the consolidation of the ownership of the market milk sector with the manufacturing milk sector on milk marketing conditions

We are in an area that can supply Murray Goulburn which is mainly a manufacturing milk processor or Fonterra, if they would take us in Wagga which is mainly a fresh milk processor. Again there are huge discrepancies in the pricing between these two processors and it seems unfair that if you have the misfortune to not be able to get into one you have to “put up with” the lower milk prices from the other. The two sectors are still very much separate in our area at least. **Same milk – vastly different price!**

F. Other related matters

Income support/ Government intervention:

A lot has happened to our economy because of the global economic crisis. Is the dairy industry any different to the car industry in its need for intervention? Sectors that would not have been under threat are so now.

The dairy industry, particularly in our region needs assistance. The government cannot and should not sit idly by while milk companies with millions of dollars worth of profit, pay farmers not even enough to break even. Farmers are very proud people but we are also realists and business people. We accept that this will get rid of whatever inefficient dairy farmers there are left (not many after years of drought, low water allocations and sky high feed costs). But those of us who are left, who want a future in the industry, who love what we do and who just want to cover costs, need assistance. Low interest loans through the government rather than the banks has been one suggestion put forward. We need help now not in a few months time. This month alone I had \$42000 worth of bills and our milk cheque came in at \$27000. Interest costs and repayments alone covered \$10000 of this.

Social Impacts:

The social impacts to our industry, our towns and our people cannot be stressed enough. We are 34 and 35 years old. We face the stress of drought and low water allocations every day. The one thing we banked on when making our business decisions was our milk price. We purchased a new property, paid our parents out and helped them retire on Dec 11th. On Dec 22nd we were told that those milk prices would now be cut in half. Merry Christmas!

Our town is a vibrant and dynamic one. One which has survived plenty of hardships. But people are tiring. They are starting to leave now, go elsewhere, and start again somewhere else. The cut in milk prices have seen friends of ours leave, not only the town but the industry. We have seen the bank foreclose on friends, people that are good managers, risk takers and farmers. Also people that have families, young families. These years should be the best years of our lives, raising children, living in the country; instead our family faces another summer of being tied to the farm because we can't afford a worker; we have to constantly feed out

because there's no feed. All this would be doable and a lot more positive if the milk price was above the price of production.

Environmental Impacts:

Farmers are environmentalists. The land is our future. If we don't look after it then we're not looking after our future. But tell me where money for replanting, preventing erosion, irrigation infrastructure to be water efficient is going to come from when you don't have the money to pay the bills to keep your cows alive? Our rural environment is struggling enough with the environmental challenges we face with climate change, the milk pricing issues only compound the dilemma the farmer faces with prioritizing their funds.

Thank you for taking the time to read this submission. We have commented on the terms of reference that we feel affect and impact on us most. I am pleased and relieved that the Senate has seen it as an important issue that warrants investigation.

Fiona and Stephen Waters