



**TASMANIAN FARMERS AND GRAZIERS ASSOCIATION
SUBMISSION**

TO

**THE SENATE STANDING COMMITTEE ON ECONOMICS ON
COMPETITION AND PRICING IN THE AUSTRALIAN DAIRY
INDUSTRY**

October 2009

The Tasmanian Farmers and Graziers Association

The Tasmanian Farmers and Graziers Association is the leading representative body for Tasmanian primary producers. To this aim the TFGA currently has a membership of 3100 Tasmanian agricultural enterprises, which translates to 80% of enterprises within the Tasmanian agricultural sector. Consequently, there is no doubt that the TFGA is the peak representative organisation for the agricultural sector in Tasmania.

With its mission being to advance the development of Tasmanian primary industries, the TFGA is committed to ensuring that the agriculture sector in Tasmania is profitable and sustainable. The TFGA is also committed to promoting the agricultural sectors' vital contribution to the environmental, social and economic fabric of Tasmania to all levels of government and the wider community.

Operationally, the TFGA is divided into separate councils and committees that deal with each of the major commodity areas. Via this structure the organisation plays an active role in championing issues affecting the agricultural sector so that they are recognised by Government, industry and the wider community within decision-making process.

Purpose and Context of this Submission

As a member of Australian Dairy Farmers the TFGA has had input into and endorsed the Australian Dairy Farmers submission to this inquiry. This purpose of the TFGA's submission is to provide greater detail in relation to Tasmanian dairy farmers on part (a) of the Terms of Reference for the inquiry.

Addressing the Terms of Reference

a) The economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors

Tasmania is almost the near perfect place for milk production. It has high rainfall, excellent soils with good fertility and a pasture growth rate that is ideally suited to spring calving. With this optimistic picture in mind you would expect the State's dairy industry to be thriving. However, due to price reductions and unseasonably bad weather the dairy industry in Tasmania is in fact operating in a period of major downturn.

Tasmanian dairy farmers supply milk to three main milk companies these being Fonterra Australia, Cadbury Enterprises and National Foods. Fonterra is by far the

biggest milk company represented in the State with 62% of milk produced in the State supplied to Fonterra.

Dairy Farmers in Tasmania were forewarned that milk prices were to be reduced substantially for the 2009/2010 season. Substantial being a price reduction of 9%. At the same time dairy farmers were convinced by the milk companies that whilst there would be a price reduction the future of the industry was strong. In fact many enterprises were of the understanding that an increase in volume of milk in the coming seasons was the trend. Armed with this information many dairy farmers were able to secure finance to increase the capacity of their operations. The majority of financing was secured by Rabobank. It is clear that conservative banking institutions such as Rabobank would not have approved substantial loans to dairy farmers if they themselves did not also believe that the trend in the industry was up not down.

However, in January 2009 a 32% reduction in the base milk price from January to June 2009 was announced. This drop was not forecasted and there is no way that Tasmanian dairy farmers could have planned and been prepared for such a dramatic drop in price. At the same time due to global financial pressures the cost inputs to running a dairy farm increased and the wettest season on record in Tasmania started.

These events combined with lower returns and increasing loan debts have created a very bleak economic picture for dairy farmers in Tasmania. Many Tasmanian dairy farmers have exhausted their funds and with reduced income are unable to pay their bills. To make matters worse there does not appear to be a change in the situation within the foreseeable future.

Consequently, it is fair to say that the effect on the Tasmanian dairy industry of the announced reduction in prices to be paid by milk produces has been severe both economically and socially.