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***Submission to the
Senate Economics References Committee***

Inquiry into the Dairy Industry

17 October 2016

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Tuesday, 18 October 2016

Senate Standing Committees on Economics

PO Box 6100

Parliament House

CANBERRA ACT 2600

By e-mail: economic.sen@aph.gov.au

Dear Senators,

**SUBMISSION TO THE SENATE ECONOMICS REFERENCES COMMITTEE –
INQUIRY INTO THE DAIRY INDUSTRY**

Norco Co-operative Limited (Norco) welcomes the opportunity to make a submission to the Senate Economics References Committee inquiry into the dairy industry.

Norco is a dairy Co-operative based in northern New South Wales and south east Queensland with its Head Office located in Lismore NSW. We are proud to be able to say that we are a 100% farmer owned dairy co-operative that has been in business since 1895. Norco has 334 active members on 220 farms supplying fresh milk to the Co-operative 365 days a year. Our farms are spread from Kenilworth QLD in the north, west to Toowoomba QLD and down along the coastal fringe to Taree and Gloucester NSW in the south.

Norco processes our members' milk primarily for the fresh drinking milk market in northern NSW and Queensland with milk factories in Labrador on the Queensland Gold Coast and Raleigh in NSW (just south of Coffs Harbour). Unlike southern Australian processors, Norco is not a commodity driven business and in fact we have worked hard to protect ourselves from the commodity market but we are acutely aware of both the domestic and global commodity markets and the effects these markets can have on our business.

Norco strives to maximise the returns of our members by also having interests in other businesses that can benefit our members. We have a highly successful Ice Cream Business Unit based in Lismore that allows us to process excess milk not needed for the drinking market into value added ice cream products. In fact Norco is the largest contract manufacturer of ice cream products in Australia with a throughput of 47m litres. Again, this facility largely protects us from having to sell milk into commodity markets. Our Norco Rural / Agribusiness division is integral in its

contribution to the overall success of the Co-operative as a commercially driven business with more than 30 rural stores and two feed mills. Our members can purchase their farming inputs from this division and obtain patronage rewards to improve their overall returns. Members' share capital for the last two financial years has attracted a dividend of 6 percent.

Norco's primary concern is to maximise the farm gate returns of our members because unlike non-co-operative structured dairy processors, we do not have to satisfy the needs of external shareholders who do not have a vested interest in the dairy industry. We must, of course, be cautious not to maximise farm gate returns to a level that puts the Co-operative itself under financial burden. We must ensure the Co-operative's financial performance is commensurate to the returns we pay our members as we must plan for reinvestment in the business to ensure the Co-operative remains competitive within the markets we operate in.

In recent times there has been much commentary about the dire situation being faced by dairy farmers in Australia's southern regions. As a 100% farmer owned dairy co-operative since 1895, everyone involved with Norco is saddened by these events but it only serves to strengthen our resolve that there must be a vibrant dairy industry in northern Australia now and into the future.

We believe that as a strong regional Co-operative, we have a significant role to play in ensuring that all dairy farmers (whether they supply milk to Norco or another processor) continue to receive a fair return for their milk. It was not so many years ago that Norco was not seen as a major player in the northern dairy industry. However, with the corporatisation of some other processors within the industry which led to them turning their attention away from their dairy farmers in favour of satisfying their shareholders, Norco is now seen as a real alternative and an attractive proposition for many dairy farmers. If Norco was not a major dairy processor in the northern Australian market, the farm gate milk price in our region might not be what it is today.

In fact, even though it is widely reported that the Queensland dairy industry is in decline, Norco's farm gate pricing and co-operative model are seen as attractive propositions. Norco is proud of the fact that we support new start-up farms and some 14 new start-ups have commenced milk supply with Norco in the last few years. This demonstrates that the co-operative model is becoming better known and recognised as a sustainable business model.

Like all other processors, Norco needs to ensure it has a secure milk supply base with which to supply major fresh milk retail contracts. Norco offers our milk suppliers a range of milk supply agreements of up to five years' duration. In return for entering into a milk supply agreement, as a Co-operative, Norco guarantees to pick up all the milk produced on our member farms. If any member is unhappy with Norco's offer they have the opportunity to give notice to terminate their arrangement at the end of the Milk Supply Agreement term.

Norco's co-operative structure has been instrumental in allowing us to win major retail contracts as the retailers want to align themselves with member owned processors now that there is much more scrutiny placed on them by consumers, however the price which retailers sell milk for is something that we cannot comment on, nor influence. The only consideration for Norco is to ensure that any contract we

tender for is at a price that provides a benefit to our members in terms of assisting to maintain or uplift their milk price.

Norco considers itself to have a deep involvement in the regional communities that our dairy farmers farm in and in the manufacturing facilities we operate at Labrador, Lismore and Raleigh as well as the 30 rural retail sites and two stock feed manufacturing mills, in all employing over 800 people. Norco's presence in these communities adds significantly to the viability of these communities and whilst it is hard to estimate the net benefit Norco and the dairy industry bring to these communities, what we do know is that in most instances if the dairy industry ceased and the factories closed, many of the 800 employees would have to consider relocating to areas that provide better employment prospects or seek welfare payments.

Norco is of the view that the Senate Committee should consider the point that if Co-operatives are to resist external equity and the inherent conflict this brings, it should consider recommending that the members of co-operatives are given tax incentives to invest in their co-operative. At present any investment by members is seen as a capital item and therefore attracts normal tax rates.

The benefits that increased investment from co-operative members would provide include:

- The ability to access new technology that may assist in improved efficiencies
- Improved competitiveness allowing for greater market access
- Access to markets that may attract higher margins
- Improved farm gate returns for our members
- Opportunity for members to increase their farming operations to take advantage of new market access
- Improved employment opportunities in regional communities.

Norco would also like to comment on our Milk Supply Agreements (MSA's). MSA's were introduced approximately nine years ago to give our members and customers certainty of supply. Our MSA's have continued to evolve over this time and the vast majority of our members appreciate the stability they bring to their individual farming businesses. Norco has also sought to engage with the major retailers in Australia to support our MSA's. In June prior to the new financial year, Norco released its full year guaranteed pricing. As Norco's financial performance has improved so too has our ability to influence the milk prices paid to dairy farmers in the regions we operate in, this was particularly evident in June 2016 when a number of farmer advocacy organisations made representation to Norco to hold farm gate prices when the southern dairy industry was making deep price cuts to farm gate prices.

Creating a stable environment for our members to operate within is a key component in ensuring future generations consider dairying as a career option. Our experience has shown that when farmers exit dairying when financial circumstances are perilous, whether that be climatic or events such as the Global Financial Crisis, few return to the dairy industry. Our recent experience has shown that when Norco is performing above our members' expectations and seasonal conditions are reasonable, our members invest in their businesses which in turn generates increased on-farm production and we receive an increase in enquiries from potential new entrants to the industry.

It is Norco's view that the Australian dairy industry needs a strong and vibrant co-operative sector. The events of the last six months are regrettable and are likely to have long lasting consequences. It is imperative we learn from these unfortunate events and it is even more important to move on and focus on the issues that will put confidence back into the dairy industry in Australia

Yours sincerely

NORCO CO-OPERATIVE LIMITED

GREG McNAMARA

Chairman