



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS REFERENCES COMMITTEE

Reference: Competition and pricing in the Australian dairy industry

FRIDAY, 6 NOVEMBER 2009

BURNIE

BY AUTHORITY OF THE SENATE

TO EXPEDITE DELIVERY, THIS TRANSCRIPT HAS NOT BEEN SUBEDITED

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

The internet address is:

<http://www.aph.gov.au/hansard>

To search the parliamentary database, go to:

<http://parlinfo.aph.gov.au>

**SENATE ECONOMICS
REFERENCES COMMITTEE
Friday, 6 November 2009**

Members: Senator Eggleston (*Chair*), Senator Hurley (*Deputy Chair*), Senators Bushby, Joyce, Pratt and Xenophon

Substitute member: Senator O'Brien for Senator Pratt

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cor-mann, Crossin, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Han-son-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senator Colbeck, Senator Eggleston, Senator Milne, Senator O'Brien

Terms of reference for the inquiry:

To inquire into and report on:

The current circumstances of the varying prices being paid to dairy farmers in different Australian states, including:

- (a) the economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors;
- (b) the impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry;
- (c) the impact of the consolidation of the ownership of the market or drinking milk sector with the manufacturing milk sector on milk market conditions in the dairy industry;
- (d) the impact of the concentration of supermarket supply contracts on milk market conditions;
- (e) whether aspects of the Trade Practices Act 1974 are in need of review having regard to market conditions and industry sector concentration in this industry; and
- (f) any other related matters.

WITNESSES

BOVILL, Mr Richard, Private capacity	2
BROAD, Dr Shane, Private Capacity.....	14
FERGUSSON, Mr Mark Francis, Dairy Adviser, Tasmanian Institute of Agricultural Research.....	66
MORRIS, Miss Nicola, Chief Executive Officer, Van Diemen’s Land Company	42
OLDAKER, Mr John Henry, Chairman, Cadbury Suppliers.....	7
OLDFIELD, Mr Christopher, Chief Executive Officer, Tasmanian Farmers and Graziers Association	29
QUILLIAM, Councillor Daryl Herbert, Mayor, Circular Head Council.....	58
SMART, Mr Anthony Charles (Tony), Assistant General Manager, Circular Head Council.....	58
SMITH, Mr Mark, Executive Officer, DairyTas Board.....	20
TENNANT, Mr Wayne, Private capacity	48
TENNANT, Mrs Marilyn, Private capacity.....	48

Committee met at 10.33 am

CHAIR (Senator Eggleston)—I declare open this second hearing of the Senate Economics References Committee inquiry into competition and pricing in the Australian dairy industry. On 10 September 2009, the Senate agreed to refer the matter of current varying prices being paid to dairy farmers in different Australian states to the committee for inquiry. In its inquiry, the committee is specifically interested in the economic effect on the dairy industry of reduced milk prices; the impact of the concentration of ownership of milk-processing facilities on the industry; the impact of the consolidation of ownership of the drinking milk and manufacturing milk sectors on the market; the impact of the concentration of supermarket supplier contracts on the market; and whether any aspects of the Trade Practices Act 1974 are in need of review, having regard to the aforementioned conditions. The committee is due to report to the Senate on 28 February 2010.

These are public hearings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, be made at any other time. I welcome our first witness.

[10.35 am]

BOVILL, Mr Richard, Private capacity

CHAIR—Mr Bovill, would you like to make an opening statement?

Mr Bovill—Yes. Thank you for the opportunity to speak with you today. I would also like to thank the senators who have been involved in previous agriculture committees for their continued work in this area. For over five weeks now I have been working at the request of a range of dairy farmers to try to get a better price for their milk. I have pretty much committed myself full time to that and it has involved talking to a number of dairy farmers, not just to National Foods but also to Fonterra suppliers, and having a range of conversations with milk vendors, various company representatives, people in the industry and retailers and milk manufacturers to try to get a better understanding of what is happening and what is a fair price in this market. I also determined very early what is necessary to bring National Foods to negotiation, because at that point in time they had already broken off negotiations with the committee. They said six weeks ago that their offer was final, and that was set at 29.8c.

I recognise that, when you have a very large company that is outside the state—my background is that I have always been involved in farming. I had a 20-year joint venture with Woolworths and I also worked with Woolworths as a state executive, so I understand how large companies operate. It was from that background of understanding what is fair practice and how big companies work that I approached this issue.

The reason for the establishment of these Senate inquiries is to put pressure on National Foods to act responsibly and to question their actions, because no farmer can question the actions of a large company. They have no power in that space, with the idea being to create executive stress. They can put stress on farmers but they have no accountability themselves. There have been discussions about putting boycotts on milk. The fact is that there is absolutely no reason for National Foods to pay these farmers \$15 million or \$9 million, or whatever is necessary, to make them viable. They have no need to do it other than the fact that it would be morally responsible. To make that determination how would an executive go back to head office and say, 'I've just given the farmers \$15 million'? Their head office would say, 'What did you do that for?' The determination would be based on, 'Because I thought they needed it.' I am afraid that, in the executive world, that just does not work. But if it were a case of, 'We've lost the support of the Tasmanian public and we're going to lose just as much money because people are not buying our product,' all of a sudden there would be a fair reason why they might say, 'We'd better determine what we can do.'

I have threatened to take action on the mainland which would raise the same awareness on the mainland as it has in Tasmania. We threatened to go to Sydney with it, and I have found out today that they have offered farmers in and around Sydney 44c a litre in exactly the same space that they have offered the Tasmanian farmers 33c a litre. That is for a two-year contract. We all live in the one country. If they can offer 44c in New South Wales, why can they not offer 44c in Tasmania? The farmers up there tell me that their cost of production appears to be fairly similar to the cost of production in Tasmania. The issue around this is that, when we talk about market

power, large companies do it just because they can. Good corporate responsibility is only a moral obligation. There are no ethics in the system.

What I have also learnt in the last five weeks is that National Foods are very, very good at doing their job of extracting money from every source that they can. Shortly I would like to, in private, give the committee a range of accounts and things that I have heard from different people and give the committee the contact names of those people. Those people would be willing to give evidence in private which will reveal a pattern of behaviour which is actually about distorting the view that everybody has. In Tasmania National Foods have used their vendor network to try and discredit their competition, and I have had representations from vendors from Tasmania who have obviously been put up to it by National Foods, because they have given the standard National Foods line about what National Foods claim to be their profitability and what National Foods have said about better milk. They have even told retail outlets that Tasmanian milk is not better. They have told retail outlets that better milk comes from the mainland. There is a range of these different kinds of stories out there, and you might say it is corporate skulduggery. It is not done by National Foods; it is done by agents of National Foods. One of the issues around large companies that have immense power is that they can control their agents because their agents are completely dependent. This is not just the case in the dairy industry. It happens in produce as well.

I would like to deviate briefly to produce because, when we look at distortions of market power, we talk about the effect of the market. A market is about supply and demand. Supply and demand signals cause prices to rise and fall. The truth is that in the domestic milk market there is very little price elasticity. People will buy milk regardless of the price because it is a necessity. So if the price comes down, unfortunately, people will not go out and buy more milk. They will buy what they need. If the price goes up, people will not buy less milk. So the whole idea of having to drop prices because of the price of milk is ridiculous. We have Pura milk being sold for between \$2.08 and \$2.80, of which the farmer at the moment is getting 30c. That might go up shortly, one would hope. The manufacturing costs are only 40c, so there is a huge margin. The net cost of that milk is 70c and it is being sold for between \$2.08 and \$2.80. To claim there is no capacity to pay is completely irrelevant.

I will not go into the impact on the local community, because I think there has been a lot said on that. There is a submission that was sent in overnight from a chap called Dave Gribble which I think explains the situation of a small farmer really well. The real concern outside of the farming is this pool of debt that is flowing out through a community and which is coming from farmers who cannot meet their obligations and who then pass that debt on to their creditors. That debt is building all of the time. If you cannot cover your costs, that means there is a burgeoning debt that continues, year in, year out, until you have a price that allows you to break even. So this pool of debt continues to grow.

In Circular Head, because of the extreme conditions down there, people have run out of all credit facilities. Most of their debtors are on 90 days. They are just coming to the time of the season when they have to outlay huge amounts of money to prepare for next year—that is, to make silage, to put fertiliser on and to prepare their farms—and they have no capacity to do it. There are contractors out there with very heavy debts for all the equipment they have got. What decision are they going to make? Do they go and make silage for people who cannot pay them? If they do not make the silage, what will the farmers do next winter when they have no fodder

for their stock? What we have heard is on the one hand a problem, but what we are about to see is a disaster in a rural community unless something is done.

I must say that, to that extent, National Foods are not the sole problem. This is a whole dairy industry issue. We know it is global, but most other countries have responded positively to support their dairy industry. At this point in time we have not done anything in Australia that can substantially help these people through what is a very difficult time. It is isolated to very small pockets of Australia, like Circular Head, where they are tied to the global market. Most of the people in regional Australia have these domestic contracts.

National Foods certainly do not want me in the picture. They have made some pretty reasonable attempts to discredit what I have done. There are questions out there at the moment about whether I get paid for this. I can assure everybody that I have done this gratis. If people would like to understand why, a number of years ago I was given the privilege of being made Tasmanian of the Year for a job I did that I do not think justified being made Tasmanian of the Year. I know there are a lot of people out there who silently do a great amount of good work, so I do not think I deserved that honour for that one job. I have been determined ever since to try and justify the honour that I was given. So if anybody needs to know why I do it, that is why I do it.

Chair, if possible, I would like to give the rest of my evidence in camera.

CHAIR—If the committee agrees, you may do that if you wish to.

Senator MILNE—I have no objection to that, but there a couple of issues you have raised that I would like to clarify and get some answers on. Do you want to do that in camera?

Mr Bovill—I am happy to do the public stuff now.

Senator MILNE—And then go into committee?

Mr Bovill—Yes.

CHAIR—Are we happy with that?

Senator COLBECK—Yes.

CHAIR—So long as we respect the witness's desire not to answer certain questions.

Mr Bovill—I will answer everything that I can. My only concern is about the privacy of people who have said things to me in confidence.

CHAIR—We will respect that.

Senator MILNE—I just want to ask about things you have already said. You have just outlined a dire situation for farmers in Circular Head and the crunch time that is coming with regard to silage and producing food for next winter and so on. In the EU they have made one-off cash payments in the current circumstances to every dairy farm while they work something out. In an ideal world, what do you think would be a reasonable way for the federal government to

proceed to provide immediate relief? Do you advocate a specific payment of the same amount to all farmers? Do you advocate a reimbursement? How do you want that situation addressed right now? What do you think is reasonable?

Mr Bovill—I think it could possibly be done through a system of interest-free loans which could be drawn down for specific tasks and which would be repayable when the milk price reached a certain level in the future. There is no question that milk prices rose rapidly overnight, or the night before last. The trend is heading upwards. We have a very viable industry in this state. Milk prices are rising. In the US they are killing huge amounts of cattle. In Europe, people are leaving dairying. It was India, I believe, that came onto the market and purchased a lot of dried milk powder. There is demand for these products. We are caught in a cyclical downturn and in Australia we do not have a system for managing that.

Senator MILNE—If the government were to provide for industry loans to be repaid when the milk price reached a certain level, what would you think would be a reasonable figure—up to what amount?

Mr Bovill—It would depend the nature of the enterprise. It would probably need to be tied to the number of cattle that somebody milked. It has to be pro rata because what would seem to be a lot of money for one operation could be an insignificant amount for a larger operation. Some people need to make 500 bails of silage and some people need to make 5,000 bales of silage.

Senator MILNE—So if the government were to do that and it was tied to a pro-rata rate per the size of the herd, is that the most significant short-term intervention a government could make that would make the difference right now—in the next six weeks, let's say?

Mr Bovill—I believe so. People need cash to operate. We need to help these people get through this time until the market recovers, and the market will recover.

Senator MILNE—Thank you. The second question is in relation to what you just said. We have had some difficulty establishing where the money goes in the production chain—from the farm gate through to the processor, through to the distribution network and through to the supermarkets until you eventually get your retail price. You just gave us the retail price—somewhere between \$2.08 and \$2.80 a litre—and you said the net cost was 70c. With the production cost of, say, 40c, how did you arrive at that figure? Can you provide the basis for how that works out and where the difference in cost is in the distribution networks? That is something we are having difficulty establishing—who gets the money out of the retail price.

Mr Bovill—Very briefly, for a litre of milk the packaging cost is less than 20c; the processing cost is less than 15c; the distribution cost is less than five cents. I use those figures as the upper amounts. Regarding branded milk, the major retailers would be getting around 30 per cent of the retail price.

Senator MILNE—Are you talking about Coles and Woolworths?

Mr Bovill—Yes. With some of their house brand milk—and certainly there is evidence in Coles at the moment—that margin is probably down to 25 per cent on Coles' house brand milk. I have seen them selling milk for \$1.27 a litre. Generally, house brand milk sells for \$1.67 a litre. I

estimate that National Foods' margin on Pura milk to be somewhere in excess of 70c a litre—that is, net gross margin after manufacturing and packaging costs—and on house brand milk it is somewhere between 30c and 50c a litre. That is why my emphasis to consumers is: 'If you want to send a message to National Foods, focus on Pura milk because that is where they make all their money, or where they make excessive profits which they are not prepared to share.' Shortly, I will give you the name of a person on the mainland who can give you a great deal of detail in that area..

Senator MILNE—That is all right. You may want to reserve this for the in camera section. You said that the vendor networks, who are basically captive of National Foods, are discrediting their competition in obviously an unfair way. Do you have evidence you can give publicly in relation to that or would you prefer to do that in camera?

Mr Bovill—No, I would prefer to refer you to the people who can give you direct evidence.

Senator COLBECK—You mentioned the 44c per litre being offered to National Foods suppliers in New South Wales. Can you give us a sense of what the market in respect of competition is in that region? Are National Foods providing that because that is what they have to provide based on what other purchasers of milk from farmers are providing or are they starting to get nervous about potential implications of this current campaign? Is that a market based price based on the supply in that Sydney basin, or what are the drivers for the price, as far as you are aware?

Mr Bovill—It is very much domestic price driven. National Foods pretty much control everything up there because they have taken over Dairy Farmers and, even though dairy farmers have gone across to Parmalat, Parmalat have said they are going to bring their milk eventually out of Victoria. There are other people, who I will give you the names of, who will give you a great deal more detail about what happened in that Dairy Farmers acquisition which really leaves huge questions for the ACCC to answer. But it seemed to me that negotiations were going nowhere and then they have become rapidly resolved in the last couple of weeks. I just find it rather curious. There is very little competition in this marketplace. Because we know the commodity price of milk is low, all the people who are uncontracted are forced onto commodity prices and all of those people that operate in the domestic market try and use that price as a base. They indicated that they were going to use that ploy in negotiations right across the country and now, all of a sudden, that position has changed. To get an outcome of 44c when we had been told that they were going to get somewhere equivalent to in Tasmania is quite a turnaround. I just hope that they can reflect the same with people in Tasmania.

CHAIR—We will now go in camera, so all people not associated with the committee will have to leave the room while evidence is taken in camera.

Evidence was then taken in camera but later resumed in public—

[11.27 am]

OLDAKER, Mr John Henry, Chairman, Cadbury Suppliers

CHAIR—I welcome our next witness to the inquiry. I invite you to make an opening statement if you so desire, and then we will question you.

Mr Oldaker—Thank you. My name is John Oldaker. I have been involved in agricultural politics for a long time. I am presently an elected member of local government in the Circular Head Council. I am here today as chairman of the Cadbury suppliers group. My milk goes to Cadbury. In the past I have been chairman of Lactos. We left them in 2001, when there was a bit of an upheaval over price and those sorts of things. I was chairman of the TFDA dairy council in the late nineties, when there was a really bitter dispute over deregulation. So I am not averse to some controversy. I usually call it as I see it and I have never walked away from a scrap.

CHAIR—Very good.

Mr Oldaker—When we talk about the poor milk price and what it does to a community like ours, it affects everybody from the dairy farmers to the pizza parlour. When we were here earlier we heard Mr Bovill say that the debts are mounting, which is very true. The debts are mounting and some of the businesses within towns and the contractors are now starting to really feel the pinch of what has been happening. Add to that the very poor season we have experienced this last year—the conditions were really horrendous—and we have seen our community lose about 3,000 cows from the beginning of August to the end of September. That would probably be a conservative figure. I sat down and did the numbers one day and I came up with that figure.

On the milk price, private companies will pay what they are forced to pay. The problem we have in this state is that Fonterra has 68 per cent of the milk and they are being judged as the market price. Whether we like that or not, that is how the system has worked. We have all focused on the milk price, and that is fine—I do not have a problem with that—but we also need to focus on some of the input costs that have not come back in accordance with a 45 per cent drop in milk price. Since January 2008 we have seen our power charges rise by 35 per cent—20 per cent in January 2008 and 15 per cent on 1 July. To have to tolerate those sorts of prices is just unacceptable.

Quite frankly, I believe the National Foods people have been doing a pretty good job, and they have very cleverly targeted and talked about a price per litre. When I get to the Cadbury's price I will talk to you about what we negotiated in terms of cents per kilo of milk solids. I am quite happy to explain that as we go through. On National Foods for a moment, quite frankly I think the ACCC, through Mr Graeme Samuels, was really asleep at the wheel in allowing National Foods to buy Dairy Farmers in the first place, as it was a direct competitor to them in the marketplace. He needs to be brought to account for those sorts of things. He probably will not like people like you fetching it onto him, but that needs to happen. He was also asleep at the wheel when he allowed National Foods to buy Lactos, who were then supplying better milk.

They were then a direct competitor in the marketplace, but he did not see through that either. They are the sorts of things that frustrate people—when you take somebody out of the marketplace, given the price we are receiving for our goods.

There are a number of issues. The big input costs for dairy farmers in the last year have been fertiliser, fuel and the grain bill. I will use myself as an example. I am only an average dairy farmer. We milked 280 cows last year and our cows had a total production of 75,000 kilograms of milk fat and 135,000 kilograms of milk solids. In anybody's estimation that was not a bad effort, but the cost of fertiliser to us in that year was \$175,000. The price of urea and general fertiliser was astronomical. They put those charges on because dairy farmers were able to pay. We have seen some of the prices come back, but they have not come back 45 per cent. The cost of grain is another issue. I might finish up in an argument with Senator Milne, but there is well and truly an argument for GMO technology to be made available in this state because it will cheapen the grain for us and give us better access to better grain. All those sorts of things are preventing us from reducing our costs. On fertiliser, we have the technology today with GMOs to be able to produce a grass that will produce its own nitrogen, so we would therefore use less nitrogen fertiliser. Not only does that benefit us in our hip pocket, it also benefits the environment because we are not spreading so much nitrogen fertiliser. Different people will argue differently about those sorts of things.

I would now like to take you through what we have been through as Cadbury suppliers. It began at the end of March when we put a figure of \$5.25 per kilogram of milk solids on the table. It was rejected outright by the Cadbury management. While we had several discussions in the couple of weeks after that about what was going to happen, they then sent for two of the high-powered people from Singapore. They were here on or about 17 May. I am not being disrespectful to their colour or race, but they tried to bully us to make a decision there and then. I refused to make that decision without the full support of the suppliers. At the end of the day, what it came down to, with the agreement of the suppliers, was that it would be the market price plus 10c per kilogram of milk solids upfront as a bonus for being a Cadbury supplier. On the other end of the contracts, if you got within two per cent of your contract, above or below, there would be another 15c. If you were within five per cent of that contract, there would be 10c. If you were within 10 per cent of that contract, there was 5c there. Given the poor season, very few people will get that money at the end because most people are down 20 per cent in their production.

The reason that the suppliers chose to go with a market price plus these bonuses at the front and back of those contracts was that four to five years ago—I was trying to remember earlier, but I think it was around 2004—the contracts were on a calendar year. Last year they changed it to start on 1 July for the season, but prior to that they were on a calendar year starting on 1 January and finishing on 31 December. It was Bonlac who made a huge step up in April, in the autumn, that put the Cadbury price, which was a set figure, way out of whack. It caused a fair bit of grief. My phone was running pretty hot at the time and I do remember that. We tried then to get some common sense in it and, to Cadbury's credit, they did address some of those issues by paying a bonus to sign on for the next year. In a meeting in a room out here, the suppliers, who were nearly all in attendance, agreed that it would be the market price plus the bonuses. We illustrated to them that it would be fine while the price is going up, but that, if the price came back, Cadbury would force them to take that too. When we were negotiating this year, the Cadbury management had in mind that the market would finish up being about \$4.50 per

kilogram of milk solids. They were as surprised as anybody that the opening price by Fonterra in this state was as low as it was.

My understanding of the Fonterra pricing arrangements is that there are several prices in it. They have a 7/5 price, they have the normal price and they have a special spring price. You might hear that from one of the witnesses today who has that sort of arrangement in place because they are a very big supplier of milk to Fonterra. At the present time, Fonterra is not a cooperative in the true sense. They are only looking after their shareholders in New Zealand. The only true cooperative in this country is Murray Goulburn. If there is a problem with Murray Goulburn then maybe you people need to look at what that problem is and why the market price is where it is. When you look at the world markets the biggest problem I have seen is that, when Russia drops in and out of the marketplace, we have so much fluctuation in price because they are big users of a lot of the commodity products that we use.

That is an overall picture of where we have been. Cadbury will run the line that the suppliers agreed, and that is true. The suppliers agreed to that price: the market price plus those premiums. What needs to be addressed is the market price we are being paid. It is unsustainable to continue in this vein, whether it is with the milk price or whether it is with some of these costs, which are way out of whack, not being addressed. If somebody does not soon step in you are going to see communities like ours just die. It could not be more dramatic than that. Our community has about 38 per cent of this state's milk industry. We rely very heavily on the dairy farmers and it is really impacting on the community now.

In the process of all the financial pressures that are being applied I have been very reluctant to criticise any of the financial people—because I have been around and I know how some of these things work—but I will do so here today. One of the banks in this marketplace is not behaving itself. It set out to get market share, and I can tell you it has the screws on. That bank happens to be Rabobank. It might be very critical about being named, but it is playing up in the marketplace right now.

CHAIR—What is that name again?

Mr Oldaker—Rabobank. As a member of the Circular Head Council and as a community leader, there are a number of people who come to me with their problems. Those that are in strife financially are all having trouble with that bank, every one of them that have come to me with a problem. Some of the others might be doing things just a little differently, but it is a huge issue for the community and it is a huge issue for farmers to deal with. I am trying not to get emotional, but it does get to you sometimes.

CHAIR—Would you like to take a break?

Mr Oldaker—No, it is right. I am just gathering my thoughts. I cannot be blunter or more honest than what I have been today, and I am happy to answer any questions.

CHAIR—Thank you.

Senator COLBECK—You mentioned that \$5.75 was in your negotiations with Cadbury.

Mr Oldaker—It was \$5.25.

Senator COLBECK—Sorry. What was the actual base starting price that you were working on a kilogram?

Mr Oldaker—When we sat down to do the negotiations they rejected the \$5.25. In the negotiations, about \$4.50 is what they saw the market being and they anticipated it starting at about \$4. Then Fonterra said, 'We're going to pay \$3.60,' and you have to look very closely at that. Actually they started at \$3.10, which is about 21c a litre, and you wonder why people's budgets do not work! To think that you are going to get 21c a litre and then put the conditions on top of it to make your production down 20 per cent is just unbelievable.

I know this is getting away a bit from your question, which I hope I have answered, but the other thing that infuriated me today was when the Reserve Bank governor made a comment that we are coming out of this recession. He needs to get out of his ivory tower and get down where the real world is. Economists and those sorts of people all make these comments and they are totally out of touch with the real world.

Going back to the banks for a moment, on or about the last week of October of last year a gentleman by the name of Tim Hunt, who was an economist with Rabobank—and he was not the only economist saying it—said, 'This price'll be right for the next 10 years.' Within a month they announced that the milk price had to be dropped. People went away from those meetings making decisions based on that advice, and that is what gets people in trouble. Then the banks get really snaky and try and recall some of the money, when they have set it up in the first place. They love lending money when it is good. When things get tough they are mongrels.

Senator COLBECK—Just coming back to the price-setting process, you said Cadbury expected the opening price to be about \$4.50, and it is sitting at about \$3.60 now.

Mr Oldaker—That is correct.

Senator COLBECK—But what you are saying is that, like National Foods, Cadbury based their price on the Fonterra price plus a range of incentives to provide a certain quality of milk.

Mr Oldaker—That is true; although if you went to them they would say, 'We will base it on the market.' They will not necessarily use the word 'Fonterra'.

Senator COLBECK—When it comes back to the actual fundamentals of how all of the prices within the market are set, you have mentioned the co-operative—the main one being Murray Goulburn. They are effectively the ones who actually do the calculations and set the market price. Then everyone else, if you like, sponges off that process. Murray Goulburn come out, set a price, and all of the other companies determine how much more or less they will pay, depending on the product they are looking for and the individual market sector that they might be in around the country.

Mr Oldaker—That is correct.

Senator O'BRIEN—In terms of production capacity, you were talking about current problems with production capacity. But have there been encouragements made by Cadbury or other processors, to your knowledge, for farmers to increase their productive capacity?

Mr Oldaker—I can take you right back to 1975—

Senator O'BRIEN—But we do not need to go back that far. We have got limited time and I want to know about the last three or four years.

Mr Oldaker—They have all encouraged people to increase their production. They have all supported those programs that have called for people to increase their productivity, and people have done that.

Senator O'BRIEN—Recently?

Mr Oldaker—There were two downturns. It has just come to me, and I will come back to your question. In the mid-1970s farms were single blocks on soldier settlement places, milking 80 cows. They amalgamated because the call was to get bigger or get out. We saw that happen and it has gradually increased. In the early 1980s the average herd size in Tasmania was about 90. It is now about 330. People with two blocks are now milking 280, and we have got some of them milking 400 on those blocks. Everybody has encouraged it. It does not matter whether it is Fonterra or National Foods. They have all had their names on the bottom of that 'dairy farmer of the year' thing, which is an encouragement to increase your production. That is the way you can beat the cost, they said.

In the late 1990s we saw another downturn. When deregulation came in there were 750 dairy farmers in Tasmania. There are now about 435. There was an out for some of those people in those times. Right now there is not an out, because the land price now is 10 grand an acre for the best dairy country. In the late 1990s it was about \$2,000. So those are some of the things that have impacted.

Senator O'BRIEN—But being specific about encouragement to increase production, in the last two to three years, are you aware of specific encouragements given to Cadbury suppliers or other suppliers to increase their productive capacity? Are there examples you can draw our attention to?

Mr Oldaker—Cadbury, for a start, put the contracts in place to be able to control their production. They did not want to discourage growing your business by four or five per cent, and when you renewed your contracts and your volume you were allowed to do that. You have had Fonterra saying to their suppliers, 'We will take all the milk that you can produce, but if you are a new farm we will pay you an extra 50c a kilo as an incentive for that new production.' That way they were encouraging. Now you have you this situation where they have sent a letter to their suppliers to say that they are not going take any more new suppliers but they will take all that you can produce.

We have a case right now in our district where a bloke has spent half a million dollars on two robots but nobody wants to take his milk. He is able to sell a bit of that to calf milk but where is the rest of it going? I do not wish to say. You can work it out for yourself.

Senator COLBECK—I want to come to the letter that recently went out from Fonterra. That was in the last week or so, wasn't it?

Mr Oldaker—The letter was read to me in the evening of the day before yesterday by a Fonterra supplier who lives in Britton's Swamp and who I am great mates with. I have not seen it in person. I have talked to another Fonterra supplier. Here today there are other Fonterra suppliers and you probably need to ask them that same question. But that letter is certainly in their hands.

Senator COLBECK—We will follow that up. It just seems to me a little interesting that Fonterra are writing to their farmers and saying, 'We won't take any new farmers,' and National Foods are writing to their farmers and saying, 'Sign this contract or we won't pick your milk up.' I just wonder if anything is going on behind the scenes. You do not need to answer that question, Mr Oldaker.

Mr Oldaker—No, that is right. You do not have to be a Rhodes scholar to work it out.

Senator MILNE—Mr Oldaker, I am keen to get your views on a few of the proposals that have been put forward as possible solutions. Obviously there is the big picture for a start—that is, that the ACCC's powers be divided so that, if they stay as the approving body for mergers, the adjudication on the impacts of mergers be taken to another administrative body. Would you support that? Can we be pretty brief because there are quite a few.

Mr Oldaker—Yes, I will be brief. They need to be made accountable, and if that is what you have to do then that is what has to happen.

Senator MILNE—Thank you. The second thing is that, in Launceston yesterday, it was suggested that one of the ways around this might be to impose a levy similar to that which was imposed at the time of deregulation and that that levy be used to maintain a baseline price at the cost of production, say, so that everybody has some guaranteed income in the future. One of the issues raised was that, if you did do that, you might encourage a surplus, because people would go into it. Can you tell me whether you support a levy and how you could operate a levy so that that situation would not happen?

Mr Oldaker—Certainly I would support a levy. I have publicly stated in the local press that I would support a levy and that it should be set up over about a four-year period. But, to stop people coming in to make a killing on the side when they are not entitled to, you would need to base it on the production of, say, the 2008-09 season. They need to be in dairying at the time that the announcement is made for the levy to come in. The mechanism is already there. You could go back through all the legislation and you would find that that is what was put in place for the deregulation. The deregulation package was for eight years. I am saying to you that four years would give enough money to feed into some of these communities so that they can continue to breathe.

Senator MILNE—Thank you. We heard a suggestion this morning for industry loans, calculated pro rata on herd size. That was essentially proposed for something like fodder. Do you have a view about that as a short-term, immediate relief proposal?

Mr Oldaker—One of the things that farmers do not want is more debt than they already have. Interest free loans sound fine, but when it comes to paying them back it is still a burden on these people. They really do not want interest free loans, or any sort of loan, for that matter; they do not want any more than the debt they already have. What they want is to have the money come to them in the first place, or not have so much going out in expenses, and that is why a levy would work far better than interest free loans.

Senator MILNE—Okay. Finally, you said that Rabobank has been playing up; what do you mean by that?

Mr Oldaker—Rabobank set out to get market share and went at it aggressively. They lent money to people at 65 per cent and now they are reeling those people back in and saying, ‘Your equity has to be back to 52 per cent,’ in the space of 12 months. On the advice of Tim Hunt some of these people have made decisions, and now they want to reel them in 12 months later. To me that is corporate bullying.

Some of these people have come to us with hydro bills they cannot pay. What do they do? They are the issues. You have to have power to be able to milk cows. That is the sort of thing that is going on. I am happy to provide you with some names in confidence if you so desire—

CHAIR—If you wish to do that, we can go into camera.

Mr Oldaker—I do not wish to do that, but if you want those names so you can talk to those people I can certainly provide them. I do not have a problem with that.

Senator MILNE—And who is Tim Hunt?

Mr Oldaker—Tim Hunt was the senior analyst for Rabobank. He was one of the Saul Eslakes of the world. Saul Eslake, I might add, made some of those comments too. He was at ANZ. But there have been others within those head banks who made those same sorts of claims.

Senator MILNE—So you believe that there has been corporate bullying, at least from that particular bank?

Mr Oldaker—In my opinion, yes.

Senator MILNE—Thank you.

CHAIR—That concludes that evidence. Thank you very much.

Mr Oldaker—Thank you for taking the time to hear us.

[11.56 am]

BROAD, Dr Shane, Private Capacity

CHAIR—Welcome. I invite you to make an opening statement.

Dr Broad—Thank you very much for the invitation. There are two particular issues that I wish to discuss. Firstly, there is a lack of competition among dairy processors in Tasmania. Secondly, I want to talk about the difficulty and expense of taking action to prove unconscionable conduct. I will first give an opening statement about lack of competition.

We have to recognise that the dairy industry—and food production in general—has changed. Farmers and consumers are now dealing with multinational corporations, and there has been a significant reduction in competition. There are currently only three major processors in the dairy market in Tasmania, and all prices are based on the decision of the largest, Fonterra. Furthermore, decisions about prices are controlled by head offices of Fonterra in New Zealand, National Foods in Japan and Cadbury in the UK. While National Foods and Cadbury may not be doing anything illegal by setting their prices off Fonterra, the result is a lack of functional competition. It is my understanding that it would only be illegal if they sat down on a park bench somewhere and agreed to do so.

When the Trade Practices Act was enacted in 1974, there were three major Tasmanian regional cooperatives as well as other players like Lactos, Cadbury and fresh milk operations. In this new situation, individual farmers are, in effect, pitted against global corporations and can be picked off one by one. While farmers can form collective bargaining groups with each other for each of the three major processors, their bargaining ability is limited if there is no alternative market for their milk with other processors. The only way that there can be balance in this situation is if farmers have the ability to collectively bargain with all three processors simultaneously.

The second thing I would like to talk about is unconscionable conduct. Conduct which may be deemed unconscionable is where a corporations knows or ought to know that a person or company that they have had dealings with has a special disadvantage or weakness and the corporation takes unfair or unjust advantage of this superior bargaining position. I argue that dairy farmers by their very nature have a special disadvantage due to the nature of milk production. They have long-term planning horizons, which means that it is very difficult to alter production patterns, change calving dates, increase cow numbers and enter or leave the industry. Therefore, the question is whether National Foods has taken advantage of this special disability and acted unconscionably.

Unconscionability involves exploitation by a stronger party of a weaker party which goes beyond normal hard commercial dealings and affronts the concept of good conscience. I believe that the presentations and evidence presented to this Senate inquiry and the inquiry into food production in Australia indicate that suppliers of National Foods have a good case for unconscionable conduct. However, proving this in court is very difficult as it relies on the ACCC taking up the case, and this can take a long time. Previously, in March 2008, the ACCC began proceedings against Allphones Retail Pty Ltd and this is set down for hearing in March 2010. So

if it takes two years for a case to be heard in the Federal Court, the dairy farmer will be broke unless another milk processor is willing to step in to take their milk or some sort of interim arrangement can be made with the person or the processor they are complaining against.

If, for whatever reason, the ACCC is not willing to pursue these allegations then there is a distinct power imbalance as the financial and legal resources of the corporation far outweigh that of the individual farmer or even any farmer collective bargaining groups. Furthermore, due to the nature of dairy farming, as I have indicated before, any single dairy producer pursuing a corporation through the courts would be bankrupted if an alternative outlet for milk production could not be found. I believe that, knowing this, there is little incentive for corporations to negotiate in good faith, especially if those who benefit from one-sided negotiations reside in another country. Therefore, I believe that the burden of proof must shift from a person having to prove in court that a corporation has engaged in unconscionable conduct to the corporation having to prove that they have not engaged in unconscionable conduct.

CHAIR—Thank you very much, Dr Broad.

Senator MILNE—Dr Broad, you have made your recommendation about a reversal of the onus of proof, and I think that is very interesting. What I want to ask you about, because it has been bothering me, is how the companies get away with Fonterra being able to set the price and then the others all just back to back off that. You are suggesting that you must be able to collectively bargain with all three simultaneously, which would certainly make it a lot fairer, but how do you suggest that could be achieved? In terms of a change to the ACCC, because they are the ones that oversee these collective bargaining arrangements, what would you propose that we should put forward that would give that outcome?

Dr Broad—I think that the ACCC should allow it to happen in regulation. At the moment a group of suppliers can apply to the ACCC to collectively bargain with an individual corporation. I believe that that should be extended to multiple corporations when there is a distinct power imbalance and no functional competition.

Senator MILNE—Where would the onus of proof be just so that there is no functional competition? Would the ACCC decide that and then, on that basis, allow the triggering of that process?

Dr Broad—Yes, but also the farmers have to be willing to do it themselves as well. One of the suggestions—it may have been when Mr Oldaker was giving evidence—has been the establishment of a farmer cooperative. I believe that that cooperative should be not in terms of milk processing but in terms of milk supply. So the cooperative would be the milk supplier and, through that process, collectively negotiate with the three major processors.

Senator COLBECK—I think I understand the concept that you are talking about, Dr Broad, but when you are talking about companies who are seeking the milk for different purposes you are effectively looking at different markets. Fonterra are unquestionably into the manufacturing milk sector; the primary use for the milk for National Foods is the drinking milk sector, for want of a better term; and Cadbury are obviously using it for manufacturing into their chocolate. How do you account for the differences of the company requirements as part of your process? Does the negotiating process have to then negotiate other add-ons as part of that, or is that a separate

process that the farmers would have to go to? Given that they are in different markets, which is another thing that reduces competition to a certain extent, how does your collective 'collective' deal with those sorts of issues?

Dr Broad—It would not be a one-size-fits-all contract. It would be perhaps a spring calving, a split calving and an autumn calving contract with clauses to suit Fonterra, Cadbury or National Foods. The clauses that are put onto these contracts incur costs. If farmers have an alternative, they can look at a contract with Fonterra, National Foods or Cadburys and weigh up which contract better suits them. That would be a far fairer negotiation process in itself. It does not have to be a one-contract-fits-all but the negotiation of those three contracts would be done collectively.

Senator COLBECK—Given the evidence from Mr Oldaker that it is companies like Murray Goulburn and the cooperatives who actually set the price—Fonterra sets its price based on Murray Goulburn—do you have a situation where every dairy farmer in Australia collectively bargains with Murray Goulburn to set the base price and then all the other companies can make their decision around that?

Dr Broad—What I would like to see is more competition. Because of the situation in Tasmania of there being no effective competition, they should be able to collectively bargain. If there is no effective competition around the whole country, then I think that we need to be reviewing our competition policy in general. The proposals that I am putting forward are based on a couple of significant trends and I have tabled a document with two of those trends. The first page is what is called horizontal consolidation. You will see processor amalgamations over time and you will find that there were lots of local collectives. They then formed into regional collectives and then into a state-wide collective in the form of UMT. They amalgamated with Bonlac and then rapidly were taken over by Fonterra. So the decisions have gone from being local, to regional, to state-wide, to Australian and now to international. You have that trend resulting in little functional competition in this particular market sector. The other trend, which is the example of a supply chain in the US, where you see that the owners of seed, fertiliser and grain, grain collectors, grain processors, feedlots and supermarkets are all in effect owned by the same companies through joint venture agreements. We are seeing that sort of consolidation in the vertical supply chain. I argue that the ideas I am putting up today are in place for when it gets a lot worse than it currently is.

Senator COLBECK—We appreciate what you are saying because one of the things that we are looking to do is to find ways to balance market power, which is something that we have talked about in our discussions with other witnesses and it is something that we have talked about as a committee in what we are looking to achieve as we move forward. We are certainly on the same wavelength. What I am trying to do is get a sense from you and clarify in my own mind how the mechanics of what you are suggesting to us might work because it is something that we have to consider as part of our overall process. Having a workable solution to balance market power is an important part of what we would like to see as part of our deliberations. I appreciate the fact that you have gone to the effort of trying to design something to put in front of us to consider.

Dr Broad—The other part of it is the changes to the unconscionable conduct provision in the Trade Practices Act. That would be aimed at making the negotiations fairer and, as a result,

increasing competition. I believe that if this change is made then the corporations would have to prove that there is no special disadvantage or, if there is a special disadvantage, then the corporations would have to prove in the negotiations that they have not taken advantage of their relative bargaining strength, that you could not obtain supply or better terms elsewhere, that the stronger party made adequate disclosure to the weaker party, that they were willing to negotiate and that they have acted in good faith, et cetera. If the negotiation process can be fairer, then across the board the farmers can opt in and out knowing exactly how companies operate and so on. They will have more information and could switch processes.

Senator COLBECK—Information and transparency have certainly been discussed at length as part of our discussions. Thanks, Chair.

CHAIR—I understand there is an article in the *Financial Review* this morning suggesting that the ACCC will be given stronger powers to deal with franchisors who harass franchisees. Do you have any comment on that? Have you read that article?

Dr Broad—No, I have not read the article.

CHAIR—Would you regard it as a step forward? In fact the article talks about franchisors who ‘bully’ franchisees. That is the word used.

Dr Broad—I think one of the problems with the unconscionable conduct provisions is the time and expense needed to prove unconscionable conduct. Even if there has been very obvious unconscionable conduct, the time taken to bring the case to court means that the person pursuing the charges could go bankrupt in the meantime. That is particularly evident in the dairy industry. It is the best example of that I can think of. Therefore there is very little incentive for the companies to act appropriately and there is a big incentive for farmers not to complain. I would assume that it would be the same in the example of franchisee-franchisor relationships.

CHAIR—You have made that point well in what you have already said. So one of the deficiencies in the ACCC’s operation is the time lag. That probably is something that needs to be addressed in terms of making their activities effective and useful to complainants.

Dr Broad—Or perhaps changing the jurisdiction to the Supreme Court.

CHAIR—That is a very good suggestion, which we will take note of.

Senator O’BRIEN—Doctor Broad, thanks for laying out so clearly the nature of the disadvantage for dairy farmers. It is important for this inquiry to have something actually on the record that states very clearly why dairy farmers can be differentiated from other rural suppliers, if I can put it that way. They do not have a choice. They cannot turn the tap off to stop the cow giving milk. They cannot easily change their operation. They are financially constrained. They usually have debt because of the cost of setting up and running the operation. All those things make them very susceptible in a fragile market where they are required to negotiate a price. I think that is what you are trying to tell us, isn’t it?

Dr Broad—Yes, especially when that negotiation is between the individual and a global corporation.

Senator O'BRIEN—One of the issues for the committee, in my view, is to look at the question of what parameters have to sit around any negotiations in those circumstances. At the end of the day, negotiations bring a willing buyer and a willing seller together. But, if there is not a willingness to agree a price, would you agree to the proposition that there ought to be some compulsory adjudication or arbitration to resolve the impasse? Do you think that would be something which favoured a dairy farmer, given their circumstances in the marketplace?

Dr Broad—Yes, but if that process of arbitration occurred at the collective bargaining end rather than with the individual farmer.

Senator O'BRIEN—That is what I meant.

Dr Broad—The individual dairy farmer has a distinct disadvantage when it comes to business decisions and negotiations. They do not have the expertise that the companies can bring to bear. The negotiation process is not just about price; it is about the terms of the contract as well. I would like to turn your attention to the National Foods contract that I have tabled. I am suggesting a change in the unconscionable conduct provisions. If you look at clause 2.7(b), it is basically stating: 'If you fail to supply us with the contracted sales volume in any accounting period, other than as the result of a force majeure event, we will be entitled to impose a charge on you equivalent to 20 per cent of the monthly price for that accounting period multiplied by the number of litres making up the volume of the shortfall in the accounting period.'

Then clause (c) says, 'The parties acknowledge that the charges set out represent a genuine pre-estimate of losses we will suffer in the circumstances where the contracted sale volumes are not made available to us by you.' That clause is obviously directed at the things that the ACCC will look at, including imposing conditions that were not necessary to protect their legitimate business interest. What they are saying is the farmer agrees that 20 per cent is legitimate because he has signed that contract. If my suggestion gets applied then the company would have to prove that their loss would be 20 per cent if they did not supply that extra 20 per cent. It is clauses like this in current contracts that are very onerous, one sided and weighted against dairy farmers. These sorts of things need to be tackled, and I think the change to burden of proof in the unconscionable conduct provisions would make it so that the company would have to prove claims like that instead of just putting in a clause saying, 'You've actually agreed that's our cost.'

Senator O'BRIEN—Have you given any thought to how you might protect a farmer or a group of farmers who are proceeding down that path, given their vulnerability?

Dr Broad—Pardon?

Senator O'BRIEN—Say the farmers are in dispute with the company and are proceeding down a path of some judicial action through the ACCC. Is there some other thing we should do to protect their business while that occurs?

Dr Broad—Perhaps, but if the negotiations are in good faith they should occur well and truly before the event. One of the classic strategies of these companies and companies in other industries like the vegetable industries and so on is to start the negotiation very late. For example, in the potato industry quite often they negotiate when the potatoes are already in the

ground. So the farmer is locked in and has spent \$1,000 an acre putting the potatoes in the ground. One of the things that the court has to look at is if people have been willing to negotiate and if they have acted in good faith. One way of hopefully countering that would be ensuring that the negotiations begin very early. If my suggestion on the unconscionable conduct changes gets applied then there could be a rapid accounting or review process of the negotiations asking, 'What have you done to make the negotiations fair? Has the negotiation been transparent? Is the contract easy to understand? Has the special disadvantage been taken advantage of?' and so on. The ACCC would then be more of an auditor, rather than having to take these companies through the federal court process.

Senator O'BRIEN—That is an interesting concept for the ACCC! Thank you for that evidence. I am also interested in your perspective on the evidence we had from the Cadbury Suppliers group, who apparently elected for so-called market price, which I suppose varies by market and by product in the dairy industry anyway. Have you got any comment about that?

Dr Broad—That was a market decision. The market had outstripped what their contract was paying, so they made the decision to opt in to the market price. Like John Oldaker says, the price goes up and the price goes down. That being said, that market price is Fonterra's price in Tasmania, in effect, via Murray Goulburn's price, because Fonterra set off Murray Goulburn, typically. These things are out in the open because the negotiations for National Foods do not begin until Fonterra set their price.

CHAIR—Thank you very much for your evidence. It was very useful.

[12.20 pm]

SMITH, Mr Mark, Executive Officer, DairyTas Board

CHAIR—Thank you, Mr Smith, for being here today. We appreciate your appearance. I invite you to make an opening statement, after which the senators will quiz you.

Mr Smith—I was hoping to have one of our board members with me today but he was not able to get here. I guess the main point of our being here is really to try to emphasise how we see the current situation in the dairy industry in Tasmania, particularly around the issues of milk price and factory capacity in milk processing in Tasmania. I think both of those issues together are conspiring to make it very difficult for farmers to operate viably at the moment. Those issues have come together and have basically given the farmers no choice, if they did want to change, in supplying a milk company. Until this year, we had the situation where Fonterra, being the main milk processor, had basically taken as much milk as is available in the marketplace from their farmers and any farmers who wanted to come to them. So they virtually had an unconstrained situation. So, if farmers from another company had elected not to continue with that company for whatever reason, generally Fonterra would take them. They do not have that choice at the moment, so that has created a situation which has made it difficult for farmers to operate in—and perhaps some are taking advantage of it.

In my view, both of those factors are the result of, initially, the global financial crisis, which has driven the international dairy prices down very rapidly. Farmers are being left to carry the burden of that because the milk prices have been pushed down to enable the processors to get through. Other sectors have been able to operate without too much disadvantage—particularly with the Australian economy holding up fairly well—and sales of domestic dairy products have been reasonably good. Those companies are operating in that environment—and that is the case for Fonterra and for National Foods—and they have been a little bit sheltered from the international downturn.

I will not go through everything that I have put in the submission, but there are a couple of things that I would particularly like to draw your attention to. Some of this is hinged around the Tasmanian dairy industry strategic plan—which I gave you a copy of. It is a five-year plan, and we are in the last year of that plan now. That plan has a basis of growth. It is there to support farmers to improve their business operations but it also has an underpinning driver of seeking to grow the dairy industry on the basis that we believe a larger dairy industry in Tasmania is a stronger dairy industry. One of the charts that I have put there shows what has happened with Tasmanian milk production over the last 20 years. It has grown significantly. In fact, last year it peaked at 708 million litres. If you go back 15 years or so, it has more than doubled. Growth over the last five years, excluding the year we are in now, has been an annual average of close to five per cent, which compares to a national situation where you had milk production dropping in the order of nine per cent. Tasmania has led the way in terms of its growth and being a positive industry that is going forward but, in the last 12 months, that has basically hit the wall because of milk prices and factory capacity.

You can see overlaying the production chart what the average milk price has been. These figures are averages; they are not what each farmer receives. They peaked in 2007-08 at \$6.29. For some farmers, it might have been a bit higher; for some, a bit lower. In 2008-09 they came down to around \$5. The figure I have put in there for this year is about \$4.15. That is an estimate of where we might end up this season. We hope, though, it will end up higher in that, bearing in mind the next chart, which shows you on the same basis what the estimated operating costs of those dairy farms have been during those periods of time. It shows that over that period of time our milk prices have been above operating costs for dairy farmers—as they should be—and that over a reasonable period of time Tasmanian dairy farmers have earned a pretty good return on their businesses. I do not have those figures in front of me, but they are available. The problem we are in this year is that the cost of production will be above the milk price. You have been given all that information. Unless we get this year's price to something like \$4.50, a lot of dairy farmers will get a price that is below their cost of production. Having said that, a number of farmers have also adjusted their businesses so that they have pooled costs out, so they have been able to rein in costs in the short term to survive.

The second main area I wanted to make some comment on was that of the processing capacity situation in Tasmania. Before I go into that, another point I wanted to mention on the milk price situation is that, whilst Tasmania has a limited number of companies, the milk price for Tasmanian farmers has pretty well been driven by competition between Murray Goulburn and Fonterra. That is national. I think there is a competitive situation there. Both of those companies are in similar markets, but the difference now is that Fonterra, being a New Zealand company, has New Zealand interests that they have to consider in running their business. That probably flows over to what they decide to do in terms of processing capacity in Tasmania. They announced 12 months ago that they were going to invest in the Wynyard factory, but the next week got hit by the global financial crisis. They deferred their investment plans and so had to change their management position so that they deferred the capital investment. There was going to be no new milk supply for the current year unless it came from existing farmers. That has been the lid that has been put on our industry and it has meant that a National Foods farmer who was not happy with what they were doing did not have an option.

I think it is unfortunate that we have got to this particular season with that milk price and with that capacity situation happening at the same time. It is causing a lot of our problem right now. I hope that in the next 12 months that will turn around significantly with the international milk price pickup through commodity prices. That is already happening, provided the companies pass it on as quickly as they possibly can. Hopefully, Fonterra will announce that they are going to go ahead with their investment, free up that capacity situation, take on additional milk supply and get our industry back into a reasonable path of certainty for our farmers so investors will come into it again.

The other point to make is about our dairy industry's strategic plan, which is all focused on farm based activity. We will be reviewing that in the new year with our main stakeholders. We hope things will look more positive by that time so that growth might continue to occur, but at this stage it is not. This year, obviously, is a contraction. Milk production is down because of milk price and the season. We do not know yet how quickly that might turn around. We certainly hope it will. We will get back onto the pathway that we have had, and farmers can get back to getting a reasonable return for their product. I am happy now to leave it at that. I have made a

few more comments in the submission and am happy to answer any other questions that you might want to pose.

Senator COLBECK—Over the life of the strategic plan, apart from what has occurred in this calendar year, the objectives that were set out in the strategic plan have generally been met with respect to growth in supply. Price is not something you can necessarily plan for but that has worked in favour of the industry as well.

Mr Smith—Yes, I think we have got very close to those production targets. We did not have control over that but we are trying to set that as an overall goal under that strategic plan of 25 per cent milk growth in five years. We have nearly 20 per cent in four years. I think that has been very positive.

Senator COLBECK—The capacity to move that on would have been enhanced had the upgrade of the Wynyard plant occurred, which would have allowed a growth in production.

Mr Smith—Yes, and that growth could go even stronger if you have water development proceeding to open up additional areas where dairy farming can take place. You have had a situation of a lot of existing farmers growing their businesses, increasing their productivity and feeding their cows at higher levels than they might have done before.

Senator COLBECK—It would be reasonable to suggest that all participants in the industry have been actively involved in a process of growing the industry, encouraging that growth and planning for that growth over the last four or five years. Unforeseen circumstances notwithstanding, obviously, but there has been a process where there has been an engagement of all of the companies, the industry itself, to see a growth in the industry, given the fact that it is a good place to grow milk.

Mr Smith—Yes, there certainly has been engagement. When you say ‘active involvement’ it is probably varied. Certainly there was active involvement with Fonterra as the major milk company and the company seeking to grow their business in Tasmania in terms of milk production. It was clear during that time that Cadbury, National Foods and Lactos were all pretty comfortable with their existing levels of production and really were not seeking additional milk supply. I think that is still the case. The difference of course now is that National Foods own Lactos which they did not back then. We try to engage with all the main stakeholders but our primary links were with Fonterra as they were operating with two-thirds of the milk production in Tasmania and were a company that had always said they wanted to grow their business in Tasmania. I think they still say that but they have now said that because of financial situations in the short term they cannot invest in our factory for now, so we will not take any new supply for now.

Senator COLBECK—I notice that under the supporting organisations all of the major suppliers were all part of the consultation process and, given some evidence that we got in Canberra a few weeks ago, I was interested to see that they were part of the process, because we did hear from one company that they were not overly aware of what this whole process was about. That was some evidence we got from National Foods, which I have to say surprised us.

Mr Smith—That was probably coming from head office. Certainly at the local level they were involved.

Senator COLBECK—How would they have been involved? We were genuinely surprised when they told us that they did not have any knowledge of the strategic plan for the industry. Some sense of what the interaction was would be helpful.

Mr Smith—We had a committee that was set up to oversee the development of the plan, which was actually a review of a previous plan. It did not actually start from scratch; it started from a review of a previous plan. We had representatives through that committee from the milk processors including National Foods represented from the Hobart office.

Senator COLBECK—Can you give us a sense of what the drop in production might have been across the industry? Do you have any figures on what the impact of the season and the drop in production is this year?

Mr Smith—Where we are at currently?

Senator COLBECK—Yes.

Mr Smith—They are not as current as I would like. We are still waiting for the official figures, for example, for September. From talking to the milk companies and farmers, I know that it is in the order of 10 to 15 per cent down. The system has improved, obviously, with the weather, but how much of that can be picked back up from what was already lost, I am not sure. We are expecting that the season will basically pan out about that percentage down on what it currently is looking like at the peak. So in a good season we might end up 10 per cent down. In a bad season it depends on what happens in the rest of the year, because milk supplies can vary quite a bit depending on seasonal conditions. We are expecting feed to be down. We are expecting productivity of pastures to be down and quality of feed to be down. The ability of farmers to buy feed and to maximise their imports is down. So I am saying there may be 50 million litres off that 708 million litres from last year.

Then the next question is how quickly that can be picked up, if at all. We hope it will be picked up. Price will drive that. But it also depends on how farmers have gone through mating and what the fertility of the herd is. It is a little bit of an unknown at this stage.

Senator COLBECK—So the conspiracy of all these events, to put it in that context—and I am not assigning blame for that to anybody—means that the weather, the price and the roll-on impacts could potentially flow through the industry for a period of time while farmers catch up financially and resolve some of the issues with pasture rotation, mating and all of that sort of stuff. This could potentially have an impact that could flow for two or three seasons.

Mr Smith—Yes. I would expect that would be the case. If the price stays down—

Senator COLBECK—Then that will exacerbate it.

Mr Smith—Yes, because people will leave the industry and those who stay will be constrained in how they can run their businesses. If the milk companies want a sustainable

processing sector into the future, they had better get on their horses and get the milk price back up.

Senator COLBECK—So a sustainable milk price is vital to maintaining what really is an important partnership between the companies and the farmers. They need each other, not only to take the milk but also to have the supply for the market.

Mr Smith—That is right. Most farmers are there for the long term.

Senator COLBECK—So the relationship between the two is one of the key things that needs to be resolved.

Mr Smith—That is right.

Senator MILNE—Mr Smith, I just want to clarify something that is really bothering me here. In the strategic plan you said you wanted to grow milk production by 28 per cent over the four years. Is that right?

Mr Smith—No: 25 per cent over five years.

Senator MILNE—You then said that at the time Cadbury and Lactos were fairly comfortable with what they had, so were you looking to Fonterra to pick up that 25 per cent additional?

Mr Smith—Pretty well. Having said that, I think those other companies would have taken some incremental growth from their farmers—not a lot but some. So there could have been a small amount of that growth still coming from their farmers. But the situation which could impact there is that they sell their surplus milk to Fonterra, so it ends up at Fonterra anyway, especially at the peak of the season. There have been arrangements in place for years where Fonterra and its predecessors have taken surplus milk from National Foods and Lactos.

Senator MILNE—What is bothering me here is that the whole strategic plan is based on increasing production without any guarantee that you have a market to sell that additional volume—only that Fonterra said they were interested in supporting expansion. But they did not announce their Wynyard factory expansion until 12 months or so ago and then there was the global financial crisis. At the time you locked this in there were no guarantees at all, were there, that anybody would pick up the extra milk? So you actually encouraged farmers to get into debt and expand production, and there is no market for it.

Mr Smith—No, I would not agree with that. Certainly the plan encourages and supports growth, but it does not do any more than that except try to put a positive framework around our industry to encourage growth. There are no guarantees about how that would go, and obviously the marketplace still has to work. Our understanding, though, was that Tasmanian dairy farmers can produce milk at a very competitive cost of production and that, provided we have a good processing market, that milk will find a market internationally into the future. With the breaking down of international trade barriers and the opportunity for Australian product to get into the international marketplace generally looking positive and increasing and the company saying, 'We can get more product into the marketplace provided the price is right,' all those general signals were positive. I guess that was the underlying situation. I think that still is the case, but

we have hit a short-term snag and we would be hopeful that it will come out of that fairly quickly—maybe, one would hope, as quickly as we have gone into it. No-one foresaw it happening.

Senator MILNE—This issue of access to markets is one of the things in this strategic plan that was going to be pushed. Whilst I accept that there has been a big push on expanding supply, how much emphasis went onto accessing new markets?

Mr Smith—The plan is, as you say, a production-driven plan, because it is there for dairy farmers. So the plan does not take into account what the markets are doing; it says, ‘This is what we believe can happen for production of milk.’ Yes, it does require a market to be there for product, but it was not a plan that was out there trying to market Tasmanian milk. It was building on an expectation and a knowledge that was already there: that the major processor had a market for the product and that it was a sustainable market and a reasonable price that fluctuated over time.

Senator MILNE—But there were no guarantees that that major player would be prepared to absorb a 25 per cent increase in production over five years.

Mr Smith—There were no guarantees in the sense of having a written contract on that—we would never expect that—but there was general support for that direction.

Senator MILNE—Frankly, I think that is a big weakness, and that has been a problem for farmers forever. They want to produce what they want to produce regardless of whether people want to buy it, and that is an issue that has been around for a long time. Anyway, it is too late to go to that. In terms of costs of production, it says here also that low cost of production is one of the issues, and we have had evidence today about the high cost of production, in one case because of unforeseen increases in electricity prices but also because of the general national increase in fertiliser, fuel and grain prices and so on. How are the costs of production in Tasmania relative to those around the rest of the country? Would you say they are relatively equivalent?

Mr Smith—In some regards yes, but in some no.

Senator MILNE—Overall?

Mr Smith—Overall, apart from debt, Tasmania is the most competitive dairy region in the country in terms of its production cost. We are as low as any other dairy region, and I can give you current figures from survey work that has been done on farm production costs. The thing that pushes us up into a higher echelon at the moment is a higher percentage of debt. Some of the growth has been driven by expansion, with farmers borrowing to do it, and that has now created a situation where we have a higher than average cost of production when you take in the full costs of a dairy farm in Tasmania.

Senator MILNE—Okay. Is there no logical explanation for this business of National Foods offering 44c in New South Wales compared with their offering down here?

Mr Smith—There is a logical explanation, I believe.

Senator MILNE—And it is?

Mr Smith—It is the market that they are in there. It is not the costs of production.

Senator MILNE—Do you want to elaborate?

Mr Smith—The costs of production are probably higher in New South Wales because they are generally having to bring in more feed. We can grow feed more cheaply here.

Senator MILNE—So you think it is because there is competition in the marketplace in New South Wales.

Mr Smith—Yes.

Senator MILNE—Thank you.

Senator O'BRIEN—Thank you for the information on operating costs. Is it possible to get some sort of indicative breakdown of how those costs run? I know this is survey based material. I do not know if you have the detail to tell us how it breaks down with debt et cetera.

Mr Smith—Yes there is a breakdown of that, and it is information that Dairy Australia has available. I would just have to check that they are happy to make it available. I believe they would be.

Senator O'BRIEN—So Dairy Australia has no quibble with these figures?

Mr Smith—No.

Senator O'BRIEN—They are useful but perhaps we could see them in a different format—for instance, for the price of production we are hearing about so much per litre or contracts in so much per litre in milk solids based prices. Can we get it in the other format—that is, the per litre cost format?

Mr Smith—Yes. You can always convert.

Senator O'BRIEN—Is there a set formula?

Mr Smith—One of the quirks of the dairy industry is that they jump around from milk solids to litres with gay abandon. Farmers get paid on milk solids, which is a combination of fat and protein, and that is the important thing, but there is still a lot of talk in cents per litre. We buy milk in litres not in solids.

Senator O'BRIEN—The current price is around \$3.60 or \$3.70; is that right?

Mr Smith—Yes. It is a bit over \$3.70. Our expectation is that there will be a step up in that price fairly soon. There would have to be. If you look at what is driving it, which is what the international commodity prices have done in the last two months.

Senator O'BRIEN—There is nowhere in your chart that shows the connection between a particular international commodity price and these milk prices. Where would you direct us to get an understanding of how the prices in Tasmania have related to international benchmarks?

Mr Smith—Dairy Australia has a lot of that information on different commodity prices and the trends. That would probably be the best source. There is a not a direct link but there is a strong correlation.

Senator O'BRIEN—That is what I want to find out: how close are these prices to international prices? How much has the international market driven the prices here? Do we always lag, or are there times when we have exceeded the market?

Mr Smith—They pretty well correlate.

Senator O'BRIEN—This is just to get a complete understanding of the way the market has operated and to look at today's snapshot to see where it stands.

Mr Smith—I think it needs detailed analysis. I heard Bob Wilson make some comments on that and I fully agree with what he said in terms of domestic prices, international prices, the relative make-up of those markets, what a company might be involved with and how that then relates to milk price, which is basically averaged out of all that. The milk price is driven by what is happening in the market at the time.

Senator O'BRIEN—We have products, clearly, that just go to the international market, we have products that go into the domestic market, but they do have international competition, we have products that are entirely domestic and have limited competition—for instance, soft cheeses et cetera—and then we have whole milk, which has no real international competition. So there are various levels in the market and various levels at which the international price has relevance. You would agree, wouldn't you, that for a lot of the domestic market the international price has no relevance?

Mr Smith—I would generally agree with that. It has some relevance, I think, but it is difficult to disentangle it.

Senator O'BRIEN—Can you elaborate on that so that we can understand why it is completely relevant?

Mr Smith—Because you have different companies that have different markets, which probably change over time. Somebody could fully break down what a company's markets are and what their price movements in those markets are, but they would have to have good corporate market information in order to make some of the assessments on where the relativities lie and, therefore, how much a change in international prices might drive the price that a company might pay.

It has worked reasonably well up until this year, and when I say 'it' I mean what farmers receive from milk companies. In Tasmania, on average, farmers have got a reasonable return. There have been ups and downs around that, but they have had a reasonable return and there has been a reasonably competitive national situation for payment to farmers. Tasmania is linked to

what happens in Victoria. It is not driven off what happens in Tasmania; it is driven off what happens in Victoria. Victoria is two-thirds of the national milk production where most of the milk goes into export markets, driven off international prices, and that just flows through. We just hope that Fonterra support the Tasmanian industry the way they previously have and, because of a New Zealand basis of ownership, that they do not orientate future activity towards New Zealand and not Tasmania.

Senator O'BRIEN—What is your view of the potential for Murray Goulburn to process here?

Mr Smith—It depends on their capacity to put money out to invest and expand, and that expansion would take a bit of time. They might pick up some initial supply short term but then be looking to encourage new development and that will take time to come online. In the current financial situation we are unsure of where they are going to head and whether they are going to do something soon. It would be good if that happened, putting in some competition locally.

Senator O'BRIEN—In the longer term, of course, Victorian based processors are looking at water constrained dairy farmers in parts of Victoria and the potential for a continuing shrinkage of supply.

Mr Smith—I think Tasmania, provided we can harness more water sustainably, is in a good position to expand its dairy industry.

Senator MILNE—I am contemplating what you said about the cost of production and the level of debt that people are carrying that is therefore impacting on their costs overall. The Tasmanian Farmers and Graziers came out recently saying that the farmers should accept a price which, the farmers say, is almost 7c below the cost of production. We had evidence this week to say that there were some members of the collective bargaining group who, if they signed such a contract, would effectively be trading insolvent. Do you think that the current price should be accepted like the TFGA thinks and Dairy Farmers Australia or do you think that price is unfair?

Mr Smith—I think the current price is unsustainable. It is too low. Farmers cannot be expected to produce milk at that price. You would have to very seriously think about signing any contract into the future at such a price. Farmers who supply Fonterra I do not believe have to sign a contract and lock into a price, but they expect they will get a fair return from the market—the market picks up, they will get it.

Senator MILNE—So you do not agree, essentially, with what the TFGA and Australian Dairy Farmers have been saying in terms of that. Thank you for that.

CHAIR—That concludes this segment. Thank you for appearing, Mr Smith, and for your documentation.

Proceedings suspended from 12.53 pm to 1.24 pm

OLDFIELD, Mr Christopher, Chief Executive Officer, Tasmanian Farmers and Graziers Association

CHAIR—Welcome. Would you like to make an opening statement?

Mr Oldfield—Certainly. Thank you for the opportunity to appear before the committee. We have provided a written submission and we also fully support the ADF submission. We gave a more detailed submission to a separate inquiry in Canberra a couple of weeks ago—which I have not passed on to this committee but I will. To save your valuable time, I do not intend to go through those submissions in detail. I am sure you have some questions to ask.

We are clearly concerned about the situation in the dairy industry in Tasmania. We are concerned that continually paying prices below the cost of production is not sustainable. It is not in the interests of our farmers and it is not in the interests of the communities that rely on our farmers for their livelihoods. Having said that, what to do and how to fix it has been the subject of this inquiry and, I would suggest, many others. It is something that is not going to happen simply, and I think we all know that.

In addition to the submission that we have put in today, there are some more general infrastructure issues that I would like to comment on that may be of particular interest. The sorts of things that we believe will lead to a sustainable future in this industry, apart from simply the price of milk, are a number of actions from governments that could be either productive or counterproductive. Together with the National Farmers Federation, we are very concerned with the introduction of a proposed emissions trading scheme. If that were to come in without the exemptions that we have requested for agriculture, it would make this industry even less competitive. We are of the firm view that a lot of the success of this industry in Tasmania is based on the availability and fair price for water, and we have been a very strong supporter and participant in the water debates in Tasmania, particularly through the Irrigation Development Board. We provide a service under that scheme of liaison with the 12 or 13 various community groups in Tasmania that meet on a regular basis to get these schemes up, and we are a very strong supporter. Again, we believe that water is critical to the future of this industry.

We are a strong supporter of collective bargaining groups. We believe that in many cases collective bargaining groups are the way to go. We have never opposed that, and we believe that the exemptions that ADF have are valuable and need to be protected. We also are very concerned about the future of research and agricultural research in this state. There have been a number of moves in recent times by the state government with regard to research. We are active participants in that, and that is something we intend to keep doing.

In relation to assistance packages that are currently available, the TFGA was involved in discussions with the state government, particularly as a result of the fall in dairy prices and the climatic conditions we have had this year, with an extremely wet spring and then a power outage that caused considerable problems for our members. We were successful in coming to an arrangement with the state government, where they have provided an emergency package of

\$465,000, much of which is being administered by our office. We have employed someone full-time for that. She is spending her time dealing with farmers under a set of guidelines to provide short-term income assistance where we can, 50 per cent subsidy on vet bills, and similar things. We think that in the short term, whilst that does not solve anyone's problems, it does take a little bit of the heat off. We have also had meetings with the federal government through Minister Burke, who has been a strong supporter of agriculture in this state, particularly this industry. I met with him again in Hobart two weeks ago, when he was here for community cabinet meetings. He requested us to provide information that we believe may assist farmers through this difficult time. We have put some proposals to him. I spoke to his office again yesterday, and we are still hopeful of a positive outcome. But those are short-term things.

In relation to other infrastructure matters that we think would help make this industry more competitive, we think that the provision of enhanced business management skills for our farmers, where they need it, would be most positive. As in any other industry, we have farmers who range from being highly experienced business managers to novices or simply lacking the knowledge, and we think that the adequate provision of sound and accessible education would certainly help.

We would like to see the state government instigate monthly discussion groups between dairy communities, which I believe used to take place in this community in years gone by. One of the things we are trying to do, particularly in our work in mental health, is get people talking. We have been strong supporters of mental health initiatives in this state and we would like to see the state government introduce those or provide the wherewithal to get those monthly discussion groups going.

We are also dealing with a new agreement that we have with the University of Tasmania and other educational providers to try and see how we can improve career paths in this industry. This is something that the state government announced as an initiative in March—that they would work with the TFGA and particularly UTAS in both vocational and more academic studies on how we can attract young people to the industry and explain to them how there is a career path. We have also done some work recently on talking to farmers about how to manage funds through deferred deposit schemes. None of these things get farmers over the hurdles now, but what they do is provide a framework for this industry going forward. As I said, I have provided the rest of our submission in writing. I think it might be more useful for you to ask questions, if you have any.

CHAIR—Thank you, Mr Oldfield.

Senator O'BRIEN—Thank you, Mr Oldfield. Let us get it over with. What happened at the end of last week?

Mr Oldfield—In the last week the TFGA has taken some decisions and they were fairly public. Since then there have been a range of discussions that have taken place within the industry, including yesterday afternoon. I think it is pleasing that, for the benefit of this industry, we have reached some resolution. I do not really intend to go back over the events of last week because I do not believe that is in the interests of this industry. Yesterday we had a very long meeting. I believe we have reached a common goal, a common purpose and a common understanding. I do not believe that trying to explain who did what to who when, and who was

right and who was wrong, is in the interests of this industry at the moment. I think we have a framework for going forward and that is what we are concerned about.

Senator O'BRIEN—That is good. The events of the last week have certainly not helped TFGA's brand. You would have to agree with that, wouldn't you?

Mr Oldfield—We make decisions based on what we believe is right for the industry. If we made decisions on what is right for the brand, I think you would be even more upset. We have to make decisions on what we believe is right for farmers, and others will make that judgement on the brand. We cannot do that and we will be judged accordingly.

Senator O'BRIEN—I would debate with you the value of the brand of the chief farming organisation in the state, but that is another matter. In terms of the current position of the industry, can I first clarify one thing. We have been told that your organisation's position is that you do not become involved directly in bargaining a price for any commodity.

Mr Oldfield—That is not correct.

Senator O'BRIEN—Can you explain what your organisation's position is?

Mr Oldfield—Certainly. We hold exemptions with the ACCC in the vegetable industry and we have a number of collective bargaining groups that are authorised under that exemption. But that is in the vegetable industry. We do not have it in the dairy industry, so we are not involved in price negotiations in the dairy industry.

Senator O'BRIEN—There is no rule that precludes you from doing that. That is your own rule.

Mr Oldfield—No, I believe we are precluded from doing it under collective bargaining. As you would be aware, there are very stringent rules that are attached to those exemption provisions. We adhere to those through very strict protocols within the vegetable industry. I do not know how other people do it, but I know how we do it. All of our people who are involved in those negotiations are trained so that they are aware of their obligations under those provisions.

Senator O'BRIEN—We have taken evidence as to the special nature of the dairy industry in the sense that a dairy farm is not something that you can change in the short term, nor can you shut off or dispose of its production easily in the short term. Would you agree with the proposition that the dairy industry is in fact a special case in relation to collective bargaining and might warrant special rules under national laws allowing collective bargaining?

Mr Oldfield—That is something that I will have to take on notice. It is not something that I have considered. Do you mean they should be separate from any other collective bargaining group in the country?

Senator O'BRIEN—Perhaps, or they might fall into a different class from others because of the nature of their production and the fact that an individual dairy farmer is prey to price more than others might be, given the nature of their operations.

Mr Oldfield—With respect, I do not know if they are prey to price more than anybody else. We would have some vegetable farmers at the moment who would tell you they are doing it extremely tough.

Senator O'BRIEN—But they can change crop from year to year more easily than a dairy farmer, which is the point that has been made.

Mr Oldfield—It depends how their systems are set up on their farms. We have some highly efficient vegetable farmers in this state who are set up to grow crops almost down to the hour. I take your point but, as to whether there need to be separate rules for dairy farming, I would rather give you a considered response to that rather than just giving you one off the top of my head. But it is an interesting proposition.

Senator O'BRIEN—Do you think that, where collective bargaining on behalf of producers is not producing an acceptable outcome to either side, there should be some formal process requiring adjudication or arbitration?

Mr Oldfield—Again, this is a question I would prefer to take on notice, but I can give you my immediate response. There is probably an argument for that, but I would like to think that separate process may be geared towards conciliation as opposed to arbitration. I just do not think you are going to have companies willingly going to arbitration when it comes down to fixing prices. If there was a system of third-party conciliation that is something that intuitively I think is a good idea, but the arbitration issue becomes far more difficult. What I do not like is the idea that once the collective bargaining breaks down it becomes law of the jungle again. That is something we have been very keen to protect in this case. Again, conciliation would be a wise step. The arbitration thing would worry me, as it would worry a lot of people.

Senator O'BRIEN—I am asking you as a chief executive officer of an organisation for an organisation's view, so I would be happy if you want to give us a very clear indication of your organisation's view on those questions.

Mr Oldfield—They are questions we would need to put and they are interesting questions.

Senator O'BRIEN—In terms of the operation of the dairy industry in Tasmania, we have heard some disturbing things about operations of processors in the market in terms of acquiring market share and their dealings in relation to competitors. What knowledge does the TFGA have about the detailed operation of the dairy market in Tasmania?

Mr Oldfield—Given our position as not a member of a bargaining group, we share some concerns about the market position in Tasmania. The evidence we have given to previous hearings is that it is primarily due to lack of competition within the market. We have not been a defender of the behaviour of the industry. In fact, at a previous inquiry we were highly critical of the actions of National Foods. We think one of the things that predicate that has been a lack of competition in this marketplace. If there is an abuse of market power, that is something that is totally abhorrent to the TFGA and our membership. That is where we would support intervention from the ACCC, and we believe that is the right mechanism. It is exactly the same as the position we took with an incident recently at Longford regarding lambskins. I will not go into those

details, but we believed the correct mechanism to deal with that was the ACCC, and from what we understand that has been a successful outcome.

Senator O'BRIEN—It has been suggested to us that an individual dairy farmer with a complaint that they wanted to take to the ACCC would end up bankrupt before they could get an outcome. How do we deal with that?

Mr Oldfield—One of the benefits of having an organisation such as the TFGA—although we do not have limitless money—is that we may have more provision to do that than an individual farmer. We do prosecute our individual members' causes when we need to, and that is what we think the strength in the TFGA is.

Senator O'BRIEN—Are there examples that you could draw to our attention of the TFGA's role there? I am happy for you to take that on notice.

Mr Oldfield—There have been a range of various matters of litigation that we have been involved with. It is difficult on some occasions to know when to get involved and when not. We cannot physically provide a free legal service to people. Where we have tended to get involved in helping members on legal cases in the past is particularly where there are precedent issues and we think there is a particular claim or incident that will have a wide-ranging outcome for the industry. We have got involved in that recently, particularly in the area of compulsory acquisition, which is always a very delicate issue for us. In terms of succession planning, there have been issues with farmers passing down their family farms to sons and daughters. There have been some legal issues there that we think have been of importance, and we have provided both physical support and financial support and will continue to do so. But we cannot take the place of a farmer's lawyer.

Senator O'BRIEN—Thank you. I had better not monopolise the time.

Senator MILNE—I appreciate that you may not wish to go into the rights and wrongs of what happened last week, but I do. You came out and made a very public statement saying that the farmers should accept the offer that was on the table in spite of the fact that you knew it was up to 7c below the cost of production. I would like to know whether you still think they should accept that or you were wrong to recommend that.

Mr Oldfield—I say again: we had a number of issues last week that we have discussed. With respect to the parties we had confidential discussions with yesterday, we have come up with a path forward for this industry and for our relationship. I do not believe it is worthwhile to go back over the events of the last week to say who was right, who was wrong, who would have done things differently, who was to blame or whatever. I not intend to do that.

Senator MILNE—The issue, though, is that the Tasmanian and Australian communities have been told—and Australian dairy farmers have also come out and told the community—that the farmers should accept the price, which implies that the collective bargaining group is wrong, has been excessive in its demands, has misled people or whatever. I do not believe that is the case, and we have heard a lot of evidence to say it is not the case, but you have given people to believe that. That is why I think it is important to come out now and say that that is no longer the case.

Mr Oldfield—We explained our case very clearly during the week. We acted in the interests of our members, and I am quite sincere that we believe we have a mechanism for going forward where we can support all our members. Quite frankly, that is more important to me than getting involved in a debate with you on what may or may not have happened last week. That is what I intend to do.

Senator MILNE—I am not talking about that. I am asking you whether—

Mr Oldfield—I am saying I am not prepared to go back over the events of yesterday in particular, where there was a very full and frank discussion and we stated our positions very clearly. I think we got a fair hearing and they got a fair hearing from the National Foods bargaining group. We have reached an accommodation to go forward which is clearly in the interests of Tasmanian dairy farmers—which has always been our motive—and I do not intend to debate that here. I am sorry. You can keep asking me questions and I will keep telling you the same answer.

Senator MILNE—I will keep asking questions because the community needs to know that recommending that 7c below the cost of production was inappropriate.

Mr Oldfield—They are your words. I do not intend to get involved in that debate. I am sorry.

Senator MILNE—Then I find it difficult to see how you can go forward. Do you intend to go back to National Foods behind the back of the collective bargaining group, make other arrangements and come out and make other statements?

Mr Oldfield—We did not go behind the backs of anyone, we have not made other arrangements and I am not going to debate this. My genuine concern is for the dairy industry in Tasmania. I believe we have a way forward and I am not prepared to debate what happened privately over the last week over and above what we have said publicly. We have all said a lot publicly. I think we had a very fair hearing yesterday, and we have reached an accommodation with people who are very important to the future of this industry. We will continue to work in the interests of our farmers—which we have always done—but I am not going to engage in a public debate on who did what. It is not helpful.

Senator MILNE—So, if you always act in the best interests of your farmers, do you think it is appropriate for someone to sign a contract if it means that they would be trading insolvent?

Mr Oldfield—I am not going into individuals' decisions to sign contracts if they are insolvent or not. That is a decision that they have to make based on what is right for them and what is legal.

Senator MILNE—So you would agree that signing a contract which is below cost of production if it means you are trading insolvent is a bad idea.

Mr Oldfield—With respect, I think you are a tad confused.

Senator MILNE—No, I am not a tad confused. I am trying to get a straight answer.

Mr Oldfield—I do not even accept your arguments about the cost of production, because they vary, as you would know. Equally, there is a big difference between signing a contract that is below the cost of production and trading insolvency. If you do not understand that then there is a fundamental problem, I am afraid.

Senator MILNE—I understand that perfectly well, and I heard a lot of evidence—

Mr Oldfield—With respect, you said ‘to sign a contract that would make them trade insolvent’. That is different—

Senator MILNE—Yes, in the event that they—

Mr Oldfield—to signing a contract below the cost of production. I do not know how much clearer I can be on that. Sorry.

Senator MILNE—We have had quite a lot of evidence to say that there are a number of people who—because of the cost of production and for all sorts of different reasons, including the debt they are carrying—if they signed a contract at that level below the cost of production, would be trading insolvent, which would be against the law. To proceed, you said here that you would find abuse of market power abhorrent.

Mr Oldfield—Yes.

Senator MILNE—Has the collective bargaining group informed you that they believe there has been abuse of market power from National Foods?

Mr Oldfield—There is concern throughout the industry about the exercise of market power across this state. I say again: National Foods farmers are vitally important to this state, but we also have many other farmers who provide milk to Fonterra, Cadbury and others. Anyone is concerned about market power, clearly. So I am concerned, and I have said that I believe the correct mechanism to prosecute that is through the ACCC. If that legislation is not sufficient then I presume that is something this committee will be recommending on, and we would welcome that. If you are asking me if I support the abuse of market power, the answer is no.

Senator MILNE—I heard you say that you believe the abuse of market power is abhorrent. What I am asking is: were you informed by the dairy farmers, particularly the collective bargaining group, that they believe National Foods were abusing their market power?

Mr Oldfield—We have heard those complaints and we have suggested ways that we think they should address that. We think that the ACCC and these inquiries are some of the ways to do it.

Senator MILNE—And have you taken that up with National Foods?

Mr Oldfield—No; but we are not involved in negotiations with National Foods.

Senator MILNE—But you met with National Foods.

Mr Oldfield—We meet with lots of people. It does not mean we are involved in negotiations.

Senator MILNE—I did not ask whether you were involved in negotiations.

Mr Oldfield—Yes you did.

Senator MILNE—I asked—

Mr Oldfield—Excuse me, Senator; you did. You said was I was negotiating with National Foods. No I wasn't; never have.

Senator MILNE—Let me put it to you another way. When you met with National Foods, having been told by the dairy farmers that you believed they were involved in abuse of market power, did you raise that issue with National Foods.

Mr Oldfield—Again, with respect, we meet with lots of people, and normally people can trust our confidentiality with what they say. We raised a number of concerns with National Foods; we did not get involved in negotiating with them, which we cannot; and that is about as far as I am prepared to say. I think you would respect that these conversations are confidential.

Senator MILNE—I can understand—

Mr Oldfield—But we have raised our concerns with National Foods to them and I did at a similar hearing to this in Canberra four weeks ago, in very strong terms.

Senator MILNE—All right. In terms of where to from here then, what do you believe is an appropriate price?

Mr Oldfield—Like all dairy farmers, we would like to see whatever that cost of production is, and clearly it is non sustainable for farmers to continue to operate in any industry, be it vegetables, beef or dairy. But as I said, how to achieve that is extremely difficult. Walking in here today we heard that there has been an improvement in the Fonterra price, which we welcome. We understand from reports out of New Zealand in the last two or three days that there has been a significant improvement in Fonterra's price, so that is encouraging. But if you are asking me to provide the wisdom on how we set prices in this industry, I wish I could.

Senator MILNE—No. I was asking you what you think is an appropriate price?

Mr Oldfield—An appropriate price, at a minimum, clearly is cost of production, but people cannot run businesses just covering their costs; they need to make a fair margin, and we fully support that. But like most people in this room, I am open to ideas on how we get people to do that without regulating.

Senator MILNE—Okay. So an appropriate price is at least the cost of production or higher.

Mr Oldfield—In the short term.

Senator MILNE—Do you accept that around 39c is the cost of production for the National Foods growers?

Mr Oldfield—No. I have seen a variety of figures and I certainly would acknowledge that that is the figure the National Foods farmers have put, but we hear a range of figures from other farmers. I think it is very hard to settle on their price. We accept what National Foods farmers have told us, but we get figures higher and lower, depending on people's levels of operation, their calving patterns, et cetera, so it is a difficult figure. But I know that in the wool industry, for example, we have had calls this week from some of our fine wool farmers who said that they dream of having costs of production over the last five years.

Senator MILNE—I understand that but I am just trying to establish whether the Tasmanian Farmers and Graziers Association is at one with the collective bargaining group in agreeing that 39c or thereabouts is the cost of production, and that that is the minimum price.

Mr Oldfield—When the negotiating group tells me that the cost of production is 39c, I believe them. Why wouldn't I? If they tell me that that is the price, I understand that, so I have no reason to believe they would not be honest with me.

Senator MILNE—So from your point of view, TFGA and the collective bargaining group are now at one on 39c as the cost of production?

Mr Oldfield—I have not had the benefit of seeing their figures, because we are not entitled to do that. We are not involved in negotiations. I know the people on that collective bargaining group—they are honourable people—and, if they told me that was the price, I would believe them.

Senator MILNE—My final question is in relation to short-term assistance. We have heard a lot of evidence to say that farmers need some cash in the short term for fodder, repairs and things, because of the dry winter and just living.

Mr Oldfield—Yes. Groceries is just one of things they need.

Senator MILNE—We have heard a proposition put by one of our witnesses that interest-free loans might be an appropriate way to go. We have heard contrary evidence to say that farmers are already carrying so much debt that they do not want to embark on more debt, even if it was only repaid when the prices improved. What is your suggestion for the best way to assist in the short term, recognising that the ACCC changes et cetera are medium to longer term propositions?

Mr Oldfield—As you are aware, during the prolonged drought we had in Tasmania, under extraordinary circumstances guidelines, areas were declared EC. In EC areas—which we still have in the state—there were a number of mechanisms, one of which was interest rate subsidies. That is not taking on additional debt; that is simply helping subsidise large interest bills. That has been successful for farmers who were doing it hard anyway. Secondly, there have been cash payments made for fodder and whatever. Because the state government had to act very quickly here as a result of the rains, the idea of how they would go about declaring EC areas was very

difficult for dairying. In addition, the Productivity Commission have argued to do away with declaring new EC areas. They have said that lines on maps simply do not work.

In the very short term, what the state government has done is link some cash payments to Centrelink entitlements, and we are administering that. If farmers have access to Centrelink, they can receive a cash payment of, I think, up to \$5,000. Where they do not have access to Centrelink, that may be for two reasons: one, they are not entitled under the current legislation; or, two, they do not know about it. We are actually sending people out to talk with farmers to help them do that application form. In addition, we have rural financial counselling services as well. We have someone full time, provided by the state government, to go and do that and, once someone has that Centrelink arrangement, they can make an immediate cash payment. There is also access to a 50 per cent subsidy on vet bills. That started from 1 October. We have made another submission to the state government this week saying that the worst of the rains—and therefore the bigger bills—probably started on 1 September, and we have asked Minister Llewellyn to consider backdating that to 1 September.

When I met with Minister Burke two weeks ago, he said, ‘What can we do to help?’ I said, ‘Perhaps the first thing you would do is simply add a zero to the state government’s package,’ because we think that package in the short term is sort of right—\$465,000. If we had more money in that, we could do more of the same. We think that would not be bad thing to do. Whether they are willing to do that or look at other educational programs or whatever, I do not know. But I know that if we had more money there, we could be more successful in getting it out to people who need it. As you say, it is for fodder and for a range of things, but it is also for putting food on the table. We have staff who are finding this emotionally draining—nowhere near as bad as farmers, but they are finding it emotionally draining dealing with people who are really in trouble—and we are doing our utmost to try to help.

Senator COLBECK—I would like to go back to the discussion that you had on your involvement in collective bargaining and the fact that you provide training for those in your organisation who are involved in that. Do you share that knowledge or information with other areas of agriculture in Tasmania that might be going through those processes? Obviously, looking at the current circumstance, where you have a group of farmers effectively up against a multinational—with the obvious imbalance in resources that are available to them and, potentially, understanding of the systems that they are working in—is there scope for some work to provide some balance in the overall process as far as that is concerned?

Mr Oldfield—Yes, there is. We have already expressed our willingness to provide support in a range of areas like that which do not involve us in directly negotiating but in providing some financial assistance to people, as you suggest—we have offered that and we would be prepared to offer it again—and in providing some skills training, both in negotiations and regulations and a variety of other skills needed in negotiations. We have offered to provide that and we would stand by that offer.

Senator COLBECK—Looking at it in a broader sense we have a particular circumstance here now. During the inquiry we have discussed trying to balance out the market power within the relationships in a market, which is largely what this whole discussion boils down to. Do you see that there is a place for assistance to be available to groups in a broader sense that are going through these processes? Could that be one of the solutions that we could suggest, such as a

funding stream or a place where people could go to who are inevitably going to get hooked into this process, to assist them in their discussions?

Mr Oldfield—Not only do I think that it a good idea but it is an idea that we would willingly participate in. This is off the topic a bit, but one of the things we have done in the past is, where there have been a number of farmers who have had to face a commercial issue—I will not go into specific details but we have had a number of farmers who had to deal with a contract on an issue. Whilst the contract varied from farmer to farmer the broad principles were the same—so we engaged legal counsel to have a look at the terms of that contract, not to advise individual farmers whether they could sign or not because that is up to them and their own legal advice, but to provide them with what we considered to be sound legal advice on the sort of issues they should be aware of and the sort of issues they should make sure their lawyers were aware of. We did that for a particular project last year. We had I think 30 farmers, we engaged counsel and came up with a generic advice based on that contract saying, ‘These are the things you needed to be aware of. We cannot tell you whether to sign it or not, but you need to understand these issues.’ That type of thing is along the lines of what you are saying as well. We have done it in the past and are willing to do it again.

Senator COLBECK—You said before in your evidence that you do not like to see or you are concerned that you get to the end of the collective bargaining process and you return to the law of the jungle, which is where you are at now. What can be put into place to mitigate that, to prevent the return to the law of the jungle? Senator O’Brien has put one suggestion on the table which you have responded to. Is there any other suggestion you might have as to how you can actually manage that process so that there is a balancing of the power in the marketplace?

Mr Oldfield—I know compulsory conciliation seems to be a clash in terms, but that is the sort of thing you would look at doing. You would also look at increasing provisions for cooling-off periods et cetera, as applies in other commercial negotiations. The arbitration issue is very difficult. When you start dealing with prices on the buy and sell side, anyone is going to be reluctant to get involved in arbitration. But you would like to think that skilled and targeted conciliation, in my experience in industrial relations for example, invariably tends to rule the day. At the end of the day you may wind up where we are now, but I just believe there have to be some other processes in place because you will wind up with the law of the jungle, as you said. The weakest will get picked off and that is not in the interest of farmers or of collective bargaining as far as I can see and it is something we do not support.

Senator COLBECK—It is effectively where we are at now, particularly for some of the smaller guys who would potentially be feeling the most vulnerable, given the economics for the company would be to talk to the larger farmers and pick up larger supplies. It makes it much more concerning for the smaller guys.

Mr Oldfield—Or they will focus on the weakest, the ones that are most vulnerable, who may not be the biggest and maybe the smallest, I do not know, but the ones who they know are potentially in the most trouble are the ones you would pick off, and I think that would be most regrettable and not something we would support.

Senator COLBECK—In your discussions with government has the issue of the long-term impact of the current circumstance been part of those discussions? You have mentioned that the

state government has an immediate package that is up for grabs and there are continuing discussions with the Commonwealth government. We have heard evidence that the impact of price, season and debt levels, all of those things combined, potentially could have an impact for a number of seasons, perhaps two, three, four or five, down the track. Has that played a part in the conversations that you have been having at the government level with respect to support going forward and how that might fit into potentially EC provisions?

Mr Oldfield—It has. Clearly, the major focus at the moment is on short-term relief. One of the proposals we put forward to the federal government, for example, is to improve education amongst farmers rearing heifers. You would know better than me that there is quite an issue with the mortality rate in heifers. We know of some consultants who have some packages which they believe provide sound education to farmers on how to better manage heifers. A lot of farmers would know that anyway. That is only one example. We think that sort of program would provide not just short-term support but might actually help people learn a bit more about how to manage the issues on their farm. We have introduced a number of programs like that and are looking at others. But in terms of long-term structural adjustment within the industry, no, we have not turned our minds to that.

However, with the drought that we have had in central Tasmania for the last five years, we have made the point very clearly that just because it rains does not mean that the impact of the drought is over. We have said that, as a rule of thumb, the impact of that drought will take about as long to go as the drought lasted. I suggest it will be the same in this industry. The fact that they might get some prices in the next few months that will make things profitable again will not solve the longer term problems. It will not solve the problems of lots of farmers whom we know who have taken on extra debt to get through this period. I would not want people to think that a quick lift in milk prices is going to solve this problem.

Senator COLBECK—We have heard in evidence today that the pricing structures effectively cascade, based around a core operator in the industry. Effectively, that is the cooperative groups that operate on the mainland.

Mr Oldfield—In Victoria.

Senator COLBECK—Murray Goulburn has been mentioned specifically. Can you see any mechanism that would require a company to demonstrate the basis of the pricing structure it is putting on the table—that is, the offers it is putting on the table that are independent of other sources? Companies have told us that they require milk for specific purposes. I think we all understand that. Cadbury have a specific purpose for theirs. National Foods have quite clearly told us they have a specific purpose for theirs. But then they tell us that they do not know what it costs to produce milk. They base their price on somebody else's price, which is based on somebody else's price. Do you think there is a need for a demonstration of how a figure was achieved, rather than just a cascading effect?

Mr Oldfield—That is an interesting question and I think there are probably sound arguments you could run on both sides of that. At the moment we know that Victoria is the largest dairy state and Murray Goulburn is the prominent player there, so that is who we are talking about setting the price. The good thing about that is that whilst we have companies in Tasmania—particularly Fonterra—who are linking to that price, to some degree that mitigates the damage of

having lower competition in Tasmania because we know that we are linked to a broader price in a broader market. So there is some protection through being linked to that price. Whether that is the correct mechanism or not is a separate issue, but, given the fact that we have, both geographically and in sheer numbers, very little competition in the state, it is some comfort to know that a broader market competitive price is being reflected in the Tasmanian price. As to whether that is the be all and end all for setting prices in the state, as I said, we have not been involved in direct negotiations and it is an interesting question. But I do believe there is some protection provided to our farmers as a result of that. If there are other ways to do it, that is an interesting question.

Senator COLBECK—Probably something that goes back directly to the terms of reference that we are talking about is the consolidation of supplies in the industry, how that operates and how that impacts across suppliers, purchasers, supermarkets and all that sort of stuff. We heard evidence earlier in the day that the amount of competition in the national market is also a key factor in the overall pricing process.

Mr Oldfield—Absolutely.

Senator COLBECK—So consolidation at that level is something that needs to be dealt with, as much as anything, at a local level.

Mr Oldfield—I really cannot comment on Cadbury, but certainly with Fonterra and National Foods so much of it is linked to what happens in Victoria with Murray Goulburn. Absolutely. If the competitive pressures in that state are reduced, the impact will be felt here in price, no doubt.

CHAIR—Thank you very much for appearing, Mr Oldfield.

Mr Oldfield—Thank you.

[2.05 pm]

MORRIS, Miss Nicola, Chief Executive Officer, Van Diemen's Land Company

CHAIR—Welcome. Do you wish to make an opening statement?

Miss Morris—I will make a few comments, if I may.

CHAIR—Please proceed.

Miss Morris—Thank you for the invitation to attend. I will start with a little bit of background on myself. I am a New Zealander who has been a Tasmanian now for some 20 months. My background includes being an agribusiness banker, a farm management consultant, a farm supervisor, an educationalist and a recent Tasmanian. Van Diemen's Land Company is a corporate dairy farmer based in the north-west of Tasmania. We operate some 23 dairy farms. We milk 18,000 cows and we produced 4.2 million kilograms of milk solids in the previous season. Prior to the rain we have experienced in the north-west in the last few months, we were on budget to produce 4½ million. We have now dropped that back to 4.2 million. Payout in the 2007-08 season was \$6.46 per kilogram of milk solids and in the previous season \$5.33. With a very much appreciated step up, today it is \$3.76 as we speak and we are still budgeting on \$4 for the season—obviously significantly less than the cost of production.

At the start of this season, 22 of our farms were operating under a share-farming agreement and one operating under a management contract. A combination of payout, the poor weather and, it would be fair to say, poor financial management on the part of some of our share farmers has led us to work with a number of them to restructure so that they can remain in business. In many cases, they have avoided bankruptcy and they have stayed in the industry, and we have deemed it appropriate to do everything we can to keep them in the industry.

We have allowed five share farmers to change their agreements—basically, to quit their contract. We have allowed one to exit completely. For the balance, the four we have assisted, we have everything from a management agreement through to their being employees of the company now, which has not been the preferred model in the past but has been deemed a necessity this year.

In many cases in the past few months we have assumed the role of a quasi bank. We have worked with share farmers to negotiate with debtors, in many cases taking on some of their debts so as to maintain their solvency. If share farmers cannot pay their fuel bill, their fuel supplier will stop supplying them. If they do not have fuel, they cannot run a tractor. If they cannot run a tractor, they cannot feed our stock. So it has been in our best interests to work with them to keep them in the industry.

We have also facilitated quite a few mental health services for our share farmers. At the worst—when the rain was at its worst and the impact of the payout was first being seen—we had

five share farmers who we identified as being at significant risk. Through a variety of interventions both from us and from mental health professionals, we believe that is now largely resolved but it is an issue we are very aware of as an employer.

There have been some naïve comments in the industry that corporates are insulated from the milk price downturns. I can assure you they are not. We receive exactly the same payout as any other farmer. The payout is very transparent through the Fonterra opening price statements. We receive exactly the same as anyone else. Like any other farmer, we are in very close contact with our bankers and like any other farmer, we are looking very closely at costs and how we control them. We have made a conscious decision as a company that we will not cut costs where those cuts would impact on production or feed, or where they would impact on our future farming profitability. We are looking very much at dairy farming as being a long-term investment, not a short-term investment.

Being a Kiwi and a relatively new Tasmanian, I do not have many of the beliefs about and I guess the knowledge of the pricing mechanisms which have been in place in Victoria and Tasmania, but I am obviously very happy to seek to answer questions about pricing and how it is impacting on us.

Senator COLBECK—Perhaps you could get a job with National Foods and transfer some of your relationship skills with farmers to National Foods. With the way they are managing their operations, that would be quite welcome. Thank you for coming along this afternoon; I appreciate it.

You mentioned you have made some strategic decisions about continuing to manage and not cutting costs, but obviously over a period of time you are going to have to manage and carry that decision. That will continue to have an impact on the business for a period of time, obviously.

Miss Morris—Yes. I think the comment Chris Oldfield made just recently was very apt. The step up today in payout is very welcome. Nothing is going to fix things short term. We are all going to carry debt into the next season. That is going to have a significant impact on next season regardless of the payout. The average farmer, depending on who you talk to, might have another \$50,000, \$100,000, \$200,000 or \$250,000 on their overdraft, which has to be serviced and which obviously then has an impact on their ability to have overdraft funding for the new season. We are just the same except the numbers are bigger.

Senator COLBECK—Going back to the core issues we are talking about in relation to the inquiry, the consolidation of market and relationships through the chain, given you have come from a different market into this one and from what you have seen so far, what do you see as issues that are particularly pertinent to where we are at at the moment?

Miss Morris—There are certainly differences between the pricing mechanisms in New Zealand and the pricing mechanisms as I see them here. A lot of that revolves around the amount of notice we get as to what payout is. I think everyone would agree that last year was a completely different year. I think I would be correct in saying that in New Zealand there had never been a step down and I am not aware that there has been one in Tasmania previously.

Senator COLBECK—I think that is the case.

Miss Morris—So it is a different world we are in. For the future, one of the single biggest issues we have is knowledge of what we can budget on for the balance of this season and, indeed, for the future. New Zealand has an announced forecast. I think in today's world it would be very unlikely that they will come in under that because the politics of last year have proved that that is not a good thing to do. We do not have that benefit here.

Senator COLBECK—We did explore that with Fonterra in another committee in Melbourne a couple of weeks ago. My recollection—I am sure Senator O'Brien will correct me if I am wrong—is that prices seem to be fairly relative. I have heard concern expressed here that we have a floating dollar and New Zealand has a floating dollar, that there is a range of variables existing in both jurisdictions, some of which are used as reasons not to provide numbers here. When you actually look at the numbers, you see that they are relatively similar at a base level and the companies said to us in that particular inquiry that they do not believe that is where either of those numbers will end up. Is it a terminology issue, the difference? Having been in both situations, you are perhaps better equipped than any of us to give advice on that. Obviously you have a different perception.

Miss Morris—You are right and we obviously do the calculations. We are very aware of what is happening in New Zealand. If they go up, we have an expectation that we will follow, but there is still a difference in terms of the figure you can put in your budget to work on.

Senator COLBECK—The fundamental difference they gave to us was, I think, 45c a kilogram, which was the dividend figure, which Australian farmers do not get the benefit of because of the company arrangements. Is that effectively the difference which exists between the two—the base price or the floating price?

Miss Morris—That is very close. As I say, we look very closely at the New Zealand figures and monitor what is happening with them.

Senator O'BRIEN—I am interested in your perspective on the cost of production, given that it has been debated.

Miss Morris—I should clarify that we run sharefarming agreements, so immediately our cost of production is different. We have a variety of sharefarming agreements, which can range from fifty-fifty through to, I think, 27 per cent at the moment. The recent changes have changed those quite significantly again. If I amalgamate what we understand the sharefarmers' costs to be, which we are not responsible for, the cost of production can be anywhere between 370 and 470 or 480. That depends on the farm situation, the size, the amount of feed and so forth. So it varies hugely. I do not think anyone would debate the fact that, at the moment, the milk payout is clearly not matching the cost of production in most cases.

Senator O'BRIEN—Is cost of capital is factored into that?

Miss Morris—No, nor is the cost of corporate farming. That is a straight cost of production as a farm.

Senator O'BRIEN—So you would have to add those to get a real cost.

Miss Morris—Yes.

Senator O'BRIEN—In terms of the ongoing viability of sharefarming—and you are the first one to have raised that issue with us—in an industry that expected to continue to expand and is now going to contract somewhat, what does your company see as the real future of sharefarming with such pressure on price?

Miss Morris—That is an absolutely huge issue for the industry as a whole to deal with. We have made some short-term moves to identify and keep in the industry people who we believe should be in the industry. We are just in the process now of commissioning some consultants to report back to us on other options for farming models, which could range from equity partnerships right through to just being an employed manager. But my concern is that we will lose potentially a large pool of sharefarmers out of the industry during or at the end of this season, or, if not, into next season, which has to be of concern to the whole industry.

Senator O'BRIEN—Can you fix that problem by employing people, or is that just not going to be an option for VDL?

Miss Morris—As a company, we have shown ourselves to be absolutely open to doing pretty much anything we have to do. At one level, we need to keep our cows milked. And we need to keep good people in the industry. We have done everything in our power to achieve that—and pretty successfully. If you flow that into a longer term picture, yes, I believe that there will be new farming models coming along, not just for ourselves but for other farm owners, to allow people to stay in the industry but perhaps not have the same level of risk.

Senator O'BRIEN—Are we going to see a decline in the value of dairy farming properties? I am asking questions you do not want to answer, I know.

Miss Morris—No, no. It is no secret that we had our properties revalued as part of our end-of-year processes. There was not at that stage. There are a number of farms on the market. There are very few selling. I believe that there would be a reduction in value for farms that are on the market—if there is a buyer. That is probably the bigger issue.

Senator O'BRIEN—Distressed sales lead to lower prices.

Miss Morris—Yes.

Senator MILNE—Thank you for your evidence, Miss Morris. Please say if someone just asked this while I was out briefly. I want to go to the issue of debt. You mentioned in your evidence that, as a company, you have assisted some of your sharefarmers by helping them with their debt so that they could basically keep going and trade solvent. A couple of ways of intervening were put to us earlier. This is short term and quite apart from the ACCC and what we might do in the long term. We are trying to come up with a multifaceted strategy of how to help people straightaway and then how to fix the system so that it is more sustainable in the long run.

On the issue of debt and so on, it has been put to us that possibly interest-free loans would be useful. Other people have said, 'No. Farmers are already indebted enough. They cannot take on any more debt' and that interest rate subsidies might be a better way of going. Given your

experience with your collective sharefarmers, what do you think is the most appropriate mix in the short term to assist people to get through the next three or four months until next year?

Miss Morris—If I go back to my agribusiness experience, which is a year or two ago now, we were involved actively in debt restructuring at the time in New Zealand. It very much needs to be on a case-by-case basis. Some people are in debt because they have done some very stupid things. Some people are in debt for circumstances that are pretty much outside their control. I believe it needs to be looked at on a case-by-case basis. Paying off people's debts or putting them on interest-free loans may just roll the problem out another four or five months and then they will be back in the same position again. I am not a fan of interest-free loans or further lending, because that is going to exacerbate their debt situation and at some stage they will have to pay it back. It comes down to having debt-restructuring meetings, as we did in New Zealand in the eighties, where you got everyone involved in an individual case in the room. It may be that the fuel supplier said, 'They owe me \$10,000. Pay me \$500 for the next X months and I will keep supplying them with fuel'—brokering deals, effectively, which is what we have been doing over these past few months. As I said, we have paid bills. We have backed people for solvency reasons.

Senator MILNE—That is within your particular company and amongst your particular sharefarmers. We are trying to work out a way of assisting people across the board here if we can. So your recommendation would be to proactively facilitate the process that you are discussing in whatever way we could think of?

Miss Morris—Yes. I believe it is exactly the same for any individual farmer—working with them to proactively manage an arrangement that is best for them and for their creditors.

Senator MILNE—The other thing that has been suggested is that we reintroduce a levy system on the retail price of milk at the consumer end so that there is money to effectively underpin a baseline price. The suggestion there is that if you designated, say, the 2008-09 financial year as a baseline that would stop people coming in and, obviously, the surplus issues. Given your agribusiness background, what is your view of that sort of notional solution?

Miss Morris—First of all, you must understand that the levy as it was is not something I worked with or was familiar with. Obviously I have read about it.

Senator MILNE—A notional view, anyway—a concept.

Miss Morris—As a supplier obviously it would be wonderful. As a business person I am not convinced it is the right way to go about things. There is a market for milk in the world. We have to work out how we can attract market prices that are sufficient to pay the companies, our cost of production and some.

Senator MILNE—So, as a business person—we will go beyond being a supplier, where it is a great solution—what do you think the solution to our current scenario is?

Miss Morris—Again, as Chris Oldfield said, there are a lot of positive indicators out there now as national prices are trending up again. Obviously the dollar is not helping, but prices are

trending up, which is positive. They are not going to help in the short term; I fully appreciate that.

Senator MILNE—This morning we heard evidence to say that Rabobank was behaving badly as far as farmers are concerned. I took from the evidence that the witness was probably referring to people in the Circular Head area, although he did not necessarily say so. Have you heard that? Do you have any comment on the fact that they have been basically touting for business and then, once they have it, starting to screw down the farmers on interest?

Miss Morris—Rabobank are our bankers; I am quite happy to disclose that. Having been a banker I still have an active interest in what bankers are doing and I have a good circle of contacts. I believe the norm—from what I have seen, certainly with our sharefarmers again, and from what I have heard—is that banks are acting very responsibly. And I am talking about dealing with the position we are in now, and then I will talk about previous practices, if you like. Certainly, everything I have heard is that they are acting responsibly. Again the issue is, if somebody has an asset to sell, the bank will look to get its debt repaid before it releases funds. As a company we have had a couple of sharefarmers sell assets where we would have dearly loved to have had some of that funding, but the order of securities is such that it goes back to who had the most security. But I am not aware of any what I would call overly nasty provisions of banks.

In terms of how banks have acted in the past, if you do an internet search you do not have to go back very far to find—again I will talk New Zealand for a minute—New Zealand farmers talking about payouts of \$7, \$8 and \$9, great payouts. Unfortunately, we all tend to focus on the high numbers and go out to look at investment decisions on those high numbers. Did the banks back people? Yes, absolutely, and that is probably the issue now. People have put themselves into positions based on what they saw the forecasts being, supported by banks that were very happy to lend. Again, wearing a banking hat, at one level you cannot win, because if you did not advance the funds they would move next door to another bank that would. From what I have seen of the Australian market in the last 20 months I believe that Australia is far more heavily regulated and sensible about its lending decisions, and I think any quick trawling of the New Zealand papers suggests that there are a lot of banks who probably wish they had been more in keeping with their Australian colleagues.

Senator MILNE—Thank you.

CHAIR—As there are no other questions, thank you, Miss Morris, for appearing. That was useful evidence.

Ms Morris—Thank you.

[2.28 pm]

TENNANT, Mr Wayne, Private capacity

TENNANT, Mrs Marilyn, Private capacity

CHAIR—I now welcome Mr Wayne Tennant and Ms Marilyn Tennant to the table. Would you like to make an opening statement?

Mr Tennant—Thank you, Chair. Marilyn and I are here today as practising dairy farmers to bring a bit of a farming analysis to this inquiry. Both Marilyn and I originally came from farms as children and then went off farms and worked in the wider community. I have got an accounting background. But we have always had a love for the land and decided that we would go back into farming and we have been dairy farming for something like 26 years at Togari. We love farming. It is a lifestyle that we were always attracted to as kids and wanted to get back into. We have been in this industry for quite a while and we are now semi-retired, and our daughter and son-in-law are fortunate enough—or unfortunate enough, however you like to look at it!—to live on the farm, and our grandchildren live there too. So we see where we have come from to where we have got today as having been utopia in terms of being able to hand down the farm to our family and have the added bonus of being near our grandchildren. At the same time we can enjoy some retirement but be there to help when it is needed on the farm, at critical times like calving, mating, and hay and silage making.

To sum up, where we have come from is that we have realised the goal, which has required an awful lot of work for us to achieve over those years. We have not shied away from that one bit and we have always been very supportive of the industry and worked hard. Whilst we have had downturns of this nature to cope with practically ever since we have been involved back in farming, this is by far the worst that we have ever had to deal with. I guess the main reason that it is the worst is that we were faced with a 40 per cent drop in milk price in January of last season. In terms of our operation, we are relatively big farmers, with 550 or 600 cows. That cut \$380,000 worth of income out of the last half of our business last season.

In November, we had made a decision to put in a new pivot irrigator, which we duly financed on the basis that all the commentators were saying: ‘The industry’s looking quite good. It’s now stabilised. Market conditions are such that, going forward, it looks really good.’ We were one of many that made decisions based on that sort of information and feedback from dairy companies. We supply Fonterra, and Fonterra have been encouraging increased production for a number of years. They have a system of rolling averages—a three-year rolling average—and at the end of the season they pay an incentive based on your incremental production increase in the three years. So there has been that push as well. All the signals have been positive.

But we do wonder about the 40 per cent drop in price that occurred, because I think it was in November last year that we were given a 15c a kilogram step-up by Fonterra. Within a very short period of that happening, Murray Goulburn announced a dramatic need to drop the price. When

prices are announced, it is always Murray Goulburn that announce first. In this case, they announced a price drop and the other companies were very quick to hop on board. Fonterra signalled to their farmers straightaway that the step-up they had made would have to be retracted, which they did prior to Christmas, and that they would review the price from January on. They followed Murray Goulburn down. It makes you wonder—as a novice, if you like—why they could offer a price increase. The financial situation did hit everybody suddenly, and we are not saying that there should not have been an impact, but we are just wondering about whether it should have been 40 per cent. I would like to think that in this committee inquiry that can be somehow examined to see whether a 40 per cent drop was really warranted, or was it just a case of them following Murray Goulburn down? Murray Goulburn may have had a completely different set of problems associated with their business which caused that to happen, to bring it down. I think it is absolutely vitally important that that is determined because it has put a lot of pressure on people, because decisions were made.

In the past when we have had price drops, in general terms we have been able to react reasonably well because we have had some prior notice, but this just came like a bolt out of the blue and it has knocked the feet out from under everybody. I will just illustrate what that did to our business. Over the years we have been one of the leading farms in Tasmania, if not Australia. We have actually won several awards to that effect. The year before last, we got around 50c a litre for our milk, and last year after the 40 per cent drop it came back to 38c. This year the opening price gave us 28c for the season, so our income has been virtually halved.

One of the other concerns we have as dairy farmers is that we are very much mindful of the fact that we have high-producing animals to feed and care for that are deserving—and I think the general public would expect us, and as farmers we are certainly very mindful of the need, to cater for and look after those animals very well. We take a lot of pride in doing that. We are also very much aware of the fact that we have to have a lifestyle for our family members. We have to provide a place of employment that is comparable to the rest of the community and general workplace conditions that are also out there. But we have no ability at all to ensure that our income can meet those commitments.

We have to be frank about it. If we are living in a society that has a standard that is required for people to live and sustain themselves, that should apply across the board. You cannot put a small element of the population in a situation where they can be manipulated and just treated like peasants, basically. It is a take-it-or-leave-it situation. In all the time that we have been in this industry, we have had nothing on which to base any negotiations with companies, full stop, because it has not been collected by anybody. It is an absolute shambles of an industry. I do not know any other business that could operate like that. We are completely at the mercy of the companies. They drive the agenda. If they say they want more milk, they do not give the farmers any feedback as to what that does to their situation—whether it is to benefit them or not. If Fonterra say to us, ‘Well, we’re going to increase production,’ that is the decision. Farmers have no ability to question whether that is the right thing to be doing, taking the industry forward.

We have not stopped and looked at where the industry is now. You hear people talking about what the cost of production is. If you did the proper analysis of what the cost of production is, that would be one thing, but if you did another analysis to say, ‘What should it be in terms of animal welfare issues on farms, people issues on farms and environmental aspects of looking after the land that we are custodians for at this point in time?’ they are very big issues. Really, in

general, I do not think that the general community understands that. We are not making any more land. We are looking after animals that are very high producing, very high demanding animals, and they deserve to be looked after, just like your dog and cat. Those are the real issues. Whether the industry goes forward, retracts or in fact stabilises should be based on good analysis of what is required in those areas. There is no point in taking an industry forward—and, ever since we have been involved in it, basically it has been taken forward on the premise that we needed to get more efficient. We have put some numbers in our submission about the piece of land that we farm, about where the production levels have come from and where they have gone to. Somewhere along the line a lot of efficiency has come off farm, but it has not necessarily been fairly distributed back.

I guess our main concerns are the people who work on the farms, whether they be our families or our employees, and certainly the animals, because the animals do require absolutely top-notch animal husbandry. We need to be able to pay people. We need to be able to have people working reasonable hours, not working their butts off, to achieve those things, and it is just not happening in this industry. The real costs need to be brought to account, not just the theoretical cost of production. I invite any questions.

Senator O'BRIEN—Thanks for that. Thank you for your submission and the window into the practical impact of the changes and what has been happening on your farming property. I would like you to tell us what indication Fonterra gave you that they wanted you to increase production.

Mr Tennant—As I say, they have still got in place a system of encouraging additional production. I think they are in the process of actually reviewing that or withdrawing it but it is virtually locked in for three years because they have given that commitment to suppliers. I think it is there for two reasons: to encourage more people to come into the industry, perhaps converting beef farms. In the first year they would actually get that on the full production, whereas existing dairy farmers would get it on pro rata or three-year average. There has been a definite desire out there, on the part of Fonterra anyway, to increase milk production. I have got some concerns about that in that if there is a requirement in the marketplace that provides farmers with a reasonable return, say it is that glass on the table, it is half full, and you are promoting more production, where is it going to go? It is all right to say more, more, more, and selling the milk may well be profitable for the company because they can absorb more of their overheads, they got more volume going through their plants. From their point of view they see it as being very profitable. But from the actual farmers' point of view it weakens our price situation because it creates more milk than they say they can market on our behalf at a profitable level for us.

Senator O'BRIEN—I take it you are not part of any collective bargaining.

Mr Tennant—No, we are not. This is another one of our major concerns. When Fonterra took over Bonlac, Bonlac had previously taken over United Milk in Tasmania, they put in place as part of that sale an arrangement whereby they took a parcel of prices that applied on the mainland. That was the agreement at that time. We are tied in, as you have heard from other witnesses today, to the Victorian price. I am not sure when that arrangement ends but I do worry if there is significant growth, and we have heard 25 per cent over five years. I agree with Senator Milne completely on that point, that you have got to have somewhere to sell that. If you going to

put more irrigation schemes in to produce more milk, where is it going to go? As an existing farmer in the industry I am extremely concerned about that because it has got the potential, if we do not fix it so and make it more visible, the push for more and more all the time actually becomes less and less in a lot of ways. We do not have a voice in that process. We do not have any independent assessment that, for instance, if a company wants to extend out into other areas we do not have any umpire that says, 'What is this going to do to the farmers? Do the benefits outweigh the negatives and how does it impact on all parties?' We do not see that. We are just led like a bull with a ring through his nose and I think we have got to stop that. Unless we can see there are benefits for all players, why do it? It just does not make sense.

Senator O'BRIEN—I think it is fair to say a lot of farmers accepted (a) financial predictions, (b) encouragement from processing companies and (c) the recent prosperity of the industry as an indication of it being a good time to grow the business.

Mr Tennant—I am not so sure that the recent good prosperity of the industry has been all that good, to be honest with you. When we got 50c a litre our costs for fertiliser and grain and other inputs were sky-high too. Plus you have got to take into account that any business needs to invest money back into the business, not just covering your costs. Tractors wear out. You have got dairies that need upgrading. You have got technology that changes that you have got to bring into your workplace just like any other business does. Coming from my background, I know that suppliers in other industries are not just planning for your day-to-day cost of production, you are planning for replacing equipment and upgrading facilities because they wear out and need to be upgraded or you need to increase capacity to be able to do something better.

We have a rotary dairy, like a lot of other farmers. We could not milk that number of cows without it. We used to spend six hours a day in the dairy milking cows. That was six hours a day. How sustainable was that? That is another area that needs to be looked at very long and hard. I am suggesting that the real people issues, from the social and economic points of view, need to be looked into. There have been no studies done on what we, as people working on dairy farms, are expected to do and how it all impacts on people. In the time that we have been dairying I have seen numerous numbers of young people come into the industry with very high expectations—keyed up and keen as mustard—but within 12 months to two years they have been worked into the ground.

The other thing that I want to mention in relation to price is something that really gets up my nose. You will find with companies that for anything that relates to the quality of their milk they will offer some inducement, like Dry Cow treatment. You have got to put the Dry Cow in the cow and they will pay for the Dry Cow. They will offer herd recording on the basis that you get cell counts done, which relates to the quality of the milk. Somatic cell counts mean there is mastitis in the herd and that reduces the quality of the milk. They will actually pay for those things. You have to ask yourself the question: why do they pay for them? Farmers are not being paid enough money so they will probably see them as costs that they can avoid. So they would examine the necessity of doing it all. I am not saying it is not necessary, as it is. But there is not enough money in the system for you to be able to control your own decision making. I am wondering if next they will offer to pay our power bills for us because without our ability to pay the power bills we will not have power and we will not be able to milk the cows. To me that approach is wrong.

Senator O'BRIEN—I am interested in the concept of the collective bargaining experience of National Foods farmers. The Fonterra farmers have accepted the operation of the market to the extent that the market is reflecting a good price or a bad price. Whether the price that you are getting really does reflect the market seems to be the argument that you are having, rather than being one about whether there is a fair bargain.

Mr Tennant—I have got some concerns about the fairness in pricing. The company are referencing export prices as a basis for setting the prices that they actually pay us. I understand that in Fonterra's case somewhere between 60 and 65 per cent of their production actually goes into the domestic market. Quite a bit of that is in bulk commodity types of products where they will sell cheese to a pizza parlour or whatever it is, but it is bulk. That element of the market and the returns that they are actually getting from the domestic market are never ever visible to us as farmers. The price is always quoted on the basis of the export market price.

Senator O'BRIEN—I can tell you that Fonterra say that end of the market is, in their view, an international price competitive sector because they compete with imports.

Mr Tennant—I think they should be made to prove that. I think it should be a visible process. If that is the case then fair enough, but they do not seem to be all that keen, as they are in the case of basing everything on the export market, to actually demonstrate that to us.

Senator O'BRIEN—But what you are really saying is that perhaps you should be bargaining a price rather than accepting the international price.

Mr Tennant—I think we should know all the factors. I do not see that there is any good reason for all the companies to be paying their farmers all the same price. What is competition about? If a company is in a marketplace that is producing good returns, the suppliers that are in there supplying that company ought to be rewarded accordingly to keep a good industry base for those companies. But that is not the case, and that might change around. If the export market were to improve the people that were supplying a niche market in a domestic sense might not get the same price. I think it is really a company-by-company thing. It is really about the business that the farmers are supplying to. You will find in the case of Fonterra that they are developing new products all the time for the domestic market: new yoghurts and new milks. There is a big focus on the domestic market. That is no doubt the most profitable area of the market and all of the surpluses are pushed off into the export market. There are a lot of issues as to the export market that have been going on ever since I have been farming and it does not look as if they are getting any closer to being resolved in real terms. I do not think the Europeans are going to provide any magical solution that is going to help us.

Senator O'BRIEN—That would be a first.

Mr Tennant—Yes, that would be an absolute first. I think this is why we have got to wind the industry back a little bit by saying, 'Hang on a minute. Where are you taking us? This is not sustainable.' Imagine in five or 10 years time when we have the same thing happening but we have got double the exposure here in Tasmania because we have gone off and put in more irrigation schemes and we have doubled or tripled the number of cows that are in Tasmania and we are still operating in this sort of environment: make it and get what you can for it. It is just not sustainable.

Senator O'BRIEN—On the surface that is an attractive argument but I would have to say that if you look at national production you see we have actually gone down from 11 billion litres to about 9.3 billion litres of production. Victoria, New South Wales and Queensland have all declined in production. Tasmania is the only state where it has grown. If you balance the processing opportunity there is actually a major opportunity for this state in dairying. That is because of climatic and water challenges in particular. But also there is the nature of the cost of production for other reasons in other parts of the country. So I would not want to be carried away by the idea that somehow we have got to put the brakes on completely, but we do need to look at the market, at how it operates, at the accessibility of market entry, at the way that players operate in the market to try to restrict it and at a fair shake for those who underpin the market, the farmers. To me that seems to be the equation that we should focus on.

Mr Tennant—I would not disagree with that one bit, but those things need to be resolved to move the industry forward. Tasmania is an ideal dairy area. It is the best dairy area in Australia bar none. We have got good water resources and we have got good land soils, but we have got to have the whole picture right. It has got to be focused properly.

Senator O'BRIEN—We have got to take the plunder factor out.

Mr Tennant—Yes.

Senator O'BRIEN—Thanks very much.

Senator MILNE—I want to take you back to the issue of Fonterra paying the premium. Take me through the dates when, as I think you said, they offered a 15c premium and then it was a matter of it being hardly any time at all before Murray Goulburn dropped their price and then there was the immediate drop in the Fonterra price. Take me through the time frame. Also, you said there might have been other reasons as to why that drop in the Murray Goulburn aspect occurred. Do you have any knowledge of that or is that just speculation from your point of view, which you are entitled to make? I am interested to know because it does concern me given this issue of all these companies getting together and virtually fixing the price amongst themselves even though they would deny that that is what they are doing.

Mr Tennant—I have got no specific information as to what might have affected Murray Goulburn. They are out in different marketplaces with different customers. I did hear of one aspect as to Murray Goulburn, that they did have a lot of exposure to Russia—whether that is right or wrong—and that sort of folded, which left them with boats on the water. I do not know if that is factual. You would have to pursue that.

Senator MILNE—But the point that you are making is that we ought to have a really good look at why Murray Goulburn did end up so exposed so that it dropped the price and then why did Fonterra, without the same exposure presumably, follow suit. So that is precisely the point?

Mr Tennant—That is the point. As regards the actual step-up, I would have to get the exact dates and get back to you, but around November we got the step-up. Within a short period of Murray Goulburn announcing that they were going to review the price—and it came out that it was that significant; it was right on Christmas—the first thing that Fonterra did was to let us know that they were going to withdraw that payment. They had actually made one payment, one

month. I think we received it in November. The next month it disappeared and then they reviewed the price down, basically to follow Murray Goulburn.

Senator MILNE—I would be interested, if it is not too difficult to locate the dates and the offer and that sort of thing, in having that documentation. I would be interested in that just so we can pursue this issue of why Murray Goulburn dropped its price and what the relationship was whereby Fonterra did the same.

Mr Tennant—I will certainly get that for you.

Senator COLBECK—Following on from the questions that Senator Milne was asking, going through that last season you had that major reduction in prices. You have said 40 per cent, but the figure I had in my head was 32 per cent. But it was a significant reduction in price. There is no doubt about that. If you add on the other step-up it might come to that level, anyway. You would have had a fair proportion of your annual cost locked in at that point?

Mr Tennant—Virtually all of them, because we had a contract for grain in place. Obviously, our finances were locked in place. We could not react in any significant way, shape or form. We actually started negotiating with our bank because we knew that, going forward, we were having problems. We started in, I think, April and we did not get anything resolved with the bank until well into this current season.

Senator COLBECK—Were you at the suppliers' meeting at Circular Head when Fonterra came across and had a chat to the—

Mr Tennant—We were away then. Just on the 40 per cent figure, that is on our particular farm. We do tend to produce quite a bit of late season milk.

Senator COLBECK—So it depends on the bonuses and stuff that you get?

Mr Tennant—Yes, and also autumn calving people would have been affected a lot more.

Senator COLBECK—Again, it comes back to the cost of production thing. You have different calving times, different production cycles, things of that nature, which all impact on that cost of production number. You raise a very interesting point in your comments about depreciation renewal costs—all those sorts of things—and how they are calculated into the actual cost of production. It is something we can have a further discussion about within the committee because it raises some additional questions. One of the fundamentals of the debate we are currently having is whether or not people are after a cost of production which is effectively a minimum cost of production or after a 'Let's get by for the moment cost of production' as part of this current debate. You mentioned the company being prepared to pay for treatments for mastitis and dry cow, things of that nature. Are you aware whether all companies do that or is it just something that is peculiar to Fonterra?

Mr Tennant—Fonterra do not pay for dry cow. At least last season they did pay for herd recording, or part of it—30 per cent, I think. So it gave farmers an incentive to herd record and do self-counts. But I understand other companies actually do subsidise teat mastitis or dry-cow therapy.

Senator COLBECK—That is something we can also explore a bit further. Just going back to your capacity to reduce your input costs to match the current cycle that you have in there, what is the capacity that you have had on your farm this year to manage those issues, to match your input costs with your returns and what will be the longer term impact of that? What will it mean?

Mr Tennant—We have had to dramatically reduce feed input to our cattle, which has obviously had a significant impact on our production level, per cow, over and above the climatic conditions that we have suffered. So our farm production is down in the region of 20 per cent.

Senator COLBECK—So, on top of a 50 per cent price reduction, you have taken a 20 per cent price reduction?

Mr Tennant—Exactly. It is diabolical. It is a cash-flow loss—

Senator COLBECK—And it is multiplying.

Mr Tennant—Yes.

Senator COLBECK—Out at Togari, when it was really wet, getting your animals on the ground would have been enough of an issue, and then providing a balance between grass and grain would have been an issue in the management of your animals in the longer term.

Mr Tennant—We have had to double our rate of grain feeding from an average of six to eight kilograms. That has increased our costs. But we had no alternative. You cannot turn cows out into a paddock with nothing for them to eat. We have incurred additional debt to keep our animals and our business moving forward so that we will have something in place to go on with when things turn around. That has placed a tremendous strain on us. We do everything we can for our cows, but at Circular Head we lost 28 cows due to seasonal conditions. I would say that on average the district would lose two per cent through calving difficulties and things like that, but it would be at least double that in the season just gone. We lost 28 cows that way. We have reduced the stock rate by chopping off cows on the low end of our production spectrum. Our son-in-law and daughter have sold 50-odd milking cows to keep their cash-flow somewhere near viable. We have had to reduce assets to put back into the operational side of the farm to keep it running—and that has barely been enough. Our growth rates on Togari and I think generally in Circular Head are well beyond where you would normally expect them to be at this time of the year because a lot of the nutrients, particularly potash, which are very vital in our soils are flushing through the system. So our soils are badly lacking potash and nitrogen. The weather conditions have not been ideal to promote growth. We have had too many cold mornings and not enough sunlight.

Senator COLBECK—So there are a number of recovery issues that are going to extend over a period of time.

Mr Tennant—Yes. The problems do not stop just because it finishes raining.

Senator COLBECK—Do you have any awareness of the strategic planning process for the industry?

Mr Tennant—Not the most recent one, no.

Senator COLBECK—It might be worth keeping an eye out for the next observation that is just about to start. What information do you get on the industry markets? Senator O'Brien alluded to this in terms of the future of the industry, the potential for growth in the industry, given that production on the mainland is reducing but there is obviously capacity here. As you have said yourself, this is a great place to produce milk. In a broader sense, do you have any sense of the potential markets and the potential growth in demand? Do you seek that sort of information out, or is it provided to you by industry groups or your milk company? I see that as a really important part of understanding and planning what you are going to do in terms of potential growth and moving into the industry going forward. What interactions and knowledge do you have of that?

Mr Tennant—We basically get it from two sources. Fonterra communicate with farmers via newsletters and things, and Dairy Australia are very active in that area. They are the two main sources we rely on—plus outside commentary. Dairy Web, on the internet, has articles relating to farms and what is happening in markets. I go onto that every day. It is a vital management tool for our business to keep up to date with what is being said on the way the industry is going. There is a lot of information generated through that system as well as the written stuff that comes through the mail.

Senator COLBECK—So you are quite engaged in understanding the possibilities of the future.

Mr Tennant—We are very much engaged in that. We have not seen anything in the recent past to do anything but give us confidence to move forward in terms of where we are going with capital investment on our farms and to improve the efficiency of them. That has been the driver. There have been no real negatives until we were hit in January.

Senator COLBECK—The global financial crisis has put the brakes on everyone.

Mr Tennant—The other thing that is really disappointing about that is that, at the time, there was no representation made to say that this was going to cause some major issues for the dairy industry, whereas for a lot of other industries there was. The banking industry and the car industry had substantial assistance in one form or another extended to them. Rural industries in general and particularly dairying, which obviously we are very much part of, has been completely overlooked. I think that is really not a good sign for all the people involved in industries from companies right through Dairy Australia as well as the people that represent us at the farm level, everyone. We have just been left high and dry.

Senator COLBECK—I remember the discussion at the time, and I was actually at the Circular Head Fonterra suppliers meeting. The mood in the room that I picked up at that time was that we were going to have to suffer the cost but the real issue was going to come in July when the new season price came out, and here we are. The questions were predominantly towards what is going to happen with the price in the new season and I think that has really been brought to bear. If the new price could have been a reasonable one, the impact of that step down would have been more manageable, but the exacerbation of the continued low prices and then the season have really blown things out of the water.

Mr Tennant—That is exactly right. We finished with 38 cents a litre and the general consensus was that that was probably what the price would move forward to in this season. But it has actually come down further on that. The other thing was that we did not get our price announced from Fonterra until well into this season, right into July. They were waiting for Murray Goulburn to announce. As soon as they announced, Fonterra were out with theirs in a few days.

Senator COLBECK—We have explored the cascading relationship already but there is obviously a real nervousness remaining in that part of the market, the suppliers, as to where prices are going to go. Fortunately we are seeing some positive movement at the moment and we just need a lot more.

Mr Tennant—We do.

CHAIR—Thank you very much for appearing, Mr and Mrs Tennant.

Proceedings suspended from 3.07 pm to 3.23 pm

QUILLIAM, Councillor Daryl Herbert, Mayor, Circular Head Council

SMART, Mr Anthony Charles (Tony), Assistant General Manager, Circular Head Council

CHAIR—Welcome. You are representing the Circular Head Council and we are very pleased to see you here. I invite you to make an opening statement.

Councillor Quilliam—Thank you very much for having us. For Circular Head, the dairy industry is one of the biggest, if not the biggest, industry in our district so it is really important for us. For your information, I have been involved in dairying mostly all my life. I was a director of UMT in the eighties for about six years and I have owned my own farm for about 20 years. I presently work at Roberts as a nutritionist, working with dairy farmers, and I spend most of my time, other than when I am involved in council stuff, on the land. So I have been involved for a long time.

Approximately 290 million litres of milk per year is produced in Circular Head, so every cent a litre increase or decrease means \$2.91 million for our area, which is a huge amount of money for a country area like ours. If they get an increase it is terrific for our community, but if it is a decrease, as it was this year, it is a disaster not only for dairying but for all of us.

Murray Goulburn, which bought Classic Food, produce around 45 million litres of milk, and I know that they are looking at coming to Tasmania. Hopefully, they will be here. We will be encouraging them to come if at all possible. At this point in time, I know their vision is to increase milk production to about a billion litres for Tasmania. I think 708 million litres of milk was produced in Tasmania for the year, so they are hoping to increase that by 300 million litres per year. They will want to manufacture that and, hopefully, they will come here and do it. It has not been announced yet and has not been finalised.

It is really important in our area that people be allowed to tender to milk more cows, and we would expect a lot more conversion by Warnorth and by others in our area. I expect that most of the increase will not be from the family farm, as in the past, because the family farm does not appear to be as profitable as it used to be, mainly because young people cannot buy land anymore, which means that most of the cows are milked by sharefarmers. So more young people need to be trained and trained a lot better than in the past, in business skills as well as in animal skills, so that we will have the people to milk the cows on the properties that are bought by various companies or by private individuals. I will hand over to Tony to talk a little about the community and the council, and then we will be happy to answer questions.

Mr Smart—I would like to speak on the social impact in our district as a result of the downturn in the milk price as well as the weather conditions. The dairy industry plays an integral role in the Circular Head municipality. It is normal at this time of year when the milk cheques come in that farmers play what they call ‘catch-up’, paying off their debts from the winter series. At this moment the majority of farmers cannot do that; they are carrying into overdraft and will be into the new year. This has created a lot of concern for the people in the community, to the

point where the council became involved and called a community recovery meeting to try to give some guidance and assistance to farmers who seemed to be struggling, with nowhere to go for any help.

We found that a lot farmers do not understand their finances at all. Young contract farm workers do not understand the contracts they are working under. This morning I again confirmed through some welfare people that yet another farmer has not understood the contracted date he signed. On the human side in the community, we are now at the point where we have one farmer and family removed from their house because they no longer have a job, and they have had to go into emergency housing, and up until this morning there have been another five inquiries.

The human side of this situation is concerning the council. We have approximately 150 businesses that have direct and indirect relationships with the dairy industry in Circular Head. In speaking with some of those they feel like they are the banks themselves. They are carrying credit for the farmers year in and year out. At this point in time some of them cannot see themselves leaving the farms at all. They think that they are just going to have to carry this through until it comes to a point in time when they may have to start looking for help or leave the industry.

The education side, as the mayor said, seems to be a real concern. It is coming through every time we have a meeting with anyone dealing with community recovery or any of the welfare people. It seems that it is an area that needs to be considered. The farmers are looking for guidance from various areas to try and get this. I guess at the end of the day within the organisation itself is where we are going to try and achieve some of that guidance.

Senator O'BRIEN—Thank you for that information. It is a bit of a frightening statistic—10c off the milk price has meant \$29 million out of your district. If that is the average loss over the year, then it is a pretty big loss within this community. The interesting proposition that underpins your submission is you think, ultimately, there can be more production here. Who do you think will buy it?

Councillor Quilliam—I would hope that it is Murray Goulburn. I hope that Murray Goulburn comes in and I think that would stabilise our industry a lot in the future. While they have not definitely said that they are coming in, I know that they are looking at a proposal at this point in time. I know many, many people talk about the north-west coast of Tasmania, because of climate change issues and many other issues, being less affected than most other parts of Australia. So, if there is going to be any increase—like in northern Victoria where Murray Goulburn has been decimated because of cows being slaughtered because of drought—while we have not got those issues, we have the natural resources here and we can produce milk a lot cheaper than most other areas. I am sure that in the future there is going to be a lot more milk produced here. So as governments and as councils we need to make sure that there are manufacturing facilities here. Going back a few years there was milk taken across to the mainland to be manufactured and that is still happening today.

Senator O'BRIEN—Who is doing that?

Councillor Quilliam—Murray Goulburn and Fonterra have taken some across. Murray Goulburn last month brought cream to Circular Head to manufacture and send away as well. The

strait is not as difficult to get rid of milk or bring milk backwards and forwards to what it used to be a few years ago. To answer the question, we would hope it would be Murray Goulburn.

Senator O'BRIEN—Does the council have a dialogue with them?

Councillor Quilliam—Yes, we do. We have had a very good relationship with them and we have talked with them on a number of occasions and we will continue to do that.

Mr Smart—We have another meeting with them in December.

Councillor Quilliam—While we are talking about Murray Goulburn I know that there has been water issues and we had a water forum about 18 months ago. We are working with the state government now to try and get more water for irrigation purposes from two or three rivers in our area. If that happens the amount of increase in milk production could go up 20 per cent just on the existing dairy farms.

Senator O'BRIEN—Does the council have a view on the issue of collective bargaining between farmers and dairy processors?

Councillor Quilliam—No, we have not really got into that at all. I know it is private enterprise that is picking up the milk and manufacturing milk, and I expect that will continue to be so. The main thing that we struggle with is when farmers are getting less money than the cost of production, which is happening at this point in time. That is unsustainable, obviously, and is putting great pressure on farmers and, together with the wet winter we had this year, that has made it even harder as well. So while we have not in the past we will probably need to in the future. But we also recognise that it is private enterprise and whatever is going to give the farmers a reasonable return is something that we need to be working hard on together with the government.

Senator O'BRIEN—Are there any labour force issues which would constrain the industry in the future?

Mr Quilliam—If we do not do something about giving more education for our young people and educating our people for farming, yes, there will be constraints. Already we do not have enough workforce for the farms we have got and so if we increase another 20 or 30 per cent it is going to put a bigger strain. But we have also got to realise that 60 per cent of Circular Head approximately would be owned by New Zealanders and we have got a lot of people from New Zealand over on our dairy farms and I expect that could happen more in future as well. But I think we need to get a lot more of our own young people on dairy farms, and I suppose what is happening at the present in the media is not helping our young people to get enthusiastic about milking cows. It is not a bad industry and I think it is something for the community that we need to encourage.

Senator O'BRIEN—And how are the rugby teams going?

Mr Quilliam—Monday mornings when the Wallabies play we get a fair few Kiwis in, yes. They do not want to talk about cricket, though.

Senator O'BRIEN—I guess that community relations issue is best left alone in this inquiry!

CHAIR—Can I ask you why you want to get Murray Goulburn in? If already with the existing purchasers in Tasmania people are not being paid sufficient, why will bringing in another one assist? Do you think it will assist through competition for the existing supplies of milk? Is there a particular reason you are interested in having Murray Goulburn? Who do you sell your milk to now?

Mr Quilliam—A couple of answers to that. One is that Murray Goulburn is a true cooperative and personally I believe that the true cooperative is the best way to go because at least we are going to get a fair return, or we hope we get a fair return. And I think that if you have got another player, Cadbury's and National Food being priority companies are going to be always more directed to getting profits back to their shareholders and that is what they are there for, whereas cooperatives are there more for the suppliers. So I think that if Murray Goulburn does come in it would be better in the long term for farmers.

CHAIR—Will your farmers actually join the cooperative or would they be just purchasers?

Mr Quilliam—I would hope that they would join the cooperative.

CHAIR—You mentioned the need for education of younger people, including farm education, farm skills, I presume, and farm management, including financial education. Is that what you had in mind?

Mr Quilliam—Yes. We have got thankfully from the federal government \$4.5 million for a trade skills centre in two schools at Circular Head and one of those schools is going to be mainly going with farming education, something similar to a farm school. I expect that there will be a lot of people who would be involved in that. Tony would probably want to take talk more about education of young people.

Mr Smart—I think once the skills centre starts to move the council has an education consultative committee in Circular Head that it is involved with and we will definitely be driving interest to try and have young people come into the industry. As the mayor said, some of the areas are struggling to get farmers. Even this morning in a discussion we found that there is talk about going overseas to bring in farm hands when we should be producing them out of Tasmania or even New Zealand. What the mayor was saying about the negative press, the negative press is definitely working very well at the moment as far as younger people are concerned and not so young people wanting to move into the farming area. So the education will be a huge content that needs to be put that way, even to the point where before they sign a document they need to understand what they are signing. This has been evident over the last month, when investigations with the various welfare agencies have identified these matters.

CHAIR—How many agricultural colleges do you have in Tasmania?

Mr Quilliam—We do not have one. At TAFE we are doing a lot of training of young people, but they are not doing it as well as we would like to think could happen.

CHAIR—So young people who are interested in agriculture—in particular, dairy—cannot go to an agricultural college here in Tasmania. They do it through TAFE. In Tasmania they cannot go to a school to be taught farm management skills and farming techniques?

Mr Quilliam—No.

CHAIR—Do you think that is something the Tasmanian government might consider as an option that might prove valuable?

Mr Quilliam—It would be great if we could get one—yes, sure.

CHAIR—What about financial skills? To what degree would you say the problems the farmers seem to be experiencing are due to a lack of sophistication in terms of the management of financial matters?

Mr Smart—From the discussions that have been held, I do not believe people need to be trained as an accountant. But they need to understand what their statements show. Some farmers, and their contract workers, do not understand what their statements show. That advice has been provided to me and other people in meetings to try and help some of these farmers out. We believe that they do need to have education in a simple financial accounting so that they can understand what is coming in and out of their books and knowing what they are signing off on.

CHAIR—The development of a business plan and so on?

Mr Smart—Absolutely.

CHAIR—That could be done through an ag. school or through TAFE.

Senator MILNE—Whilst I appreciate that in the longer term we need better education in financial management skills, we have an immediate crisis. There are people who do not understand the contracts they have signed or the financial situation they now find themselves in. You said you were looking at some in-house solutions. I assume you mean the council is about to offer some kind of facility. What do you think the federal government might be able to do right now? Would it be useful, for example, for the federal government to bring in some people with financial expertise to be available to set with people right now and talked through debt restructuring and that sort of thing?

Mr Smart—That would be a great support for what has already been provided, because the numbers are quite thin across the north of the state. Yes, they do need some people to come in and give backup support for it.

Senator MILNE—You were talking about the potential expansion of the industry in circular head and increasing supply and the discussions you have been having with Murray Goulburn. Have you had any discussions with Murray Goulburn as to why they suddenly dropped the price so dramatically, which led to the Fonterra follow-on and all the follow-ons that have gone on? Do you know why they do that?

Mr Quilliam—No, we have not had discussions. The reason we have not had those discussions at this point in time is that they do not pick up milk in Tasmania, so no Tasmanian farmers are directly affected by the drop. It is a matter of the chicken or the egg as to whether Fonterra or Murray Goulburn drop their price first. They all seem to drop it at a similar time, and that is a concern. There is no doubt about that at all. My understanding is that it was because of the worldwide financial crisis, and the dairy industry is not at all immune to that. My understanding is that the drop was caused not because people in other parts of the world did not want product but simply because they could not afford to pay for it. While the product was actually required by many other countries, if they could not afford to pay for it they did not buy products for about three or four months. Thankfully the price is starting to get better. While it is a difficult time now for farmers, I think the long-term future for farming in Tasmania and for Australia is going to be really strong. When the European people stop giving all the money they are giving to farmers, when we are on a level playing field, which we have not been on for many years now, I expect that the industry in Tasmania and on the mainland as well is going to get stronger as the days go by.

Senator MILNE—I think you and I are going to disagree about the Europeans ever going to a level playing field. I think we are pretty naive to think that. But I want to go back to the Murray Goulburn and Fonterra issue. You quite rightly say, and we have identified this through the inquiry, that there seems to be a relationship which is meant to be in a competitive market environment and yet they all wait for one another and fix the prices together. It appears almost like collusion. I am interested in your understanding of the conditions that led to Murray Goulburn doing that. You said that you had hoped the farmers would be able to join the cooperative. Have you had any discussion with them as to whether the cooperative rules allow for that, or would we be supplying into a cooperative just for other people to benefit?

Mr Quilliam—No, I have not had discussions with them at this point in time about whether they would. I would expect that they would, but that is probably more expectation than from discussion. At this point in time I know, because of the amount of milk they pick up, that they have been more than happy to buy the milk off Fonterra, and until they get any bigger that is what they intend to do. When it comes to the stage where they pick up milk in their own right, if that does happen, we obviously need to have discussions to try to ensure that they become shareholders of the company as well as suppliers of the milk. It would be much better for Tasmanian farmers if they were shareholders as well as suppliers of the company. But, no, we have not had discussions at this point in time.

Senator MILNE—So there is no guarantee that that would be the case, but that is an issue that would potentially be on the table at some point in the future when those discussions might take place.

Mr Quilliam—That is it.

Senator MILNE—As to the discussions about them coming here, it seems to me there is a pattern of behaviour where all these companies encourage an increase in supply without ever making any guarantees about picking up that supply and using it. That means they cannot lose, because if they get more production then there is a surplus and so they force the price down, and if there is a global boom they can sell into it. So, either way, they win. I am interested in whether

we should increase expectations in Circular Head around the idea of again increasing supply without any commensurate undertakings from the company.

Mr Quilliam—I guess that is a fair enough argument. It is probably a bit difficult to answer that. Because I have been very passionate about the dairy industry and I believe that the dairy industry is going to thrive and be here for many years to come, I have probably been more focused on that. Ever since I have been involved in dairying there have been ups and downs. Yes, people have been encouraged. Many years ago, when I was on the board, farmers were encouraged to milk a lot more cows. Then there was a crash and everybody wondered why they had milked more cows, but then it came up again. So we have had a roller coaster ride for many years, which is probably unfortunate in that we have not had a stable milk price year in year out over many years. If that were to happen it would be far better for the industry.

I am not sure how you can get that when a percentage of the companies which pick up the milk are priority companies. But within the dairy industry it would be much better if farmers knew for the next 10 years that they were going to get what would be a reasonable return on their investment. It would make life much easier. But we have never been able to achieve that and it would be good if we could achieve it.

Senator MILNE—My final question concerns direct assistance. We as an economics committee are obviously trying to work out ways in which the ACCC might be reformed and long-term structural changes that make for a fairer bargaining position between farmers and these multinational companies. In the meantime we have heard your evidence that, currently, there are people already in emergency housing, there is a mortgagee sale, there is real social dislocation and distress. In addition to what has already been promised, what do you think would make a really big difference, given this high dependence in Circular Head on this industry and the reality of the problem we currently have. What would you as a council ask the minister for, if you had the opportunity?

Mr Quilliam—That is a difficult question. A number of years ago we used to have a so-called ‘agcultural’ bank where young farmers could get low interest rate funding. I think that that type of thing would be something we ought to have in the future so that our farmers, especially young share farmers, could get some funding to be able to operate more efficiently. If a government were going to do that again I agree with what the assistant general manager was saying, that our farmers would need better education. I would not give any farmer money unless they could prove that they could farm and that they could prove that their business is stable and that they could not only milk cows but also run a business. If they ticked off the boxes that could be created by the federal government, that would be of great assistance to the industry. As far as the ACCC and guaranteeing companies is concerned, I think it would be great if we could get to that stage, but I am not sure exactly what we could implement to be able to do that. I do not know whether Tony has any more information.

Mr Smart—No.

Senator MILNE—It is more a case of what can we do now to help people in real distress in addition to what is being offered?

Mr Quilliam—I think what I mentioned before about farmers, especially young farmers, getting some—not free money but low-interest funding, but there would need to be conditions on that funding.

Senator MILNE—We have had a few allegations today that Rabobank have been described as ‘mucking up’ in the marketplace. I think that was the way it was described. There has been a suggestion that they went out aggressively for market share and they are now really putting the pressure on farmers at the worst possible time and making the situation worse. Are you familiar with that occurring in Circular Head? You do not have to comment but, if you do know, I would be interested.

Mr Quilliam—I have heard of two or three people being promised things that have not been delivered, but it is not in large numbers. I wonder whether that was because they were allowing farmers to borrow too much and the squeeze and the industry at this point and they were scared there were going to be some fire sales, so they then tried to pull back. I am not sure, but not in huge numbers; only one or two.

CHAIR—Thank you. We appreciate you appearing.

Mr Quilliam—Thank you.

[3.54 pm]

FERGUSSON, Mr Mark Francis, Dairy Adviser, Tasmanian Institute of Agricultural Research

CHAIR—Welcome. Would you like to make an opening statement?

Mr Fergusson—I contributed to the submission put forward by the Department of Primary Industries. I wrote some of the comments in that submission. You may well have had evidence from them. Subsequent to that, I was interviewed on the radio and asked questions about the cost of production. I supplied that information. As a result of that, I got an invitation to appear at this inquiry.

CHAIR—If you wish to, you could make some overview comments for the purposes of *Hansard*, which records what you say and many people will read. If you want to make some general comments, you are quite welcome to do so.

Mr Fergusson—Just to reiterate what is in the Department of Primary Industries' submission, it seems very clear that from the benchmarking data collected by the Tasmanian Institute of Agricultural Research, the cost of production is greater than the current milk price. That is the nub of the problem really. There were some figures presented to show that. That is really all I have to say, unless you want some explanation or you have further questions about that.

Senator O'BRIEN—I have a couple of questions which might speed up the process. Your organisation collects data from a number of dairy farms in Tasmania. How many farms and where are they situated?

Mr Fergusson—There are somewhere around 50 farms and there are 450 dairy farmers in Tasmania, so it is around 10 per cent of the industry data which is collected.

Senator O'BRIEN—I presume you are getting that information from representative areas across the state.

Mr Fergusson—It is voluntary data collection. It is collected from farmers who are willing to cooperate. They are spread throughout the state and they include the spring milk farmers as well as the season milk farms or the farms which are supplying National Foods and have split calving, winter calving. At the same time we do tend to see larger farms. The average farm size in our benchmarking program is 400-odd cows, whereas the average herd size in Tasmania is about 300 cows. So our sample is slightly biased towards larger herds.

Senator O'BRIEN—Is there much variability in the components of cost?

Mr Fergusson—Between farms there certainly is. That is a good point: a lot of the conversation is about the average cost of production and that number has been quoted as

somewhere between 38c and 39c but there is a wide range of cost of production between farms. I did jot down some figures on that. While the average was around 38c, the range was somewhere between 32c to 45c.

Senator O'BRIEN—Is that variability able to be attributed to different production methods—seasonal versus year round production? How would you break it down?

Mr Fergusson—You can partition it up in many ways. Spring calving herds tend to have lower cost of production than the all year round—there is a difference of several cents. All year round herds have higher costs of production. As to what drives the most of that variability, among all the herds it probably comes down to the finance costs. Some farms have very large borrowings, large debt per cow, and others do not. That is a key source of the variability, although there are still plenty other sources of variability, such as their production system—whether they are buying in a lot of feed or relying primarily on pasture production.

Senator O'BRIEN—You talk about this variability. Can I take you to those farmers who fit the sample of year-round production, because as we understand the National Foods so-called model farm proposal they are looking for a more stabilised production method. In what sort of range would those year-round-producing farmers—if I can put it that way—find their costs ranging?

Mr Fergusson—It is still that wide range—and, again, it is really driven by the debt load of those individual farmers. For those split calving herds or the all-year-round milkers it still comes out at somewhere between 35c and 55c production cost. It is still the same wide range, depending on, as I said—

Senator O'BRIEN—A 55c production cost?

Mr Fergusson—Yes, something like that.

Senator O'BRIEN—So they would have been losing money under any of the payment systems?

Mr Fergusson—Quite possibly. Some of those farms may be recent start-up farms or large conversion farms which have suddenly got a large debt. That is one year of data. Maybe their circumstances will change as they increase their production somewhat. You do need to look at the figure for one year as well as what has happened on that farm over a period of years.

Senator O'BRIEN—Well, let me ask another question: what is the mid-range figure?

Mr Fergusson—I guess I am saying the range for these all-year-round milkers is not much different to the range for—

Senator O'BRIEN—But, of those, what is the mid-range figure?

Mr Fergusson—In 2007-08 the mid-range for the all-year-rounds was 44½c cost of production, whereas for the spring calves it was 41.7c.

Senator O'BRIEN—Okay. And distribution is fairly even?

Mr Fergusson—The spread amongst those two groups is fairly even, yes, but the all-year-round calvers have the higher costs.

Senator O'BRIEN—So it is not being skewed by one group or the other?

Mr Fergusson—I do not think so, no.

Senator O'BRIEN—In terms of productive capacity of the industry, obviously there has been some expansion. What material has your organisation collected about the reasons for expansion, if anything?

Mr Fergusson—Over a period of years, it is—

Senator O'BRIEN—But do you survey people for why they have expanded, why they have invested?

Mr Fergusson—No, we do not survey them. It is really just general understanding—the only way you can get a wage rise or a profit increase is to expand production.

Senator MILNE—Or increase the price.

Mr Fergusson—That is not within the farmer's control. The farmer cannot control that. One of the key things he can control is his production level, so that is what he goes for.

Senator MILNE—If I can just expand on that, I made that point in the context that the north-west coast, as you know, used to be bulk commodity suppliers to everything, then there was a recognition we would never compete in the bulk commodity markets, and that is why quite a lot of people went to high-value low-volume product and into niche markets. So there is a capacity to change and look at different ways. The concern I have, which you would have heard me express here, is that everybody encourages everybody to expand their production but there has been no guarantee from any of the processors that they are going to take that expanded production. So they generate and encourage a surplus, which leads to a reduction in price. Did TIAR have any input into the 2006 to 2010 strategic plan?

Mr Fergusson—Yes, we were one of the participants with all the other industry stakeholders in the development of the strategic plan.

Senator MILNE—Did you support expanded supply?

Mr Fergusson—Most certainly, yes.

Senator MILNE—Did you think that was a good idea?

Mr Fergusson—Most certainly.

Senator MILNE—On what basis? Who did you think was going to purchase this additional supply?

Mr Fergusson—Fonterra were also stakeholders who were participating in the development of the strategic plan. They have said for 20 years—my time in the dairy industry—up until the beginning of this year that they would always either have the spare capacity within their factory or be willing to put the capital in to continue to develop their processing capacity. As you heard the Mayor of Circular Head say, the forerunner to Fonterra was Bonlac; Bonlac were pushing increased supply.

Senator MILNE—I know they are pushing it, but they never gave any undertakings about it, did they? Where is there any undertaking in writing that they would do so?

Mr Fergusson—I do not have any undertaking in writing. I only had their verbal comments—from the managing director, and all the other key management people in the company said they were willing to increase their processing capacity.

Senator O'BRIEN—So you are saying that is a consistent signal that has been given out by Fonterra and its predecessor?

Mr Fergusson—Yes.

Senator O'BRIEN—And what do you know about National Foods' commitment to suppliers increasing productive capacity?

Mr Fergusson—My general understanding is that they want the supply which will meet their markets and they do not want any more. They know what their market is, that is what they want and that is where they are staying. It is the same with Cadbury's. Their demand may well have been increasing by, I don't know, two or three per cent a year, and that is what they wanted. Fonterra, on the other hand, were quite happy to say that they would be looking for—I do not want to quote a number—greatly expanded production.

Senator MILNE—Isn't it taking an incredibly high risk to develop a strategic plan to encourage people to expand supply and borrow vast amounts of money to do so in this case? And all you have got is a verbal undertaking from a company that they will expand—no guarantees, nothing—and it is only one company, not even a few out there as possibilities. If they then renege on the deal, everybody is left—I am astounded that there is not more to it than that.

Mr Fergusson—There is also a track record of them having done that. They have expanded their factories over the last 20 years, and even over the last few years their factory throughputs have increased. So it is their verbal comments plus their track record which lie behind the growth strategy.

Senator MILNE—Okay. So we are going into a new phase of this new strategic plan. Would you recommend, given the experience right now, that in future there be a little bit more than a verbal undertaking from one company?

Mr Fergusson—Even TIAR are only a player in the development of the strategic plan. But it is not our strategic plan; it is the industry's strategic plan. One other thing lying behind the growth strategy is what is happening in the international market for dairy products. Up until the global financial crisis the demand for dairy products throughout the world was steadily increasing. So that is yet another thing. There is the verbal request from the factory, there is their track record and then there is what is happening with international demand for dairy products, which is increasing. Suddenly that has taken a dive and there is a serious problem within the industry. That demand for dairy products probably has not gone away. My thought would be that it may well resurface: as incomes increase throughout the world then the demand for dairy products will start to grow again. That is down the track a bit, I would think. So the processing capacity needs to be in place to satisfy the demand.

Senator MILNE—There is a lot of speculation in that. Have you done the research to support it? I would put to you an alternative point of view, which is that, once you start stamping the food miles on every cheese that turns up in a London supermarket, demand will drop immediately. Have you done that sort of research?

Mr Fergusson—No, I have not done that research.

Senator MILNE—Well, if I were a farmer out there I would be terrified that I had gone and borrowed money and there is really no research backing to substantiate claims of increased sales.

Senator O'BRIEN—I think there is another layer in the discussion about food miles, which may or may not have an impact on dairy products.

Senator MILNE—It is just an example of an alternative research scenario.

Mr Fergusson—I should just say that TIAR does the research which the industry asks for. One of the other roles of the strategic plan is to identify the RD&E activities for TIAR and other organisations to deliver. If the industry through the strategic plan and through their RD&E arms, like DairyTas and Dairy Australia, ask for us to do research on international markets, or for somebody to do that research, it will be done because in effect they pay for a lot of it, and one of their roles is to do that. That is their role; currently it is not our role. If they asked us to do that we would pay heed to their requests.

CHAIR—Do you have any other general comments you would like to make about this whole issue that might be of some guidance to the committee?

Mr Fergusson—No, I will leave it at that.

CHAIR—Thank you very much for appearing this afternoon. With that, we conclude this hearing. Thank you to the staff and to Hansard.

Committee adjourned at 4.11 pm