Agricultural Competitiveness White Paper – Submission IP701
Jock Munro
Submitted 8 April 2014

The Brae

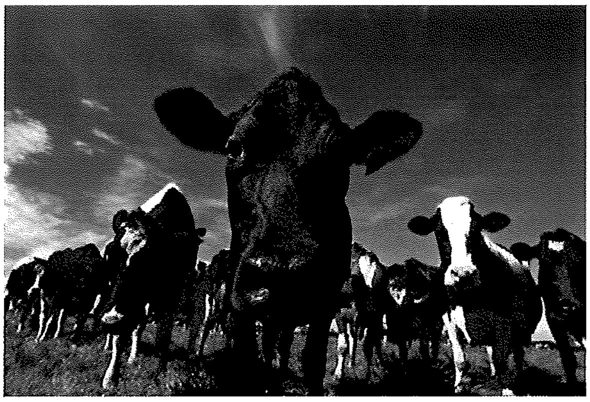
From: [redacted]
Date: Tuesday, 8 April 2014 5:35 AM
To: [redacted]
Subject: How New Zealand became a milk giant.

News Agriculture General Opinion How NZ became a milk giant

How NZ became a milk giant

LUKE MALPASS

Comments 5:24 AM



Under Fonterra, New Zealand has come to be known as Saudi Arabia of milk.

OPINION: MORE than any other, one name has been synonymous with New Zealand's major economic prosperity and geographic land use changes over the past decade: global dairy giant Fonterra.

In the wake of a staggering 48 per cent rise in global dairy prices over the past 12 months, many in the Australian milk industry are asking why a Fonterra can't happen here. After the regulatory hurdles faced by Murray Goulburn's attempted takeover of Warrnambool Cheese & Butter, local Australian dairy cooperatives can reasonably scratch their heads about why New Zealand's regulatory set-up cannot be emulated in Australia.

But just how did Fonterra come to be?

In the 1960s New Zealand was home to more than 100 dairy cooperatives, which sold their milk through the government appointed and bureaucratic New Zealand Dairy Board. Consolidations and amalgamations meant that by the mid-1990s, only two major players remained: New Zealand Dairy Group and Kiwi Cooperative Dairies. The commerce commission denied their application to merge on competition grounds.

However, there was a bipartisan push for a single producer with effective control over dairy in New Zealand. Despite the pro-farmer National-led government losing office in 1999, the new Labour-led government of Helen Clark exempted Fonterra from the Commerce Act.

In essence, New Zealand's political class decided that trading in domestic competition for international clout through one massive exporter leader would be better for NZ Inc.

There was also the view that a privately operated Fonterra would help shake up some farmer-centric attitudes of the old cooperatives and Dairy Board.

However, enshrined in the Dairy Restructuring Act 2001 was a quid pro quo. The Act effectively deregulated the dairy industry while creating safeguards against abuse of Fonterra's position.

First, Fonterra is compelled to accept the milk of any farmer who opens a dairy farm. Farmers have a right to buy a shareholding in Fonterra relative to the amount of milk solids they produce at the floating milk solids per kilogram price.

Second, any farmer can exit Fonterra at any time, and join one of the few smaller cooperatives such as Westland Dairy, and expect their shareholding paid out in a timely manner.

Third, and crucially, to boost domestic competition, Fonterra must sell up to 5 per cent of its raw milk to independent New Zealand diary processors at an agreed upon or regulated price, to a certain cap.

These safeguards were created for a very practical reason: farmers need certainty that their processor can pick up their milk everyday. For many farmers, a new start-up or independent processor would simply be too great a risk compared to Fonterra

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The upshot of all this is that once bone-dry paddocks are now lush and green, kilometre-long irrigators hydrate the land and milk tankers race across the new lush landscape. Under Fonterra, New Zealand has come to be known as Saudi Arabia of milk. It processes 95 per cent of the nation's milk and is responsible for a staggering third of the world's internationally traded milk, through acquisitions and expansion abroad. The scale that Fonterra achieved has been one of the key planks of New Zealand's prosperity for the past decade. In no small measure, New Zealand weathered the GFC on the back of Fonterra.

On the cons side, there are water use and effluent environmental concerns, for which Fonterra has often become a lightning rod.

Fonterra is also an enormous multinational co-operative, which means that it can become clumsy, inward looking and producer focused. The company's handling of a botulism scare last year (which turned out to be a false positive) was appalling, and does give rise to the suspicion that many Fonterra farmer shareholders are more interested in the short farm-gate payout and price of gumboots than the long-term satisfaction of the end consumer.

There is also interminable wrangling over capital raising and tensions between growth strategies and shareholder control.

On balance, Helen Clark's decision to override domestic competition concerns and approve Fonterra was good for New Zealand, for its farmers, the economy nationally, and for the government's coffers.

Were Australia to follow suit with similar removal of regulatory safeguards, it might find its dairy industry in better health.

Luke Malpass is a regular *The Australian Financial Review* columnist on New Zealand.

The Brae Unpublished.

From: [redacted]
Date: Wednesday, 2 April 2014 11:51 AM
To: "Letter to Editor-Australian" <letters@theaustralian.com.au>
Subject: Letter to Editor.

The Editor,
The Australian.

Dear Sir,
Congratulations to Nick Cater for further drawing our attention to the fact that the Kiwis are 'slaughtering' us in the global dairy market place.(Milk the dairy market like the Kiwis do,The Australian,April,02,2014).
However, he is wrong to blame our high internal cost structure for our embarrassing shortcomings.
Unlike Australia that subjects its growers to the bullying and abuse of market power by the corporate sector,New Zealand uses a combination of cooperative principles with grower owned Fonterra and legislative provisions that provide further stability and certainty to its producers.
The New Zealanders have structured their industry in a way that allows them to focus on the customer and farm gate returns and they are producing more milk and wealth as a consequence.
On the other hand,our Nation's decision makers worship the corporate sector with its focus on shareholder returns and shun any degree of legislative protection for producers and there can be little doubt that our industry will continue on its slow but steady decline.

Jock Munro.
[redacted]
NSW.

THE AUSTRALIAN

Milk the dairy market like the Kiwis do

NICK CATER THE AUSTRALIAN APRIL 02, 2014 12:00AM

WHILE Australian agribusiness looks wistfully at the expanding Asian food market, our competitors across the Tasman have been quietly milking it for all it is worth.

It is not for nothing that some now refer to New Zealand as the Saudi Arabia of lactose. This year the country's export earnings per capita from dairy will be more than Australians will earn from iron ore.

The extraordinary pace of the New Zealand dairy industry's expansion is Australia's inspiration and reproach. In a business that essentially turns water into protein, New Zealand is clearly playing to its strengths.

It would be wrong, however, to dismiss it as merely a lucky break. New Zealand dairy is reaping the rewards for investment, audacity and a stringent focus on costs, a process assisted by the near-complete dominance of one player, Fonterra.

It is little wonder, then, that New Zealand loomed large in discussions at The Australian's Global Food Forum last week.

There was a noticeable change of mood from last year, when the strength of the dollar and the investment drought were high on the list of concerns.

This year there appeared to be a collective realisation that it was pointless making excuses. The expanding middle class food market in China is there to be served, and New Zealand is showing how it can be done.

Ten years ago Australia had a respectable 15 per cent share of the global dairy export market, and New Zealand enjoyed a not dissimilar share.

But while Australian milk production has been slipping by 1.7 per cent a year on average, annual production in New Zealand has been growing at 3.5 per cent.

This year Australia will supply just 7 per cent of the international traded market, but New Zealand will enjoy a 36 per cent year.

In fact there are now more dairy cows than people in New Zealand, but it is hardly a laughing matter. Coles departing chief executive Ian McLeod told the forum there would be 1.8 billion more affluent people in the world by 2025 before posing the question, "what is holding us back?"

The answer, in a word, is costs. Labour costs in Australia are the sixth-highest in the world; New Zealand is in 17th position.

Regulation has been multiplying faster than the population, says McLeod. Australia is more heavily regulated than Iran or Zimbabwe.

Multi-factor productivity in Australia has gone backwards in seven out of the past 10 years. Put simply, says McLeod, we are "paying ourselves more and taking longer to produce less".

Australians test the patience of foreign partners by equivocating on foreign investment.

"Australia has to recognise that it is in a competitive market and there are other countries out there that also see that opportunity," says McLeod. We must learn to be "more efficient, more effective and more welcoming".

A discussion between the chief executives of Australia's biggest two dairy producers — Gary Helou of Murray Goulburn and Judith Swales of Fonterra Australia — highlighted how far Australian lags behind.

The Australian's John Durie, who moderated the session, pointed out that 10 years ago Fonterra's New Zealand parent company and Murray Goulburn were roughly the same size.

This year Fonterra announced revenues of $11.4 billion. Murray Goulburn's are likely to be a quarter of that.

"Our biggest impediment is that we are too inward-looking … we tend to focus on the domestic market and in particular Coles and Woolworths," says Helou.

"The way forward (is) to engage people on the ground in Asia."

Helou's big call for the day was that the eight biggest processors in the domestic market will eventually become four, to the benefit of the industry as a whole. The efficiency dividend will give Australia "thumping power", Helou says.

The market is growing fast. Ten years ago China imported less than $500 million worth of dairy produce a year. Now it's more than $6bn.

Within 10 years, predicts Swales, there will be a global milk shortfall of 100 billion litres a year; that's roughly ten times Australia's total production.

Australia should reasonably aspire to supply up to 5 per cent of the gap in the expanding market, says Swales. But it will require consolidation in farming as well as among producers.

"There is still a role for farming families in Australia but I think we're going to see the rise of the corporate farmer; much bigger scale, much more efficient, much better access to capital," Swales says.

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The Brae

From: [redacted]
Date: Tuesday, 8 April 2014 5:09 AM
To: [redacted]
Subject: Letter published in Australian 8/4/14-supply chain gouging of growers by service providers.

Grain growers' scepticism

GRAINCORP chief Don Taylor has called for a big spend on rail infrastructure and claims that it will increase grower returns ("GrainCorp seeks $100m for rail upgrade", 7/4).

Growers on the east coast will treat Taylor's statements with a fair degree of scepticism.

Since we have lost our ability to leverage supply chain services providers such as GrainCorp, with our legislated national pooling arrangement, freight costs have increased by 38 per cent in five years.

If increased taxpayer funds are committed to rail, what guarantees does Taylor give that growers will not continue to be gouged as they have in the past?

Jock Munro, [redacted] NSW

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The Brae

From: [redacted]
Date: Tuesday, 8 April 2014 5:43 AM
To: [redacted]
Subject: Letter published in The Australian-31/03/14.

Loss of wheat edge

TRADE Minister Andrew Robb says the grain sector is benefiting enormously from market deregulation ("Robb tries to smooth waters on ADM deal", 29-30/3). In recent media reports, Neoh Soon Bin, managing director of Southeast Asian flour miller Soon Soon group, puts forward a different view.

He says that with the loss of our single desk, Australian wheat is cheaper, our quality is inconsistent, there is less reliable supply for customers and there is no unified information on crop quality or technical support for buyers.

In other words, Australia has lost its marketing edge due to the treachery of the Rudd government and the Liberal Party which abolished the single desk in June 2008 against the wishes of the majority of growers.

Jock Munro, [redacted] NSW

From: [redacted]
Sent: Wednesday, 12 September 2012 9:25 AM
To: National Foodplan
Subject: Submission National Food Plan.

To the National Food Plan.
Submission from Jock Munro.

Concerns on the sustainability and profitability of wheat production and the supply of wheat to the domestic market.
Introduction.
I am a grain grower from the Northern Riverina of NSW.
I am predominately a wheat grower and I have real concerns about the sustainability and profitability of the wheat industry.
I am also concerned about the ability of Australia to maintain an adequate reserve of grain particularly wheat in times of short supply.
I am also concerned that Australia's reputation as a source of high quality grain is in decline and that the value of our wheat is falling against other suppliers.(GRDC Ground Cover issue 99,Asian wheat buyers seek more end product focus).
Our customers are also making it clear that Australia does not have an entity that they can liaise with on their concerns and market requirements.
Australian wheat marketing is in the hands of large trader middlemen who not only control the sale of our grain but also the logistics chain including up country storage sites,rail infrastructure and Port facilities.
Australian wheat is grown in a very harsh environment and production is subject to huge variability from year to year.
Wheat production is considered to be a high risk operation and according to AFI research it is the riskiest of all agricultural pursuits in Australia and that agriculture is generally riskier than any other sector.(AFI Mick Keogh-Factoring risk into farm decision making).
I firmly believe that Australian wheat growers need an orderly marketing scheme that will encourage growers to participate in the production of wheat in all years,will maximise their net returns and that this arrangement should also include a statutory provision to provide reserves for domestic consumption.

Australia's domestic consumption continues to increase as our population increases.

An Orderly Arrangement to stabilise wheat production and to secure wheat supply for the domestic wheat market.

Proposed Scheme.

The Scheme will enable Australia and its wheat producers to accumulate grain on behalf of growers and the citizens of Australia and to market this grain to the best advantage in the global market place.
Grain will be acquired through a statutory power and will marketed through a national pooling arrangement.
The Organisation that manages the Pool will be under a statutory obligation to carry out all functions which will ensure that net grower returns are maximised through the supply of a quality product,the provision of after sales service,the function of an efficient,cost effective, and orderly supply chain from farm gate to customer and the long term requirements of our customers are met.
The Pooling arrangement will also have a statutory obligation to keep an adequate tonnage of high quality grain in reserve to ensure that the needs of the domestic market are met at all times.
Domestic end users will be given access to this reserve stock in a fair and transparent manner.
Exporters will be given an opportunity to market wheat to global customers but they must purchase wheat from the Pool.
This will ensure that Australia's reputation for quality is maintained and that grower returns are not jeopardised but will also allow other entities to market wheat.

Not only will this give the larger traders an opportunity to participate in the Australian export wheat market but smaller niche players will be able to operate.At present the smaller players are at a considerable disadvantage because the supply chain is monopolised by the larger corporations.
Domestic end users will be able to operate in a less volatile market place and as a consequence there will be a much more favourable environment for investment in wheat processing.

Having a supply of wheat for times of shortage should also negate the need to import wheat and thus eliminate the risk of introducing diseases.

Opportunity to discuss plan.
I would like to discuss my plan with the panel.
I will be attending the Forum in Griffith on 12 September at the Gemini Hotel.

Dear Senator Heffernan and fellow Committee members,

Thank you for allowing me an opportunity to present a submission and to appear before you in person at the public hearings at Parliament House Sydney on Tuesday 16th July, 2013.

One can only hope that this Inquiry will lead to satisfactory outcomes for the Australian Wheat Industry which I now believe is in a serious state of 'flux' with grave concerns for its future prosperity and stability.

I along with 50 of my grower colleagues attended the Senate Inquiry into Australian Wheat Exports on April 22nd 2008.

The Inquiry was Chaired by Labor Senator Glenn Sterle and those of us in attendance were shocked by the bipartisanship of the Liberal and Labor Senators who were as one with their hostility towards the Single desk National Pooling legislation. We were also shocked by the contempt that was shown to growers and their forebears who had arguably developed one of the finest wheat marketing arrangements that the world had ever known.

That these arrangements were the envy of wheat growers across the globe and had given Australia a reputation for quality wheat and after sales service appeared to mean nothing to the Liberal and Labor Senators who sat on the Inquiry and it was obvious that the findings and recommendations were a fait de compli.

Former NFF leader and Chair of WEMA said that in 38 years of agri political representation and advocacy he had never seen such contempt as he experienced during the wheat export debate.

INTRODUCTION.

The fact that our wheat assets have rapidly fallen into foreign hands and continues to do so with the current proposal of US giant Archer Daniels Midland to purchase Graincorp comes as no surprise to those of us who have had a strong involvement in the wheat industry.

In June, 2008, The Rudd Government with the assistance of the Liberal Party, in what could be called one of Australian Agriculture's blackest days (see Farmonline-my comments-video), abolished Australia's iconic wheat marketing legislation which was widely known as the single desk.

The demise of the legislation began with the controversy over the Iraq UN Oil for Food exposure and the failure of the then Prime Minister John Howard to defend the interests of his Nation and its wheat growers. He set up an Inquiry which was headed by Justice Cole (Cole Inquiry) with terms of reference that were designed to malign our National Pool manager AWB Ltd and absolve the Government of any knowledge or blame. I believe that John Howard 'blighted' his reputation over this issue and many wheat growers to this day lay the blame for the loss of the single desk on him.

On 23rd June, 2008 the single desk legislation was removed by the Rudd Government with the bipartisan support of the Liberal Party who crossed the floor and voted with them amidst laughter and merriment and the jeering of the Nationals who remained loyal to the wishes of their wheat grower constituents (see Windsor Poll). Senators can view footage of this on the YouTube video –Liberal Wheat Treachery.

Not only did the legislation that was abolished allow Australian wheat growers to collectively market their wheat globally to best advantage but it kept supply chain costs to a minimum, because growers were able to leverage supply chain providers including bulk handlers, port operators and freight providers.

The loss of the legislation means that growers are now at the mercy of the merchants and those that control the supply chain.

The removal of the single desk national pooling legislation was a direct transfer of the marketing of Australia's wheat crop from growers and the National Parliament (statutory powers) to middlemen merchants, mostly foreign and who have strong and powerful ownership of the supply chain. (The Rudd Government and the Liberal Party were warned that this would occur.)

Since deregulation (loss of the single desk), foreign traders have moved into the Australian wheat market with the knowledge that they have an opportunity to extract monopoly rents from growers in the supply chain and to siphon off more income from our wheat as they trade on the world wheat market. These mega merchants which include Cargill (US) and Glencore (Swiss) source wheat from across the globe.

So in effect, the Rudd Government and the Liberal Party transferred the marketing of the Australian wheat crop from growers and the Parliament (statutory powers) to foreign mega merchants who have not missed an opportunity to get involved and make substantial profits, which under the regulated system were being directed back to growers through increased returns.

a) Are the the current arrangements in the interests of -

(1)-Australia's farmers.

How could the control of Australia's wheat supply chains and the marketing of Australia's wheat crop by merchants (mostly foreign) be in the best interests of Australian farmers?

The merchants that are rapidly taking control of our industry have control of the supply chains, they are end users and in the case of the foreign entities are in the business of marketing the grain from parts of the world that we compete for markets against. There is anecdotal evidence that the merchants are supplying grain to global end users under multi source contacts or put differently our wheat is being co mingled with wheat from other nations.

How can it possibly be in the interests of our Nation and growers to not only have merchants competing down prices to secure markets but to have these same merchants owning end user facilities (including Abattoirs and feedlots, flour mills and malt houses) when it is obvious that these interests have a requirement to keep the price of grain as low as possible for their own commercial gain?

How can Australia promote its grain now or service markets when our grain is controlled by multi merchants?

There is strong evidence that we are losing our marketing edge because global customers can no longer rely on the quality of our grain.

(11) Australia's long term food security interests.

The ramifications for Australia's food security are very grave.

The merchants have no obligation to maintain stocks of grain for our domestic market as was the case with AWB Ltd, especially under the original Wheat Stabilisation Acts and when the Australian Wheat Board was a statutory authority.

On Friday 12th July, 2013 ABC journalist Lucy Barbour reported that due to strong exports of wheat there now was a shortage of wheat for the domestic market (See ABC Country Hour website-'Strong Exports could cause domestic wheat shortage').

One can only imagine the damage that will be caused to our domestic end users and the rapid escalation of food prices if Australia is left with little wheat available in a time of drought.

We already have reports of dairy farmers in south western Victoria not being able to afford feed for their cows.

b)-there are potential impacts on competing grain traders access to grain handling facilities, ports, silos and transport infrastructure.

It has become obvious that for traders to be able to participate in the grain market post deregulation they must be aligned with an organisation that has a strong presence through ownership of significant supply chain facilities.

This was always going to be the case and comes as no surprise.

In addition, it is worth noting that the so called competition in a deregulated wheat market is a fallacy.

The merchants do not not compete for grain but they are in the business of sourcing grain for their end users customers at the lowest possible cost.

-there are potential impacts for grain traders, and a competitive marketplace, of access to warehoused grain stock information.

Stocks information is another fallacy promoted by those theoreticians who promote the deregulation mantra.

To expect that any stakeholder in the supply chain whether it be grower, end user or merchant would wish to expose his position to the market place is a ridiculous notion.

The larger multi nationals and supply chain holders are able to extract substantial profits because of the market knowledge that they hold-the expectation that they will want to share this knowledge or indeed that they should is pure fantasy.

d) there is potential for conflict between the responsibility to shareholders and the best interest of Australian producers and consumers.

Why would there be an expectation of a shareholder driven company to look after the interests of producers or consumers?

Free Market fundamentalism has seen a transfer of ownership of the wheat industry with no obligation to anyone other than the shareholders of the players involved.

We have a situation developing in the Grains Industry which will see the problems brought about by the duopoly in the super market chain appear minor in comparison.

Australia does not have a marketing arrangement which has an obligation to market all grain that is grown as was present under what was known as the receiver of last resort provision under the wheat marketing legislation.

e) any other related matters.

Supply Chain costs.

Without the National pool to leverage supply chain providers we have seen a massive escalation of costs. For instance freight charges have increased by 35 % in the past five years.

The Future.

I foresee massive problems ahead for our wheat industry and strongly believe that there will be a pressing need to rebuild a legislative frame work in future that will ensure maximum net returns for producers, grain of the highest quality being marketed to our global customers and stability and equity for all players.

The WEMA plan as proposed by the WEMA Committee will be a substantial starting point.

I look forward to discussing these matters with the committee.

Jock Munro.