A FAIR PRICE FOR FRESH QLD MILK
- that’s all we ask -

Port Curtis Milk Suppliers Co-operative Association
Briefing to the
Agricultural Competitiveness Taskforce
Friday 28th March 2014
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A FAIR PRICE FOR FRESH QLD MILK – THAT’S ALL WE ASK

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The Port Curtis Milk Suppliers Co-operative Association Limited (PCMSCAL) is a group of 37 milk suppliers from Central Queensland. From Eungella in the north, to Gin Gin in the south, supplying milk under contract to Parmalat Limited.

The Queensland dairy industry is in crisis and has been trying to get this message across to the Federal Government for some time now. It is well documented that in the Northern region the market is failing due to the tactics employed by the major supermarkets and processors and the farm gate price paid to dairy farmers in Queensland has been less than the cost of production for the past two years when we are short of milk to meet market needs (refer Appendix One).

There is conflicting messages in the press regarding the state of the dairy industry - whilst the southern export focused industry is moving forward, the dairy farmers supplying milk to the domestic fresh milk market of Queensland have had their plight ignored.

It is a major concern to Queensland suppliers that the Federal Department of Agriculture responded to a letter from one of our suppliers that “Since deregulation, Australia has developed a competitive and innovative dairy industry, which is outward looking and able to respond to the supply requirements of the domestic market and compete effectively on international markets”.
Dairy Australia have stated in the Dairy Situation and Outlook – February 2014 update that “farmgate milk prices are up around 25% on last season, but any increased cash flow is being largely directed to creditor payments and debt retirement.”

Rest assured the farmgate milk price in Queensland has **not** increased since the last season by any margin and cost of production has been further increased on top of the drought.

If fresh milk was no longer produced in Queensland the ramifications for the state, from farmer, processor and consumer would be significant.

- Farmers have outlaid significant capital on buildings and infrastructure to produce milk to a standard required by the processors. The current investment thus far, level would amount to approximately $1.5B.
- Processing plants, transport companies will be shut down, employees losing jobs and communities suffering from the flow on effect. More than 3,000 Queensland jobs would be put at risk.
- The economic loss to Queensland would amount to some $250 million per year at farmgate and about $400M at factory gate and some $700M at retail value.
- Fresh milk will not be available in the western and far north of Queensland – UHT will be the only option. In some towns this scenario is already playing out. This scenario is already providing another advantage for major supermarkets stores over smaller independent retailers particularly in regional areas as major supermarkets use fresh milk as a loss leader at prices other cannot even get close to competing with.
- Consumers will be faced with paying more for fresh milk, which will have to be freighted in from NSW. Norfolk Island used to process their own milk. Now there are no dairy farms left. Milk is flown in from New Zealand and consumers are paying $7 a litre for fresh milk, $5 for UHT. Queensland may well have to source their milk from New Zealand.
- Ultimately Queensland consumers will be left with less choice, lower quality products and paying far more for it.

We see there is critical need to form a single Co-operative to enable fundamental change in the dairy industry that will see support for dairy farmers. Dairy farmers will no longer be ‘price takers’, and the co-operative will be in a position to sell milk to multiple entities at a nominated price.

The PCMSCAL Board has and will continue to lobby at a regional, state and national level for a single co-operative body to vest and market milk on behalf of Queensland and Northern NSW milk suppliers.
1. EXECUTIVE SUMMARY

The Queensland State Government, through the Queensland Agriculture Strategy ‘A 2040 vision to double the value of production’, and Dairy Australia’s ‘Northern Australia Dairy Industry Strategic Plan 2010 – 2015’ outline the targets to double Queensland’s food and fibre production by 2040, and enhance the adaptive capability of the dairy supply chain to improve farm margins and growth opportunities respectively.

There are less than 495 dairy farms left in Queensland, more than half are in drought conditions, and it is predicted that there will be a shortfall of more than 100 million litres of milk that will have to be freighted in from other states.¹

The Queensland dairy industry produced some 457.50 million litres of milk during the 2012/2013 financial year, which was;

- 5.6 percent, or 27.12 million litres, lower than 2011/12;
- 13.5 percent or 71.50 million litres, lower than the 529 million litres produced in 2009/10.

While regional milk production has continued to decline, the regional fresh milk market has continued to grow slightly above population growth during the 2012/13 year. Packaged milk sales increased by 3.38% from 531 million litres in 2011/12 to an estimated 549 million litres for the 2012/13. This represents a shortage of 91.5 million litres of Queensland produced milk to meet the Queensland drinking milk market demand in the 2012/13 year.

The real travesty for the Queensland industry is that Processors are now freighting milk in from interstate and by the time it lands in Queensland is considerably dearer than the farm gate price our suppliers have been fighting for. The interstate milk is then taken out of the export market, so that the whole nation is then missing out on export income that could be made servicing those world needs.

The impacts of the supermarket ‘milk price war’ have hit processor profits, forced down milk prices to farmers to where the majority are making losses and has seen more than 100 dairy farming families exit the industry since the ‘milk price war started’ and this translates to a loss of some 100 million litres of milk production, around $300 million of investment in milk production and more than 340 on farm jobs.

In November 2012, Parmalat met with the PCMSCAL Board and delivered the message that the average price to be paid for supply from the Port Curtis Milk Co-operative from 2013 would be 54c per litre (ex GST).

The average price paid to Port Curtis suppliers in 2011/2012 was 58.26c litre.² (ex GST).

The average price paid for milk in January 2013 was in fact 51.86 cents/litre (ex GST). Total cash cost of production in Central Queensland was calculated to be 60.92c³ per litre, and the total cash cost with provisions for education, retirement and contingencies at 64.22c per litre. At a farmgate price of 64.22 cents/litre the return on Assets would be 5%.

¹ Dairy Australia statistic
² Figures supplied by Parmalat.
³ Figures supplied by Fullers.
The actual average net farm income for Central Queensland suppliers was -2.5 cents per litre, and a Return on Equity (RoE) of -1.2%. 4

In the Parmalat Interim Report on Operations at September 30, 2013 it is reported that Parmalat Australia reported an “increase in profitability (from 5.6 to 7.3%), thanks mainly to a lower purchase price for raw milk, a focused sales policy and the positive effect on overheads of +18.9%.”5

In comparison, a dairy farm in Central Queensland supplying milk to Parmalat has had a reduced income by 7%6 on average, whilst input costs have continued to increase through floods and droughts over the past 12 months.

Milk demand has increased7, production has decreased – simple supply and demand would suggest that the return for the product would increase. Port Curtis Milk Suppliers can attest that the price paid for milk has dropped by an average of 4.01 cents. It is a further insult to our suppliers to be offered an extra cent spread over the next three years if they commit to supplying all their milk to Parmalat for the next three years, knowing that they will be losing money on every litre of milk they produce. It needs to be noted that dairy farmers in Central Queensland currently have no alternative to supply milk to.

A single co-operative body vesting and marketing milk on behalf of Queensland and Northern NSW milk suppliers will lead to fundamental change in the dairy industry. Producers will no longer be ‘price takers’, and the co-operative will be in a position to sell milk to multiple entities at a nominated price.

Equally, the concentration and abuse of market power, and the predatory tactics of the major supermarkets needs to be addressed by the Federal Government to ensure a fair and transparent freely functioning domestic market.

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3 Calculated by Graeme Busby, Independent Dairy Consultant
4 Calculated by Graeme Busby, Independent Dairy Consultant
5 Parmalat Interim Report on Operations at September 30, 2013
6 Based on Parmalat supplied data
7 Dairy Australia Milk Sales Statistics

A fair price for fresh QLD milk – that’s all we ask.
The dairy industry continues to be one of Australia’s major rural industries. Based on a farmgate value of production of $3.7 billion in 2012/13, it ranks third behind the beef and wheat industries.

It is estimated that approximately 43,000 people are directly employed on dairy farms and by dairy companies within Australia. Related transport and distribution activities, and research and development projects, represent further employment associated with the industry.

Australian dairy farmers operate in a deregulated and open market and have done so for over a decade; the more government involvement being in the administration of food standards and food safety assurance systems. Consequently, international markets and prices are the major factors determining the price received by farmers for their milk.

The majority of Australian milk prices are based on the milk fat and protein solids content of the milk supplied off farm. Unlike many countries around the world, there is no legislative control over the price milk processing companies pay farmers for their milk; with all prices within the industry set by market forces.

Local Australian prices are driven by world dairy commodity prices which determine local export returns. World dairy prices directly impact on the company returns for the 40% of local milk production that finds its way into export products such as butter, cheese and milk powders; as well as the additional 35% of production that goes into locally consumed butter, cheese and milk powders.

This means that around 75% of milk production is exposed to world prices for butter, cheese and milk powders; while only the remaining 25% is consumed within Australia as liquid drinking milk.

From this chart, one can see how farmgate milk prices in southern regions are primarily driven by international commodity prices and competition for milk supply. The majority of farmers in these exporting regions receive a ‘blended’ price; which incorporates returns from the milk that is used in

Figure 3. Use of Australian milk by State—2012/13

Source: Dairy Australia

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manufacturing dairy products such as butter, cheese and milk powders which are exposed to international prices whether as exports or consumed locally (over 90% in Tasmania and Victoria).

Conversely, in the northern and western dairy regions, fresh drinking milk makes up a much larger proportion of the production mix (100% in Queensland and over 80% in Western Australia); and so higher prices are generally paid to ensure the year-round supply of milk.

A FAMILY-RUN dairy farm in the Boyne Valley, south of Gladstone, is going out of business after being sandwiched between floods and the supermarket price wars. Dave and Leonie Paish, at Velvet Waters farm, have listed their property for $3.2 million, a decision Mrs Paish said was heart-breaking.

Debate rages over impact of cheaper milk prices
"It was a very hard decision to make, because we love what we do and it's certainly not something we wanted to do," Mrs Paish said. "We've been here for three and a half years, and my dad bought the farm in 1995, so it's a family farm as well."

The farm was hit by two years of floods, the latest being ex-Tropical Cyclone Oswald, leading to widespread damage and the loss of stock after being cut off. The couple applied to the Queensland Rural Adjustment Authority for a $650,000 loan, but eventually received a $25,000 grant instead. The authority said at the time it did not comment on particular cases, but that in 90% of cases applicants for flood assistance were successful in their claims. "By itself it's a viable business but we had a lot of debt in just buying the place and getting it all set up....but with the flooding it's become impossible to keep it going," Mrs Paish said.

She said even though the farm received a price for its milk above what most other farms were receiving, it was still an extraordinarily low sum, with large supermarket chains fighting tooth and nail to lower milk prices.

"The supermarkets need to be pulled up," she said. "It's not just the dairy industry they've done this too. It's a lot of the food industries out there which are really struggling. "This one dollar milk thing has been going on for quite a while and I don't see any change happening.

I don't see anyone putting the brakes on so I really don't know where the future lies for it all. Certainly our Queensland milk industry is in dire trouble. If something doesn't change soon there won't be fresh milk in Queensland because it won't be produced here," Mrs Paish said the couple had a few thoughts as to what to do next if they succeeded in selling the farm, but dairy farming was their first love. "We want to remain in dairy farming if possible despite its hardships," she said. "Milking cows is what we do and what we love."

Post-flood damage
Most of the farm underwater - 30,000 litres of milk down the drain - 70 head of cattle lost
3. THE AUSTRALIAN DIARY INDUSTRY – A SHORT HISTORY

i) Deregulation

Until 2000, the Australian dairy industry was regulated. The price paid for manufacturing milk was determined by factors including world prices of manufactured dairy products, although support was provided through the use of national export pools that ensured farmers received an average pool price for their product regardless of its quality, use and destination.

State authorities set the farmgate price for fresh drinking milk to ensure the additional costs of year round supply were covered. Today, however, Australia's dairy farmers operate in a deregulated and open market.

Steps towards market deregulation commenced in the mid 1980s and continued throughout the 1990s. Deregulation was largely driven by the dairy industry itself as participants sought opportunities for growth.

On 28 September 1999 a Government support package was announced to support all states in deregulating their dairy industries from 1 July 2000.

At the time deregulation was being considered, the Senate Rural and Regional Affairs and Transport References Committee investigated the domestic dairy industry with particular reference to market conditions, competitiveness, regulatory arrangements and measures that the government could take to facilitate a transition to a less regulated environment.

Their comprehensive report, *Deregulation of the Australian Dairy Industry*, concluded that 'sooner rather than later the market [would] force deregulation and that a managed outcome with a soft landing [was] preferable to a commercially driven crash.'

In their findings however, they also noted that of serious concern was the suggestion that the control regulation provided would 'shift to processors and large retailers who would then be able to dictate terms to the industry and marketplace.'

Following deregulation, the reduction in dairy farm numbers was coupled with an increase in herd sizes and milk yields per cow as farmers sought to benefit from the efficiencies of larger operating systems. Similarly, there has been considerable consolidation within the processing sector as processors have experienced sustained pressure to reduce costs.

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A fair price for fresh QLD milk – that’s all we ask.
On 10 September 2009, the Senate agreed to refer the issue of competition and pricing in the Australian dairy industry to the Economics References Committee for inquiry. The terms of references were:

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

- the economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors;
- the impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry;
- 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;
- the impact of the concentration of supermarket supply contracts on milk market conditions;
- 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
- any other related matters.

Recommendations were presented by the Economics Reference Committee as a result of this review in May 2010.

Close to 13 years later the QLD dairy industry is still in turmoil and the Port Curtis Board would like to make comments in relation to the recommendations made in the report.

Following are extracts from the report, together with recommendations at the time.

*Port Curtis Board comments are noted in green throughout Section 4.*
The Price of milk

a) Retail prices
The Australian grocery market is dominated by the two major supermarket chains, Coles and Woolworths. They have a combined market share in the total grocery market variously estimated at 55–80 per cent.

Their market share for drinking milk is somewhat lower, perhaps 50 per cent, reflecting the large numbers of milk bars and convenience stores which also sell milk. However the major chains still dominate the retail pricing of milk, as their 'deep pockets' would deter small local stores from starting a 'price war' for milk.

The major supermarket chains sell milk in two formats: 'generic' milk (also variously known as 'home brand', 'store brand' or 'private label' which usually carries the name of the supermarket selling it and 'branded' milk which usually carries the name of the processor.

Taking the common two–litre container of standard full cream milk in a major suburban supermarket, a typical price is around $1.75 per litre for a branded product and $1.25 per litre for a generic. Just over half of the milk sold in Australia is now generic

The labels on branded milk (and other branded products) tend to be more colourful and there is pervasive advertising, designed to create the impression that the branded milk is a superior product. Under questioning by the Committee, the processors and retailers, somewhat reluctantly, conceded that the branded and generic (full cream) milk were in substance the same product:

Prior to the repeal of section 49 of the Trade Practices Act 1974, corporations were prohibited from discriminating between buyers of goods of like grade and quality in relation to the price of those goods if that discrimination was of such a degree or a recurring or systemic nature that it would have the effect or be likely to have the effect of substantially lessening competition in the market.9 Section 49 was repealed in 1995; the view at the time being that price discrimination would still be able to be regulated under other provisions of the Trade Practices Act 1974.

b) Wholesale prices
The supermarket chains buy milk from the processors. The prices paid by the supermarkets, and consequently the profits earned by the processors, are quite different for branded and generic milk but, as noted below, both processors and retailers were reluctant to provide much information about the difference.

Supermarkets typically have tenders to determine from which processors they will buy the generic milk. The contracts typically run for two to three years.

The large supermarket chains generally prefer a single processor for each state or region, or perhaps even a single national supplier. Combined with there only being two major supermarket chains, this preference encourages consolidation within the processing sector as only large processors can credibly bid for the contracts and without any such contract half the drinking milk market is effectively closed to a processor.

The highest price processors can secure is limited by the supermarkets' ability to source milk from the next closest source of supply. The lowest price the supermarkets can extract is the marginal cost of producing milk. Where the price settles between these limits will depend on the relative bargaining power of the processors and the supermarkets.
The outcome of the tendering process is that the wholesale price for generic milk may be 20-40 per cent lower than for branded milk, and processors are less able to pass on cost increases to the supermarkets for generic milk than for branded milk.

Processors prefer to concentrate on making their own branded products, on which they earn much higher profits, and would not bid for a generic contract if it meant reducing production of the branded product. As the retail markets increasingly move towards sales of generic milk, however, they may not be able to sell their whole production run as branded product and the generic milk contracts will become ever more important to them.

The Committee, in its deliberations, noted with concern the apparent discriminatory practices that are occurring in the sale of generic and branded milk in Australia's supermarkets. The Committee is of the view that the long term viability of the domestic dairy industry may be in jeopardy if steps are not taken to curb these practices, although it recognises the complexities associated with government intervention in the market.

Recommendation 1
3.44 The Committee recommends that the Government requests that the National Competition Tribunal reviews the effectiveness of section 46 of the Trade Practices Act in preventing price discrimination and consider reinstating anti-price discrimination provisions, particularly to protect those parties participating in industries dominated by multinational corporations.

c) Farmgate prices

Historically, the market for which a farmer's milk is destined has determined the price received at the farmgate. Evidence taken at this inquiry, however, suggests that the farmgate price of milk is now determined more by the amount of competition (or lack thereof) between processors in the various dairying regions rather than the international commodity market. While it is hard to find precise data, it is evident that the retailers are making far more profit from the sale of drinking milk than are the farmers.

Processors buy their milk from the farmers. In some cases the prices are negotiated with individual farmers and in some cases with collective bargaining groups. Years ago, many of the processors were cooperatives owned by farmers which would just be aiming to cover the processing costs. Murray Goulburn remains a cooperative, but most of the processors are now foreign-owned companies seeking to maximise their profits.

For ease of comparison with retail prices, milk prices in this chapter are quoted in cents per litre. As a rule of thumb, a farmgate price of 50 cents a litre is equivalent to a price of around $6.75 per kilogram of milk solids.

In the short run the marginal cost of milk is almost zero in the sense that a farmer's costs do not drop if his milk is not sold as he cannot 'turn off' the cows. Thus in the short term the market power is all with the processors.

In the medium term, the market power of the milk processors over the farmers is limited by the farmers not only selling milk to the drinking milk processors. In addition to these sales of what is often termed 'market milk', farmers sell a significant proportion of their milk as 'manufacturing milk', used in the production of cheeses, milk powders, butter and dairy spreads, primarily for export. The proportions differ across the country, as those areas better suited to dairying (mostly in the southern states) will tend to produce more milk than needed for local drinking milk.
In investigating the issue of farmgate price, the Committee considered the price being received at all points throughout the supply chain. The Committee notes with concern that the Australian retail grocery sector is dominated by the two major supermarket chains of Woolworths and Coles who, between them, have captured up to 80 per cent of the grocery market. This, together with the growth in the sale of generic milk (and generic products in general) led the Committee to investigate the relationship between the few large processors and these two supermarkets. The Committee also heard evidence suggesting that the supermarkets' increasing share of the milk market through the sale of generics is putting pressure on processors who are increasingly in the position of having to compete with their own branded goods. What has been identified should, in the eyes of the Committee, be of concern to all Australians. The evidence suggests that section 46 of the Trade Practices Act is not operating effectively. Larger players are allowed to dictate terms to the weaker parties in the chain (ie the dairy farmers).

In light of this evidence, the Committee has recommended a raft of changes that are designed to enhance the effectiveness of the Trade Practices Act, particularly those provisions relating to misuse of market power, predatory pricing, mergers and creeping acquisitions and the need for anti-price discrimination legislation.

**Recommendation 3**

3.83 The Committee recommends that the Government requests the Australian Competition and Consumer Commission to use its information-gathering powers, and draw on its work for its recent report on grocery pricing, to provide more accurate estimates of the proportions of the retail price of milk that reflect (i) the costs and (ii) the profits, of farmers, processors and retailers and requests that the results of that review be published by 30 September 2010.

In the Dairy Australia “Situation and Outlook – February 2014 Update, it is stated that “Farmgate milk prices are up around 25% on last season”.

**Robust global demand firms farm gate milk price**

**Wednesday 12 February 2014 | From Dairy Australia**

Australia’s farm gate milk prices are up around 25 per cent on last season and the outlook for global demand for dairy, particularly in China, remains robust. Despite the overall positive trends, increased cash flow for dairy farmers is being directed to creditor payment and debt retirement, according to Dairy Australia’s Situation and Outlook Update report released today.

Global dairy demand remains on a steady footing despite pricing at near record levels and production shortfalls in China and Russia have boosted import demand in those markets. Southeast Asia is showing steady growth despite localised challenges, and exports to South Korea should benefit from the yet to be ratified Korea-Australia Free Trade Agreement.
The average farmgate milk price for Port Curtis suppliers from Nov 12 to Jan 14 is tabled below:

As demonstrated in the table below, the Co-operative has retained a steady production level over the past four years, whilst suffering a reduced supplier base and average price received for their milk.

### Table 1: Port Curtis Supplier Production*

<table>
<thead>
<tr>
<th>Year (financial year)</th>
<th>Number of Suppliers</th>
<th>Production (litres)</th>
<th>Total Payment</th>
<th>Average price/litre</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>35</td>
<td>13,999,394**</td>
<td>TBA</td>
<td>54.91c Jan 2014 (ex GST)</td>
</tr>
<tr>
<td>2012/13</td>
<td>37</td>
<td>27,142,309</td>
<td>$16,973,228</td>
<td>59.56c (ex GST)</td>
</tr>
<tr>
<td>2011/2012</td>
<td>44</td>
<td>31,026,492</td>
<td>$19,941,013 (GST inc)</td>
<td>58.05c (ex GST)</td>
</tr>
<tr>
<td>2010/2011</td>
<td>45</td>
<td>29,141,539</td>
<td>$18,677,196 (GST inc)</td>
<td>58.26c (ex GST)</td>
</tr>
<tr>
<td>2009/2010</td>
<td>50</td>
<td>29,074,565</td>
<td>$18,783,540 (GST inc)</td>
<td>58.73c (ex GST)</td>
</tr>
<tr>
<td>2008/2009</td>
<td>49</td>
<td>28,848,003</td>
<td>$19,069,053 (GST inc)</td>
<td>60.09c (ex GST)</td>
</tr>
</tbody>
</table>

* Figures as supplied by Parmalat.
** To 31 Jan 2014

Do “farmgate prices look like they are up by about 25%”?

Rest assured farm gate milk prices have **not** increased by 25% in Queensland during this period.
The statement above refers to prices in Victoria and is very misleading when used as a sweeping statement for the dairy industry in Australia.

**ii) Negotiations between farmers and processors**

Port Curtis Milk Suppliers have been offered a one cent increase in farm gate price over three years if they sign a contract to ensure they supply all their milk to Parmalat during this period. This equates to a 1/3c increase per year, less than CPI, and not even in the ballpark of a 25% increase!

**Why the discrepancy?**

Queensland is a fresh milk state, the supermarkets dictate the price they will pay to the processor, the processor then dictates to the farmer what the farmgate price will be.

**NO NEGOTIATION**

a) **Farmers' Co-operatives**

The Australian dairy industry has moved from a position where many processors were farmers' cooperatives (acting in the interests of farmers) to the current situation where most processors are subsidiaries of foreign corporations.

This has made negotiations on prices much harder work for the farmers:

“...we are dealing with a multinational corporation whose executives get paid bonuses for keeping prices down, so it is hard yakka.”

While cooperatives are somewhat out of fashion, the Committee heard evidence that with good management they can work well:

“...cooperatives work like any other business—if they do not have a proper business model they will fall over. Again, it is the Europeans, the Canadians and the US based cooperatives which have shown how good business models can produce value adding because of the obvious advantages that collaborative business models have for the value adding of the operation. It allows individual milk suppliers to continue to do what they have done.”

**Committee view**

The interests of farmers would be better served if there were more processors and preferably more of them in the form of cooperatives.

**The Committee recommends that the Federal Government commissions an independent report into the main impediments to the establishment of new processors owned by farmer cooperatives and how these impediments could best be overcome and requests that the report be tabled by 30 April 2011. The Port Curtis Board has made a number of approaches to the QLD Minister for Agriculture to assist in the funding of market research into a single co-operative to market and vest milk on behalf of QLD and Northern NSW suppliers to no avail.**

*Fair price for fresh QLD milk – that’s all we ask.*
iii) New processors

Recommendation 11

The Committee recommends that the Federal Government commissions an independent report into the main impediments to the establishment of new processors owned by farmer cooperatives and how these impediments could best be overcome and requests that the report be tabled by 30 April 2011.

The Port Curtis Board were unable to locate the report.

The Co-op has been investigating the concept of processing their own milk and will seek funding to conduct a cost benefit analysis of producing fresh milk in Central Queensland at a sustainable price to the farmer.

5. MARKET FAILURE IN THE QUEENSLAND DAIRY INDUSTRY.

On 26 January 2011, Coles Australia Supermarkets dropped the price of their store brand fresh milk by up to 33 percent per litre to $1.00 per litre retail. As a result processors have seen the market share of their own brands drop, along with their profitability and subsequently dairy farmers saw their income reduced by almost 20% and remained suppressed since that time.

Supermarkets can reduce the retail milk price by 33 percent to $1.00 in one day not because of adverse weather or over-supply or customer rejection, but because milk is identified as the number one driver of foot traffic through the supermarket and they can use fresh milk, as an everyday perishable dietary stable, as a sacrificial discount marketing agent. In addition though to seeking to attract more shoppers at the same time they are seeking to grow the market share and power of their own brand. This has been at the expense of proprietary brands, small retailers, processors and farmers profitability and ultimately less choice and higher costs for consumers.

Coles and Woolworths have been ruthless with the processors, forcing them to cut their prices, to switch to supplying house-brands, and so even cheaper products, and making it hard for their branded products to get shelf space or to compete on price. Worse still is the fact that Coles sets the price of all products on the shelf and they choose to discount their brand while leaving proprietary brands at the same price, giving their brand the ultimate unfair advantage, a predatory advantage. This same predatory impact has played out for small retailers and in particular in regional centres where the cost difference is even greater.

Over the three years since the “Down Down” campaign, Coles increases its dollar revenue by 16.4% and Woolworths by 13%.

The ACCC conducted industry-wide inquiries with dairy market participants including industry associations, milk processors, supermarkets and independent retailers to assess whether Coles is or has been in breach of the two predatory pricing provisions of the Competition and Consumer Act.

The act prohibits businesses that have substantial market power from taking advantage of that power for the purpose of eliminating or substantially damaging a competitor, preventing the entry of a person into a market and/or deterring or preventing a person from engaging in competitive conduct in a market.

A fair price for fresh QLD milk – that’s all we ask.
"Price cutting, or underselling competitors, does not necessarily constitute predatory pricing. Businesses often legitimately reduce their prices, and this is good for consumers and for competition in markets," Mr Samuel said.

ACCC inquiries revealed evidence that Coles' purpose in reducing the price of its house brand milk was to increase its market share by taking sales from its supermarket competitors, including Woolworths. However specific complaints to the ACCC about the predatory nature of store brand discounting against proprietary brands has to date not been answered.

The move on milk prices was launched by Coles on Australia Day and, although welcomed by shoppers, was met with anger by dairy farmers fearful for the future of their industry and profits and some politicians, especially those representing farmers and rural Australia.

"As to the relationship between dairy farmers and milk processors, it is the case that some processors pay some farmers a lower farm gate price for milk sold as supermarket house brand milk.

"However on the evidence we've gathered over the last six months it seems most milk processors pay the same farm gate price to dairy farmers irrespective of whether it is intended to be sold as branded or house brand milk," Mr Samuel said.

It is now plainly clear, as requested by the QDO in 2011, that this investigation should have been ongoing as the impacts have continued and accumulated over the last three years.

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**Dairy Farmers unhappy with ACCC milk ruling**

ABC NEWS - Laura Hegarty  
Posted Mon 25 Jul 2011, 1:30pm AEST

The Queensland Dairyfarmers' Organisation (QDO) says the consumer watchdog has failed to realise the long-term impacts of Coles reducing milk prices.

The Australian Competition and Consumer Commission (ACCC) found the supermarket chain has borne the cost of reducing the price of its own milk brand and shoppers have benefited. QDO president Brian Tessmann says the ACCC's decision is short-sighted and has not taken into account the flow-on effects of the price war.

"At farm gate, a lot of the impacts are yet to flow through down the track if damage is done to the dairy industry," he said. "Milk, in places such as Queensland, has to be more and more brought in from southern states, the impact of that which will obviously drive up prices in the shops that will be bad for consumers. "We think the conclusions they came to are short-sighted and really lack supportive evidence and simply wrong.

"I think the ACCC has simply sat there with their eyes shut and their fingers in their ears and pretended nothing was wrong when there obviously is."

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9 Dairy farmers unhappy with ACCC milk ruling - ABC News (Australian Broadcasting Corporation)  
Milk wars 'not a threat to farmers', says Coles research

CLAIMS that the milk discounting war between the major retailers is threatening the viability of the dairy industry are "exaggerated" and "absurd", according to confidential research commissioned by supermarket giant Coles Group.

The report by consulting firm Sapere found that while dairy farmers faced a multitude of challenges, including being subject to the vagaries of international commodity prices, the recent supermarket discounting of drinking milk did not pose a threat to the long-term future of the dairy industry.

"Around one quarter of milk produced in Australia is used for drinking milk and around 51 per cent of drinking milk is distributed through supermarkets," the report says.

"In essence, this means that supermarkets account for sales of about 13 per cent of Australia's milk production.

"It is absurd to suggest that a discount war for drinking milk amongst supermarkets will in turn threaten the future viability of Australian milk production for the remaining 87 per cent of milk production."

The report was tabled by the Wesfarmers-owned Coles last week to a Senate committee probing the retailer's deep discounting of milk, which has now put off releasing its final report until October.

The moves by Coles in the dairy sector to cut milk prices have sparked calls to reintroduce industry protection or a minimum price for milk at the farm gate. Independent senator Nick Xenophon has claimed that laws allowing Coles and Woolworths to manipulate the milk price are "a joke" and has called for the Australian Competition & Consumer Commission to intervene to protect farmers.

But Wesfarmers chief executive Richard Goyder said milk sales at Coles rose by up to 20 per cent following its decision to cut the price by as much as 33 per cent to $1 a litre in January.

Woolworths, Aldi and Franklins were all forced to follow suit.

Coles revealed last week that sales from its food and liquor division surged 7.2 per cent to $7.48 billion in the March quarter, helped by its decision to slash bread and milk prices.

"Fears that price discounting by retail chains will lead to a collapse of the industry are exaggerated," the Sapere report says.
RECOMMENDATION 1

5.43 The committee urges processors to make their pricing structures for sourcing drinking milk:

- reflect the volume they estimate they require to meet their total commitments;
- offer more stability in prices rather than changing frequently; and
- not be dependent on the final retail sales of branded versus private label milk.

The Queensland dairy industry produced some 457.50 million litres of milk during the 2012/2013 financial year, which was:

- 5.6 percent, or 27.12 million litres, lower than 2011/12;
- 13.5 percent or 71.50 million litres, lower than the 529 million litres produced in 2009/10.

While regional milk production has continued to decline, the regional fresh milk market has continued to grow slightly above population growth during the 2012/13 year. Packaged milk sales increased by 3.38% from 531 million litres in 2011/12 to an estimated 549 million litres for the 2012/13.

This represents a shortage of 91.5 million litres of Queensland produced milk to meet the Queensland drinking milk market demand in the 2012/13 year.

Processors are now freighting milk in from interstate and by the time it lands in Queensland is considerably dearer than the farm gate price our suppliers have been fighting for. The interstate milk is then taken out of the export market, so that the whole nation is then missing out on export income that could be made servicing those world needs.

The production figure estimate for the 2013-2014 period is 23.7 million litres. To make up the short fall in milk at the Rockhampton factory, milk is now being freighted in from other areas;

<table>
<thead>
<tr>
<th>2012/13 average prices and freight costs in cents per litre</th>
<th>2013/14 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sth QLD*</td>
<td>Nth NSW</td>
</tr>
<tr>
<td>Farmgate</td>
<td>48-53</td>
</tr>
<tr>
<td>Freight</td>
<td>3-4</td>
</tr>
<tr>
<td>Landed Cost</td>
<td>51-57</td>
</tr>
</tbody>
</table>

Table 3: Average prices and freight costs to Rockhampton

*This assumes milk prices on a year-round basis, given likely pricing by fresh milk processors in that region. The above prices reflect Tier 1 pricing and do not include Tier 2 prices. The above price ranges may vary further depending on the allocation at farm level of the Tier 1 and Tier 2 volumes.

With regard to the 2013/14 forecast for Northern Vic, the QDO indicate that the farmgate price is closer to 50-54c, plus the freight component of 17-20c per litre, making the landed cost 67-74c per litre.

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10 QDO Forecast 2013 & 2014

A fair price for fresh QLD milk – that’s all we ask.
This option would be similar to paying PCMSCAL suppliers their cash cost of production price of 64.22 c/litre.

**Dairy Farmers Milk Co-operative (DFMC) 2013/14 farm gate prices are as follows:**

**Southern Region** – Covering Western Victoria, Northern Victoria / Riverina and South Australia
Base milk price 41.54c or $5.77 kg MS equivalent (increase of 27% from last financial year)

**Central NSW**
Increase in base price by 2.5c per litre
Tier 1 & 2 base milk price of 48.18c, plus contract incentive of 2c, productivity incentives from 2 – 4.5c / litre

**South East Queensland**
Increase in base price of approx 2.2 c per litre
Tier 1 & 2 base milk price 50.56, plus contract incentive 2c per litre, productivity incentives from 2 – 4.5c /litre.

**Far North Queensland**
Base price 49.8 per litre, (2% increase above last years milk price)
Tier 2 price 28.25c

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**RECOMMENDATION  2**

5.45 The committee recommends that contracts with dairy farmers should offer a clear, consistent formula for milk pricing with unambiguous conditions.

The major processors are continuing to dictate contract arrangements to suppliers with no negotiation power whatsoever. In November 2012, Parmalat met with the PCMSCAL Board and delivered the message that the average price to be paid for supply from the Port Curtis Milk Co-operative from 2013 would be 54c per litre (ex GST).

The average price paid to Port Curtis suppliers in 2011/2012 was 58.26c litre. (ex GST). The average price paid for milk in January 2013 was in fact 51.86 cents/litre (ex GST).

Total cash cost of production in Central Queensland was calculated to be 60.92c per litre, and the total cash cost with provisions for education, retirement and contingencies at 64.22c per litre. At a farmgate price of 64.22 cents/litre the return on Assets would be 5%.

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12 Figures supplied by Parmalat.
13 Calculated by Graeme Busby, Independent Dairy Consultant
RECOMMENDATION 3

5.47 The committee recommends that the Government commission a study of the dairy industries in Queensland, New South Wales and Western Australia. The study should focus on the future sustainability of the dairy industry in each of these states and their capacity to meet future local consumer demand. The report of the study should also examine possible policy options and be tabled in the Senate.

Northern Dairy Industry Regional Industry Situation & Outlook Update: July 2013

“Since the start of 2012 more than 80 dairy farmers have exited the Queensland industry. With the average farm constituting a $3 million investment in fresh milk production, this equates to a loss of over $240 million of investment in fresh milk production in Queensland over the last 28 months, as well as a loss of some 240 jobs in fresh milk production at farm level.

Across the processing sector many more staff have been put off as processors seek to reduced costs and rationalise operations in the domestic fresh milk sector.

With poor farm gate returns for many farmers, there are threats to further investment in the capacity of farm structures and skill levels necessary to manage a wide range of risks including poor seasonal conditions, or to gain sufficient efficiency benefits from adoption of innovation. This risk will be amplified with the forecast adverse impacts of increased climate variability and other impacts on production costs.”

Central Queensland has lost another two suppliers since January 2014. Milk production has continued to decline, with most of the region severely affected by drought.

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14 Produced by Dairy Australia

A fair price for fresh QLD milk – that’s all we ask.
Table 2: Number of milk suppliers in Port Curtis over the past 14 years

Recommendation 6

8.9 The committee recommends that the Government review the effectiveness of collective bargaining laws and arrangements for agricultural industries, with a view to strengthening that framework to create a more equitable balance of power between the negotiating parties and to otherwise improve their operation.

Collective bargaining has failed in Queensland.

Premium Milk Limited

Premium Milk Limited (Premium) is authorized by the Australian Consumer and Competition Commission (ACCC) to collectively bargain farm gate milk prices and milk quality standards with Parmalat Australia Ltd (formerly Pauls Ltd) on behalf of participating producers until 1 December 2015.

Parmalat and Premium entered into a Milk Supply Agreement to form a Milk Management Committee, comprising 3 representatives from Parmalat and 3 representatives from Premium.

The Milk Management Committee are required to meet not later than one month prior to the commencement of each supply period (usually a calendar year) and at such times as the members of the Committee agree, for the purposes of –

- Negotiating the prices to be paid by Parmalat to producers for milk,
- Determining relevant milk quality standards and
- Determining volumes of milk required from producers.

If the Milk Management Committee has not agreed on milk prices for a relevant supply period, there is provision in the Milk Supply Agreement for an independent expert to determine the matter.
The Port Curtis Milk Suppliers Co-operative Association Limited has had an Independent Director and Observer attend the Premium meetings for the past 8 years.

Our representatives on the Premium Board have tried meeting after meeting that we have to fight for a better milk price to no avail. Whatever Parmalat put on the table has been accepted - no consultation with other Premium Board members prior to Milk Management Committee meetings.

The representatives on the Milk Management Committee have failed their suppliers by not representing their suppliers and fighting for a better milk price.

In November 2013 Port Curtis resigned from the group.

RECOMMENDATION 7

8.43 The committee recommends that the Government initiate the following:
A review of the effectiveness of Produce and Grocery Industry Code of Conduct and mediation process undertaken through the Produce and Grocery Code Ombudsman.
The review should include

- a consultation process regarding options to strengthen the Code, including that it captures entire supply chain relationships, and whether a revised Code should be made a prescribed mandatory industry code under the Competition and Consumer Act 2010.
- A consultation process on the need for a new statutory office to address issues regarding supply relationships in the grocery sector, and the role, powers, coverage and governance regarding such an office.

During 2013, the National Farmers’ Federation (NFF) renewed calls for the introduction of a mandatory code on conduct for supermarkets, aimed at preventing a misuse of market power.

NFF President Jock Laurie reported that “Australia has an extremely concentrated supermarket retail sector, which risks an abuse of power by the supermarkets over their suppliers. The primary purpose of a code, either voluntary or mandatory, is to ensure the retailers do not misuse their market power. As such, our position has always been to support a mandatory code and longer-term changes to competition and consumer law, but to first see if the same outcomes can be achieved on a voluntary basis, and we have been working towards this with both retailers and the AFGC.”

“Importantly, we will only support a mandatory code that has real teeth; that is able to identify areas of concern to farmers and address these. This would include appropriate penalties.”

“We also call on the Government to make changes to the Competition and Consumer Act to ensure a more balanced supply-chain approach in the long-term – ensuring that the rights of farmers are balanced more equally with those of consumers and retailers.

The National Farmers’ Federation (NFF) stepped away from the process in March 2013 after losing confidence in a voluntary code’s ability to protect farmers’ interests.

The Food and Grocery Code resulted between Coles and Woolworths and the Australian Food and Grocery Council (AFGC).

Australian Dairy Farmers President Noel Campbell said it included restrictions on the major retailer’s ability to change agreements with suppliers and sets out guidelines for the treatment of branded and home-branded products but “does little to ensure a fairer farmgate price”.

A fair price for fresh QLD milk – that’s all we ask.
If milk farmgate prices in Queensland do not improve in the immediate future it is valid that the industry will shut down sooner rather than later.

If fresh milk was no longer produced in Queensland the ramifications for the state, from farmer, processor and consumer would be significant.

- Farmers have outlaid significant capital on buildings and infrastructure to produce milk to a standard required by the processors. The current investment thus far, level would amount to approximately $1.5B.
- Processing plants, transport companies will be shut down, employees losing jobs and communities suffering from the flow on effect. More than 3,000 Queensland jobs would be put at risk.
- The economic loss to Queensland would amount to some $250 million per year at farm gate and about $400M at factory gate and some $700M at retail value.
- Fresh milk will not be available in the western and far north of Queensland – UHT will be the only option. In some towns this scenario is already playing out. This scenario is already providing another advantage for major supermarkets stores over smaller independent retailers particularly in regional areas as major supermarkets use fresh milk as a loss leader at prices other cannot even get close to competing with.
- Consumers will be faced with paying more for fresh milk, which will have to be freighted in from NSW. Norfolk Island used to process their own milk. Now there are no dairy farms left. Milk is flown in from New Zealand and consumers are paying $7 a litre for fresh milk, $5 for UHT. Queensland may well have to source their milk from New Zealand.
- Ultimately Queensland consumers will be left with less choice, lower quality products and paying far more for it.
8. LOBBYING BY THE PORT CURTIS MILK SUPPLIERS CO-OPERATIVE

At its own cost, the Port Curtis Board have taken the plight of the Queensland dairy farmer to local, state and Federal representatives in an effort for action to be taken at a Federal level.

A summary includes:

November 2012
- Meeting with Parmalat and presented a detailed submission to Parmalat that the new price paid (av 54.09c per litre) to suppliers will not be sustainable, and that the cash cost of production in Central Queensland is 60.92c per litre, and the total cash cost with provisions for education, retirement and contingencies at 64.22c per litre.

January 2013
- Port Curtis had no option but to accept the 2c regional payment increase that Parmalat has offered. In order to receive the 2c regional payment, Suppliers had to sign an agreement with PCMSCAL to guarantee to supply all milk to Parmalat.

March 2013
- 27th March - Hon John McVeigh, QLD Minister for Agriculture, together with Ken O'Dowd and the Mayor of Biloela visited Fitzgerald Farms, Biloela as part of a tour of the area. The Board met with the delegation and discussed the plight of the industry.
- Premier Campbell Newman attends an Agforce meeting in Gladstone, where he again called for Federal intervention in the milk price wars. Mr Newman said he was deeply concerned about the actions of major supermarkets to drive down the prices they paid dairy farmers.

Milk price wars must end: Qld Premier

QUEENSLAND Premier Campbell Newman has again called for federal intervention in the supermarket milk price wars, saying they will kill the state's dairy industry. Coles, Woolworths and Aldi supermarket chains last year dropped their home brand milk price to $1 a litre.

At an AgForce meeting in Gladstone on Friday, the Premier again called for Federal intervention in the milk price wars. Mr Newman said he was deeply concerned about the actions of major supermarkets to drive down the prices they paid dairy farmers.

"It's getting to a point where we will not have a viable, sustainable dairy industry in this state," he told the Courier-Mail newspaper.

"I'm calling on supermarkets to negotiate proper supply agreements that keep the industry alive." "It's time the Australian Competition and Consumer Commission and the federal government had a proper look at this issue."
April 2013

- The Board met with concerned dairy farmers from SEQ in Brisbane on Monday 15th April 2013, and discussed the future of the industry to progress the concept of a single milk co-operative.

- Delegates collected signatures from QLD dairy farmers in support of the concept of a single milk supply co-operative to vest and market milk on behalf of all suppliers in Queensland and Northern NSW (over 60 signatures received).

- Peter Woodland and Scott Fitzgerald met with the QDO to progress a steering committee.

- Peter Woodland and Scott Fitzgerald met with Minister McVeigh on 23rd April 2013 handing him the single co-op submission, titled “Towards a Single Milk So-operative in Queensland and Northern NSW” with the recommendation:

  **To fund an independent cost benefit analysis on the feasibility of a single milk supply co-operative on behalf of all suppliers in Queensland and Northern NSW.**

- Signatures collected from Queensland milk suppliers in support of the Single Milk Co-operative and presented to Hon. John McVeigh.

August 2013

- Scott Fitzgerald attended a forum of stakeholders in the QLD dairy industry, organised by Hon. John McVeigh. An outcomes letter was sent out after the meeting, and was disappointing.

October 2013

- The PCMSCALL Board met with Brian Tessman, Ross McGuiness, James Geraghty (QDO) to discuss strategies for moving forward, the Board reiterated the importance of sourcing funding to undergo the analysis into options to ensure the QLD dairy industry is sustainable, including the single co-operative, overseas markets, and potential micro processing plants.

- Board also met with Edith Gomez, Senior Trade Officer, Trade and Investment QLD – QLD Treasury and discussed her role and possible markets with the Board.

- Scott Fitzgerald and Peter Woodland visited a microprocessing plant at Beaudesert to see whether it was an option for our Co-operative.

- The Board requested a meeting with Hon Barnaby Joyce, Federal Minister for Agriculture.

November 2013

- Hon. Michelle Landry attends the Port Curtis AGM and will support the Central Queensland dairy farmer’s battle.

- Suppliers at the meeting endorsed the Boards commitment to other options for the Co-operative, including the feasibility of a micro-processing plant/s in the area.
Port Curtis will meet with Hon Barnaby Joyce, and also the Committee responsible for the preparation of the Agricultural Competitiveness Issues Paper.

The Board will write a submission regarding the Agricultural Competitiveness Issues Paper.

The Board will continue to lobby for a better farmgate price for our milk suppliers.

It is abundantly clear that the current industry framework is not sustainable. Dairy farmers can hold on for only so long through floods and droughts, so Queensland consumers need to be prepared for no more fresh milk produced in Queensland in the near future.

A fair price for fresh QLD milk – that’s all we ask.
9. NO MORE TALK, WE NEED ACTION NOW –

i) 2014 Queensland Dairyfarmers’ Organisation Supplier Survey Results

In February 2014, The Queensland Dairyfarmers’ Organisation (QDO) released the results of a survey sent out to its members, which showed that almost nine out of ten producers lack confidence in the future of the industry, and the majority have negative cash flow.

The survey found that farmgate milk prices will need to rise by at least 12 cents per litre before confidence can be renewed and fresh milk supplies are restored for Queensland consumers.

It is estimated that the shortfall of Queensland milk is about 100 million litres, or 20% \(^{16}\) of total production.

To counter the shortfall of Queensland milk, milk is being freighted by the processors at a higher cost to fill the gap, at a cost more than local farmers are being paid.

The following survey summary provides a snap shot of the results for the majority of questions. The data for some of the questions have not been reported as the results are meant only for internal purposes of the QDO or survey stakeholders.

**Key Results from the Data**

Current number of Queensland dairy farmers: 496
Number of survey respondents: 229 (46%)
Average production 2013 per respondent: 1.1 million litres

**How confident are you of the future of the Northern Dairy Industry?**

- Very Confident: 2%
- Confident: 11%
- Uncertain: 38%
- Not confident: 49%

Comment: Similar to 2013

**How confident are you of the future of your Dairy Business?**

- Very Confident: 4%
- Confident: 17%
- Uncertain: 41%
- Not confident: 38%

Comment: Similar to 2013

\(^{16}\) Figure supplied by QDO
Do you confidently expect to be dairying in?

1 year: 50%
3 years: 27%
5 years: 23%

Comment: Similar to 2013

Has your overdraft and or loan increased during the past year?

Yes: 69%
No: 31%

What farm gate price (cents per litre) would keep you dairying for the next three years”

$0.55+: 7%
$0.60+: 58%
$0.65+: 35%

Average price response 66cpl

Have you considered alternative supply option?

Yes: 48%
No: 40%
No alternative: 12%

What is your planned milk production for 2014?

Increase: 24%
Stay the same: 66%
Decrease: 10%

Who do you supply?

Lion 39%
Parmalat 47%
Norco 11%
Other 3%
10. SOUTH AUSTRALIA – A UNITED FARMER INPUT IS WORKING

South Australian Dairyfarmers Association (SADA) have joined forces to launch its own brand of milk in an effort to lift the profits of the state’s 268 remaining dairy farmers.

The farmer-owned SADA Fresh brand is processed and packaged under a special licensing agreement by Parmalat Australia and sold exclusively through Coles supermarkets across South Australia for $3.99 for a two litre container of full cream milk, and $3.79 for low fat.

Forty cents of the proceeds from every two litre container will go to a new fund to finance projects that help secure the future viability of South Australia’s dairy industry.

Suppliers were selling their milk to the major processors, who were then onselling to the major manufacturers. Now with the SADA Fresh brand the SA Dairy Farmers Association will own the brand and receive a 20 cents a litre royalty from Coles.

Coles Chief Operating Officer Brian Durkan said “by creating their own dedicated brand, SADA has created new opportunities for South Australian milk, and establishing a mechanism to raise funds for the industry through sales.”

11. SUSTAINING OUR FUTURE –
A SINGLE DAIRY CO-OPERATIVE FOR QLD & NORTHERN NSW

Co-operatives allow members to pool resources to achieve greater benefits than they could as individuals. Co-operatives belong to, and are operated for, the benefit of members who generally share investment, operational risks, benefits and losses.

Dairy co-operatives have played a very significant role in the procurement, processing and marketing of milk and dairy products, and in representing farmers politically at both the state and national level. Dairy farmers have relied more heavily upon co-operatives to market their milk than have farmers of any other commodity.

Advantages of the single co-operative include;

- centralized pricing, promotion and sales,
- to negotiate for the best price terms possible in the marketplace;
- organise the purchase of bulk supplies for members,
- to have the highest quality producer milk possible shipped in the market, and
- to be effectively represented in the legislative, regulatory and public relations arenas.

Dairy co-operatives will continue to be a major player in the procurement, pricing, processing and marketing of milk and dairy products. Their market shares are anticipated to remain constant, if not increasing.17

By having a single co-operative milk suppliers have greater bargaining power and thus the ability to supply suitable milk at the best price. It does not become a price taker.

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17 The History and Role of Dairy Co-operative (Bob Cropp, Truman Graf 2001)

A fair price for fresh QLD milk – that’s all we ask. 30
i) Recommendation to the QLD Minister for Agriculture, Fisheries & Forestry – April 2013 Meeting

A meeting of concerned dairy farmers was held in Brisbane on Monday 15\textsuperscript{th} April 2013, to discuss the future of the industry and to formulate a plan of action to progress the concept of a single milk co-operative.

Delegates are continuing to collect signatures from QLD dairy farmers in support of the concept of a single milk supply co-operative to vest and market milk on behalf of all suppliers in Queensland and Northern NSW.

It was agreed unanimously at the meeting that the recommendation to the Hon. Dr John McVeigh, QLD Minister for Agriculture, Fisheries and Forestry on Tuesday 23\textsuperscript{rd} April 2013 would be:

To fund an independent cost benefit analysis on the feasibility of a single milk supply co-operative on behalf of all suppliers in Queensland and Northern NSW.

This action is directly linked to the objective of the Queensland’s Agriculture Strategy to double the value of production, and to Dairy Australia’s number one priority of enhancing the adaptive capability of the dairy supply chain to improve farm margins and growth opportunities.

A single co-operative body vesting and marketing milk on behalf of Queensland and Northern NSW milk suppliers will lead to fundamental change in the dairy industry. Producers will no longer be ‘price takers’, and the co-operative will be in a position to sell milk to multiple entities at a nominated price.

It is nearly 12 months since the meeting with Dr McVeigh. The time for talking is over – we must have action. There is no future dairy industry in Central Queensland if we continue as we are.

ii) Moving Forward at a Federal Level

With the drought assistance disaster funding announced, using a small fraction of that funding, the Federal Government could secure up an entire sector of primary industry within Queensland and virtually drought proof them completely.

When you look back to a time where dairy production was a safe and prosperous industry to be in, it was in the days of Co-op managed and owned operations. Similarly if you look at New Zealand for example, who are our nearest neighbours and closest counterparts on the world stage, they are Co-op owned, and are at their most prosperous and productive ever, with dairy farms making up a large sector of their economy both locally and with international trade.

Discussions state wide throughout Queensland have led us as an industry to believe that reforming a Co-op is the best way forward for us, and certainly the quickest and safest way to secure our industry for long term growth and security. Without a major overhaul of the entire industry, it is hard to imagine any dairy farms left in operation within five years.

A fair price for fresh QLD milk – that’s all we ask.
The proposal is this. If the Government were to grant funding to secure a Co-op structured organisation, and the manufacture of three production plants, Queensland farmers could all supply to the one company.

Milk prices would be set at a sustainable level by the Co-operative.

A Management Board would need to be implemented to ensure the fair trading continues throughout the entire state, and naturally there would need to be staff in all plants throughout the state. Naturally all staff would be funded by the Co-op itself, so after the initial set up costs, there would be no financial or regulatory input required or expected from Government.

A scheme such as this is far more than just a band aide fix, it gives a long-term viable solution to help immediately lift the industry off its knees, and regain some momentum to move forward with. It even provides hope for the future of the dairy industry in Queensland, by illustrating to the younger generation that there can be a living made out of dairy farming, and it’s not all mining and tourism.

With the average age of a dairy farmer in Queensland being around 60 years of age, it is impossible to see that being turned around without a major overhaul of the whole industry, which is clearly not ever going to be offered by the current processors we have access to. The latest offer put forward to suppliers in Queensland by major processing giant Parmalat, is an insulting one cent per litre price rise spread out over three years. That is disgusting and insulting when CPI is at approximately 3% per annum, commodity prices are at record high levels, electricity and fuel are sky high and still rising, and milk is already being trucked in from south of the border to make up the shortfall being created by an ever-shrinking supplier base.

The Port Curtis Board implores you to give this proposal due consideration, and think of the long term benefits for Queensland as a whole, having a guaranteed supply of fresh white milk produced right here locally, as well as the knowledge that a ‘start up package’ such as this should set up our industry to a level that ensures the Government will not be required to assist our industry again with any drought bail out measures.

A fair price for fresh QLD milk – that’s all we ask.
APPENDIX 1. WHAT IS A FAIR PRICE FOR MILK IN CENTRAL QLD?

i) Actual returns and Cost of Production in Central Queensland 2012/13

Information collected from the Queensland Dairy Accounting Scheme reveal that the actual returns and cost of production for the 2012-13 period in Central Queensland were as follows:

<table>
<thead>
<tr>
<th>Cash Receipts</th>
<th>Actual 2012-13 data (c/l)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>51.8</td>
</tr>
<tr>
<td>Less cartage &amp; levies</td>
<td>-0.5</td>
</tr>
<tr>
<td>Other receipts</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Total farm receipts</strong></td>
<td><strong>55.4</strong></td>
</tr>
<tr>
<td>Production costs</td>
<td></td>
</tr>
<tr>
<td>Feed related costs</td>
<td>26.8</td>
</tr>
<tr>
<td>Herd &amp; Shed costs</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total variable costs</strong></td>
<td><strong>30.7</strong></td>
</tr>
<tr>
<td>Gross margin (milk)</td>
<td>20.6</td>
</tr>
<tr>
<td>Gross margin (farm)</td>
<td>24.7</td>
</tr>
<tr>
<td>Fixed &amp; Overhead costs</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>2.4</td>
</tr>
<tr>
<td>Repairs &amp; maintenance</td>
<td>3.2</td>
</tr>
<tr>
<td>Paid labour</td>
<td>5.4</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2.3</td>
</tr>
<tr>
<td>Imputed labour</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Total operating costs</strong></td>
<td><strong>50.6</strong></td>
</tr>
<tr>
<td><strong>Dairy operating profit (EBIT)</strong></td>
<td>4.8</td>
</tr>
<tr>
<td>Finance Costs</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>Net Farm Income</strong></td>
<td><strong>-2.5</strong></td>
</tr>
<tr>
<td>Estimated asset value</td>
<td>$4,019,709</td>
</tr>
<tr>
<td>Estimated production(L)</td>
<td>1,306,571</td>
</tr>
<tr>
<td>Return on assets (RoA)</td>
<td>1.6%</td>
</tr>
<tr>
<td>Return on equity (RoE)</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

Leased assets are included

Table 4: Actual Returns & Cost of Production 2012/13

---

18 Graeme Busby, Independent Analysis

A fair price for fresh QLD milk – that’s all we ask. 33
PCMSCAL engaged Graeme Busby to undertake an independent analysis into the cost of producing milk in Central Queensland (refer Appendix One for full report).

### Production costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost/litre</th>
<th>Cost/litre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased feed</td>
<td>21.85</td>
<td>21.85</td>
</tr>
<tr>
<td>Fertiliser</td>
<td>3.12</td>
<td>3.12</td>
</tr>
<tr>
<td>Fuel &amp; oil</td>
<td>2.04</td>
<td>2.04</td>
</tr>
<tr>
<td>Seed</td>
<td>0.95</td>
<td>0.95</td>
</tr>
<tr>
<td>Irrigation</td>
<td>0.95</td>
<td>0.95</td>
</tr>
<tr>
<td>Repairs &amp; Maintainence</td>
<td>1.98</td>
<td>1.98</td>
</tr>
<tr>
<td>Other feed</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total Feed related cost</strong></td>
<td><strong>31.59</strong></td>
<td><strong>31.59</strong></td>
</tr>
<tr>
<td>Animal health</td>
<td>1.73</td>
<td>1.73</td>
</tr>
<tr>
<td>Herd improvement</td>
<td>0.62</td>
<td>0.62</td>
</tr>
<tr>
<td><strong>Total Herd Costs</strong></td>
<td><strong>2.35</strong></td>
<td><strong>2.35</strong></td>
</tr>
<tr>
<td>Shed electricity</td>
<td>1.08</td>
<td>1.08</td>
</tr>
<tr>
<td>Shed chemicals</td>
<td>0.72</td>
<td>0.72</td>
</tr>
<tr>
<td><strong>Total Shed Costs</strong></td>
<td><strong>1.8</strong></td>
<td><strong>1.8</strong></td>
</tr>
<tr>
<td>cartage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>levies</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Sundry variables</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total other variables</strong></td>
<td><strong>0.5</strong></td>
<td><strong>0.5</strong></td>
</tr>
<tr>
<td><strong>Total Variable Costs</strong></td>
<td><strong>36.24</strong></td>
<td><strong>36.24</strong></td>
</tr>
</tbody>
</table>

### Overhead costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>2.27</td>
<td>2.27</td>
</tr>
<tr>
<td>Paid labour</td>
<td>5.51</td>
<td>5.51</td>
</tr>
<tr>
<td>Capex</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total Overheads</strong></td>
<td><strong>10.18</strong></td>
<td><strong>10.18</strong></td>
</tr>
<tr>
<td>Finance costs</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Living costs</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total cash costs pre tax</strong></td>
<td><strong>60.92</strong></td>
<td><strong>60.92</strong></td>
</tr>
</tbody>
</table>

### Capital allocations

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for education</td>
<td>1.45</td>
</tr>
<tr>
<td>Provision for retirement</td>
<td>0.84</td>
</tr>
<tr>
<td>Provision for contingencies</td>
<td>1.98</td>
</tr>
<tr>
<td></td>
<td>4.27</td>
</tr>
<tr>
<td><strong>Total cash cost with all provisions (pre tax)</strong></td>
<td><strong>64.22</strong></td>
</tr>
</tbody>
</table>

* Education - assumption is a farmer has 2 children to go to uni in 10 years time for 3 years each at $25 000/year

Contingencies - 1/3 of annual TVC to set aside for contingencies ie drought, flood etc within 5 years ie (650 000 * 0.3624)*0.333 = $78 440

Retirement - $900 000 to be available in 30 years

All investments to be earning a long term average of 10%

*A fair price for fresh QLD milk – that’s all we ask.*
Annuity of a future sum calculation

<table>
<thead>
<tr>
<th>Years</th>
<th>10%</th>
<th>Total</th>
<th>Annual Allocation</th>
<th>Annual Litres 650,000</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>0.164</td>
<td>$78,440</td>
<td>$12,865</td>
<td>1.98c/L</td>
<td>Contingencies</td>
</tr>
<tr>
<td>10</td>
<td>0.0627</td>
<td>$150,000</td>
<td>$9,405</td>
<td>1.45c/L</td>
<td>Education</td>
</tr>
<tr>
<td>30</td>
<td>0.00608</td>
<td>$900,000</td>
<td>$5,472</td>
<td>0.84c/L</td>
<td>Retirement</td>
</tr>
</tbody>
</table>

Mr Busby concluded that a fair price for milk at the farm gate has been calculated at 64.22 cents per litre.

64.22 c per litre would equate to a Return on Asset of approximately 5%.
Central Queensland Milk Pricing – An Industry in Crisis

1.0 Business Lifecycle – How Many Farms Can We Afford to Lose?

Every business goes through several life cycle stages, and different management strategies are appropriate for each of the four distinct states. This is no different for CQ milk producers.

Figure 1. Business Life Cycle

Farms at risk those carrying significant debt (often in the rapid growth phase) and farms where the owners are characterised (exit phase) as those having little or no debt, older, able to diversify, and/or having no younger family members who would wish to enter the dairy industry.

Approximately 5% of farms exit the state industry each year. In CQ the data shows that the numbers are reasonably stable at this time, but any losses will impact on milk cartage and eventually impact on the remaining farmers.

Other influencing factors include: climatic conditions, input price increases, loss of confidence, and age of the farm owners.
The recent QDFS showed close to 45-50% of farmers were unsure whether they will remain in the industry in 3-5 years.

The most recent report by Freshlogic entitled NSW and Queensland Dairy Industry: A Time of Reckoning dated October 2012 confirms the above sentiments. Two points made are; firstly, “milk signals have significantly weakened producer confidence in the reliability of supply chain returns”, and secondly there is a belief that downward pressure on farm gate prices will place further pressure on a large number of marginal milk producers, cause a reduction in milk supply”.

The table overleaf shows the age of the owners of Central Queensland dairy farms and indicates the potential risk shown where 30 percent are over 60 years of age.

Table 1. Age of Dairy Farm Owners in Central Queensland

<table>
<thead>
<tr>
<th>Age groups</th>
<th>No in each group</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;30 years</td>
<td></td>
</tr>
<tr>
<td>30-40 years</td>
<td>3</td>
</tr>
<tr>
<td>41 – 50 years</td>
<td>3</td>
</tr>
<tr>
<td>51 -60 years</td>
<td>16</td>
</tr>
<tr>
<td>&gt;60 years</td>
<td>18</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Port Curtis Supplier Production 2009 to 2012.

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Suppliers</th>
<th>Regional Production</th>
<th>Production per farm (average/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>37</td>
<td>27,142,309 L</td>
<td>733,575 L</td>
</tr>
<tr>
<td>2011/12</td>
<td>44</td>
<td>31 029 130 L</td>
<td>705,208 L</td>
</tr>
<tr>
<td>2010/11</td>
<td>45</td>
<td>29 141 539 L</td>
<td>647 590 L</td>
</tr>
<tr>
<td>2009/10</td>
<td>50</td>
<td>29 074 565 L</td>
<td>581 491 L</td>
</tr>
<tr>
<td>2008/09</td>
<td>49</td>
<td>28 848 003 L</td>
<td>588 734 L</td>
</tr>
</tbody>
</table>
APPENDIX 3: FACTORS IMPACTING ON MILK PRODUCTION GOING FORWARD

1.1 Climate Forecasts for Early 2014

The chances of exceeding the median rainfall during autumn are less than 40% over parts of central and western Queensland and the southeast corner of the NT. In other words, there is a 60% chance of below normal rainfall over these areas. For every ten autumn outlooks with similar odds to these, about four of them would result in above-median rainfall over these areas, while about six would be below average.

The El Niño-Southern Oscillation (ENSO) remains neutral, with the majority of atmospheric and oceanic indicators close to their long-term average. Dynamical models surveyed by the Bureau suggest that while ENSO-neutral conditions are likely to persist through autumn, some warming of the central tropical Pacific Ocean is likely. While short of El Niño levels, this warming may still have some impacts upon Australian climate.

1.2 Trends in Grain Prices

Demand for grain in drought affected areas, combined with the failure of crops in northern New South Wales and southern Queensland, is keeping local prices firm in the face of falling global prices.

ABARES has released its December 2013 Crop Report, estimating total winter crop production in QLD to fall by around 20% in 2013/14 to 1.6 million tonnes, where wheat production compared to 2012/13 drops 21%, barley - 15% and chickpeas - 17%.
Hot and dry seasonal conditions over winter and spring in northern NSW and Queensland have depleted soil moisture levels and created unfavourable conditions for the planting of summer crops. Total summer crop production is forecast to fall by 17.4% to 4.4 million tonnes.

US grain production is also reduced impacting negatively on global grain price forecasts.

Local grain traders BEC are predicting an uptrend in all the major grain and protein prices. Soy meal has risen from $635 per tonne in 2012 to $820 per tonne landed in Central Queensland. These reports also show the grains tracking upward by $40 to $50 per tonne in the same period.

### 1.3 Trends in Fertiliser Prices

Rabobank are bearish on the global fertiliser industry, according to its 2014 Q1 Fertiliser Quarterly report. In urea, a temporary imbalance between supply and demand could put further temporary upward pressure on prices. Phosphate demand in Q1 2014 is finding support from speculative buying from the US and Brazil, with prices finding additional support from elevated sulphur prices. However, at the end of this quarter, prices for both phosphates and urea could fall to levels seen before the recent price spike, as supply will exceed demand. Potash prices are likely to remain stable at current levels, with overcapacity looming over the market and supply chains already appearing full.

### 1.4 Trends in Electricity Prices

In June 2012 the Queensland Competition Authority (QCA) set notified prices for all regulated retail electricity tariffs for 2012-2013. QCA noted in their report that the following general factors for the 2012-2013 notified prices included:

- Further increase in network charges from Energex and Ergon
- An increase in underlying cost of energy – 43% for small customers – primarily due to carbon tax

From 1 July 2013, the regulated electricity tariffs for Queensland businesses were again increased.\(^\text{19}\)

<table>
<thead>
<tr>
<th>Tariff</th>
<th>Year</th>
<th>Peak c/kWh</th>
<th>Off Peak c/kWh</th>
<th>Service Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>GST Exc</td>
<td>GST Exc.</td>
<td>c/day</td>
</tr>
<tr>
<td>20-General</td>
<td>2011-12</td>
<td>23.19</td>
<td>N/A</td>
<td>Approx. 48c/day</td>
</tr>
<tr>
<td></td>
<td>2012-13</td>
<td>20.01</td>
<td>N/A</td>
<td>107.434</td>
</tr>
<tr>
<td></td>
<td>2013-14</td>
<td>23.21</td>
<td>N/A</td>
<td>130.161</td>
</tr>
<tr>
<td>22-General</td>
<td>2011-12</td>
<td>28.17</td>
<td>9.92</td>
<td>Approx. 106c/day</td>
</tr>
<tr>
<td></td>
<td>2013-14</td>
<td>25.496</td>
<td>18.668</td>
<td>130.161</td>
</tr>
</tbody>
</table>

\(^{19}\) Origin Energy

_A fair price for fresh QLD milk – that’s all we ask._
### Transitional Tariff

<table>
<thead>
<tr>
<th>Year</th>
<th>Peak c/kWh</th>
<th>Peak &gt; 10,000 kWh / month</th>
<th>Off Peak c/kWh</th>
<th>Service Charge (GST Exc) c/day</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GST Exc</td>
<td>GST Exc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>62-Farm Time of use</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>29.61</td>
<td>25.04</td>
<td>10.47</td>
<td>Approx. 51c/day</td>
</tr>
<tr>
<td>2012-13</td>
<td>32.571</td>
<td>27.544</td>
<td>11.517</td>
<td>54.932</td>
</tr>
<tr>
<td>2013-14</td>
<td>35.828</td>
<td>30.298</td>
<td>12.669</td>
<td>60.425</td>
</tr>
<tr>
<td>65-Irrigation Time of Use</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>23.62</td>
<td>N/A</td>
<td>13.01</td>
<td>Approx 51c/day</td>
</tr>
<tr>
<td>2012-13</td>
<td>25.982</td>
<td>N/A</td>
<td>14.311</td>
<td>60.425</td>
</tr>
<tr>
<td>2013-14</td>
<td>28.58</td>
<td>N/A</td>
<td>15.742</td>
<td>60.425</td>
</tr>
</tbody>
</table>

### Annual Fixed Service Charges

<table>
<thead>
<tr>
<th>Year</th>
<th>All Consumption</th>
<th>Annual fixed First 7.5kW (ex GST)</th>
<th>Remaining KW $per KW</th>
<th>Minimum Annual fixed charge (GST Exc)</th>
<th>Service Charge GST Exc c/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>66-Irrigation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>12.38</td>
<td>24.01</td>
<td>72.1</td>
<td>$180.08</td>
<td>Approx. 1.12c/day</td>
</tr>
<tr>
<td>2012-13</td>
<td>13.618</td>
<td>26.411</td>
<td>79.409</td>
<td>$198.08</td>
<td>121.068</td>
</tr>
<tr>
<td>2013-14</td>
<td>14.980</td>
<td>29.052</td>
<td>87.350</td>
<td>$217.89</td>
<td>133.175</td>
</tr>
</tbody>
</table>

### 2.0 Capex

Expenditure on capital replacement should at least be equal to the depreciation claimed annually. This is seen as just a provision for items as they wear out and makes good business sense. Low milk returns have impacted on the investment in technology.

### 3.0 Rational Capital Allocation

This capital allocation is one of the most important decisions to be undertaken to create wealth and ensure reasonable funds for investment. Low returns to not allow this to be considered and will impact in the near future. The objective being to:

- Grow the business without eroding profitability
- To reduce risk, ability to cope with dry conditions and floods
- Improve the working environment – to retain and skill labour
- Meet family needs e.g. children’s education, and
- To ensure retirement is adequately funded.

Low returns have and will result in unfunded future liabilities on many farms. For example, children’s education needs, no contingency funds for supporting production in dry times, business succession and retirement. The amounts required for these are calculated using discounted cash flow principles - the annuity of future sum calculation, and is explained below. This is accepted as a fair means to estimate the required returns for farmers in primary industry.

All areas face increased competition for labour with farmers unable to match the wages paid by the mining industry.

_A fair price for fresh QLD milk – that's all we ask._
4.0 Queensland Dairy Accounting Scheme (QDAS)

Detailed data has been collected for many years using a system (QDAS) which is recognised as complying with national benchmarking principles. The format has been reviewed over the years by independent consultants and a large NSW rural accounting firm. Their comments indicate that the system has definitions and makes calculations that are consistent with CPA guidelines. It compares very favourably with the format used by ARARES.

It is noted that the farms supplying data are not selected at random. The scheme is offered to all dairy farmers on a voluntary basis. Approximately 12-15% of farms contribute data. A significant point is that the cooperating farms are larger than the average and this may mean they are more profitable. The data is collected from reconciled accounts kept electronically. The average QDAS farm produces approximately 1.16 mL annually while the average Central Queensland farm only produces 650 000 litres. Comparison of all data sets indicates that the variable cost of production in Central Queensland is about 1-2 cents higher than in other areas. The cost data presented is supported by ABARES findings in recent publications.

The following analysis details the true farm costs and hence indicates a return per litre required to achieve a balance for future production.

- Bare Breakeven cash – excluding capital allocation and tax
- Breakeven with realistic living expenses and capital allocation

![Graph 1. Purchased Feed and Total Variable Cost of Milk Production (c/L) for the years 2007 to 2011 in QLD]
5. Allocated Price Increases for Inputs over 2011-12 data.

These allocations have been made after considering the information on major cost items shown above.

Table 3. Allocated price increase on 2011-12 data.

<table>
<thead>
<tr>
<th>Cost item</th>
<th>2011-12 c/L cost</th>
<th>Estimated % cost increase</th>
<th>Estimated c/L increase</th>
<th>2012-13 c/L forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased feed</td>
<td>19.0</td>
<td>15%</td>
<td>2.85</td>
<td>21.85</td>
</tr>
<tr>
<td>Fertiliser</td>
<td>2.6</td>
<td>20%</td>
<td>0.52</td>
<td>3.12</td>
</tr>
<tr>
<td>Fuel &amp; oil</td>
<td>1.7</td>
<td>20%</td>
<td>0.34</td>
<td>2.04</td>
</tr>
<tr>
<td>Seed</td>
<td>0.9</td>
<td>5%</td>
<td>0.05</td>
<td>0.95</td>
</tr>
<tr>
<td>Irrigation</td>
<td>0.7</td>
<td>35%</td>
<td>0.25</td>
<td>0.95</td>
</tr>
<tr>
<td>Repairs &amp; Maint</td>
<td>1.9</td>
<td>4%</td>
<td>0.08</td>
<td>1.98</td>
</tr>
<tr>
<td>Animal health</td>
<td>1.6</td>
<td>8%</td>
<td>0.13</td>
<td>1.73</td>
</tr>
<tr>
<td>Herd improvement</td>
<td>0.6</td>
<td>3%</td>
<td>0.02</td>
<td>0.62</td>
</tr>
<tr>
<td>Shed chemicals</td>
<td>0.7</td>
<td>3%</td>
<td>0.02</td>
<td>0.72</td>
</tr>
<tr>
<td>Shed electricity</td>
<td>0.8</td>
<td>35%</td>
<td>0.28</td>
<td>1.08</td>
</tr>
<tr>
<td>Milk levies</td>
<td>0.3</td>
<td>0.03 c/L</td>
<td>0.03</td>
<td>0.33</td>
</tr>
<tr>
<td>Paid labour</td>
<td>5.3</td>
<td>4%</td>
<td>0.21</td>
<td>5.51</td>
</tr>
<tr>
<td>Admin costs</td>
<td>2.2</td>
<td>3%</td>
<td>0.07</td>
<td>2.27</td>
</tr>
<tr>
<td>Living costs</td>
<td>8.0</td>
<td>3%</td>
<td>0.24</td>
<td>8.24</td>
</tr>
</tbody>
</table>

Table 4. Calculation of the Annuity of a Future Sum

<table>
<thead>
<tr>
<th>Years</th>
<th>10% factor</th>
<th>Set aside requirement</th>
<th>Annual allocation</th>
<th>Annual cents per litre cost*</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>0.164</td>
<td>$78,440</td>
<td>$12,865</td>
<td>1.98 c/L</td>
</tr>
<tr>
<td>10</td>
<td>0.0627</td>
<td>$150,000</td>
<td>$9,405</td>
<td>1.45 c/L</td>
</tr>
<tr>
<td>30</td>
<td>0.00608</td>
<td>$900,000</td>
<td>$5,472</td>
<td>0.84 c/L</td>
</tr>
</tbody>
</table>

*Based on 650 000 litres annual production

A fair price for fresh QLD milk – that’s all we ask.
6. Calculating a Fair Milk Price

As shown in the following table, a fair price for milk at the farm gate has been calculated at 64.22 cents per litre.

<table>
<thead>
<tr>
<th>Production Costs</th>
<th>C/litre</th>
<th>C/litre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased feed</td>
<td>21.85</td>
<td>21.85</td>
</tr>
<tr>
<td>Fertiliser</td>
<td>3.12</td>
<td>3.12</td>
</tr>
<tr>
<td>Fuel &amp; oil</td>
<td>2.04</td>
<td>2.04</td>
</tr>
<tr>
<td>Seed</td>
<td>0.95</td>
<td>0.95</td>
</tr>
<tr>
<td>Irrigation</td>
<td>0.95</td>
<td>0.95</td>
</tr>
<tr>
<td>Repairs &amp; Maint</td>
<td>1.98</td>
<td>1.98</td>
</tr>
<tr>
<td>Other feed</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total Feed related cost</strong></td>
<td>31.59</td>
<td>31.59</td>
</tr>
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<td>Animal health</td>
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<tr>
<td>Herd improvement</td>
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<tr>
<td><strong>Total Herd Costs</strong></td>
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<td>Shed electricity</td>
<td>1.08</td>
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<tr>
<td>Shed chemicals</td>
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<td><strong>Total Shed Costs</strong></td>
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<td>cartage</td>
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<td>levies</td>
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<td>Sundry variables</td>
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<td>0.1</td>
</tr>
<tr>
<td><strong>Total other variables</strong></td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td><strong>Total Variable Costs</strong></td>
<td>36.24</td>
<td>36.24</td>
</tr>
<tr>
<td>Overhead costs</td>
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<tr>
<td>Administration</td>
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<tr>
<td>Paid labour</td>
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<tr>
<td>Capex</td>
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<tr>
<td><strong>Total Overheads</strong></td>
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<tr>
<td>Finance costs</td>
<td>6.5</td>
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</tr>
<tr>
<td>Living costs</td>
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<tr>
<td><strong>Total cash costs pre tax</strong></td>
<td>60.92</td>
<td>60.92</td>
</tr>
</tbody>
</table>

| Capital allocations       |         |         |
| Provision for education   | 1.45    |         |
| Provision for retirement  | 0.84    |         |
| Provision for contingencies| 1.98   |         |
|                          | 4.27    |         |
| **Total cash cost with all provisions (pre tax)** | 64.22 |         |

* Education - assumption is a farmer has 2 children to go to uni in 10 years time for 3 years each at $25 000/year
Contingencies - 1/3 of annual TVC to set aside for contingencies ie drought, flood etc within 5 years
ie (650 000 * 0.3624)*0.333 = $78 440
Retirement - $900 000 to be available in 30 years
All investments to be earning a long term average of 10%
### Annuity of a future sum calculation

<table>
<thead>
<tr>
<th>Years</th>
<th>10%</th>
<th>Total</th>
<th>Allocation</th>
<th>Annual L</th>
<th>Annual</th>
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<tbody>
<tr>
<td>5</td>
<td>0.164</td>
<td>$78,440</td>
<td>$12,865</td>
<td>1.98 c/L</td>
<td>Contingencies</td>
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<td>10</td>
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<td>1.45 c/L</td>
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<td>$900,000</td>
<td>$5,472</td>
<td>0.84 c/L</td>
<td>Retirement</td>
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7. **Milk Returns, Feed costs indexed from 1998-99 as the Base year (prior to de-regulation)**

#### QLD Milk Returns

<table>
<thead>
<tr>
<th>Year</th>
<th>Milk return c/L</th>
<th>Indexed at 3%</th>
<th>Total Variable Costs</th>
<th>Indexed at 3%</th>
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<tbody>
<tr>
<td>1998-99</td>
<td>41.22</td>
<td>42.4566</td>
<td>20.87</td>
<td>21.4961</td>
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<tr>
<td>1999-20</td>
<td>42.46</td>
<td>43.73</td>
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<td>2000-01</td>
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<td>22.14</td>
<td>22.81</td>
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<td>2001-02</td>
<td>45.04</td>
<td>46.39</td>
<td>22.81</td>
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<tr>
<td>2002-03</td>
<td>46.39</td>
<td>47.79</td>
<td>24.19</td>
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<td>2003-04</td>
<td>47.79</td>
<td>49.22</td>
<td>24.92</td>
<td>25.67</td>
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<td>2004-05</td>
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<td>50.70</td>
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<td>2005-06</td>
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<td>26.44</td>
<td>27.23</td>
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<td>2006-07</td>
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<td>53.78</td>
<td>27.23</td>
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<td>2007-08</td>
<td>53.78</td>
<td>55.40</td>
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<td>57.06</td>
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<td>2009-10</td>
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<td>2011-12</td>
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<td>62.35</td>
<td>31.57</td>
<td>32.52</td>
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<td>2012-13</td>
<td>62.35</td>
<td>64.22</td>
<td>32.52</td>
<td>33.50</td>
</tr>
</tbody>
</table>

- **Relative price with indexing**
  - 64.2 c/L
  - 33.5 c/L

- **Av full time adult earnings at May 2012**
  - $1416/week
  - $73,632

- **Husband & wife (assumption wife 0.5)**
  - $110,448

- **We have shown living costs at**
  - 8 c/L

- **Av farm figure is**
  - $52,000

**Showing a modest increase in line with inflation**

**Under valuing farm labour based on average Australian & hours worked**

---

*A fair price for fresh QLD milk – that’s all we ask.*
8.0 References

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Financial Tables – School of Natural & Rural Systems Management – UQ Press
Dairy Australia Milk Production Reports
Parmalat Monthly News
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QDO weekly updates, faxes to members
NSW and Queensland dairy Industry: A time of reckoning, Freshlogic, October 2012
Northern Dairy Industry, Regional Industry Situation and Outlook – Update June 2012 and July 2013

Personal Discussions

Grain traders at Philp Brodie Grains & BEC
Adrian Peake and Ruth Chalk – QDO
D Mc Rae, Principal Climatologist, DAFF (Q)
R. Murphy, senior Extension Officer, DAFF (Q)