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Sandra Kennedy
State Economic Committee

Dear Sirs/Madam,

The following submission is based on person observation of both my own National Foods clients and those dairy farmers which I have had cause to visit and complete budgets for as part of the industry based “Taking Stock” program.

The issues I wish to raise is not so much the price being paid by National Foods but rather to provide some background to the assertion that this price is higher than that being paid by Fonterra.

Dairy production systems are extremely complex with farmers having to deal with interactions between animals, soils, plants, weather and people. Structural change within a dairy business cannot be made quickly without a ‘House of Cards” effect taking place.

Historically National Foods have paid premiums for out out-of-season production. This out-of-season production has had certain milk quality (Somatic cell count) and production parameters (milk volume) associated with them. In the current low milk environment many farmers are not in a position to remove these costs from their systems quickly without the business falling apart financially.

To simply say that these farmers will be better off supplying National Foods because they are offering a premium over Fonterra is an oversimplification due to the fact that if this structural change could be undertaken quickly then many would be better off supplying Fonterra.

In almost all cases when I complete a business comparison between supplying Fonterra (producing milk at time best suited to the growing environment) and producing milk out-of-season for National Foods I find a significant improvement in business profit by supplying Fonterra. This is achieved (generally) buy supplying significantly more milk much more cost effectively by producing that milk seasonally (generally in Tasmania this would involve calving all cows in late winter to capitalise on cheap seasonally produced pasture).

However farmers are not able to cope with the transition period associated with this change and as a result are for all intents and purposes stuck supplying National Foods. The most significant examples of this structural change are shifting calving dates (which could take up to 3 years), adjusting stocking rate (the number of cows on the farm), the type of cow (breed) and the feeding systems employed.

As a result of this I believe that a number of businesses will be forced to the wall and National Foods will lose supply. If this is acceptable to them then it will represent cost saving. If they lose too much supply then they will be forced to buy back this supply at above market rates in subsequent years and this could represent a significant cost to them.

There are a number of options for National Foods that would seem to make business sense:

1. If National foods want to reduce supply then they could help some of their suppliers to make the necessary structural adjustments to supply other milk companies.
2. Allow suppliers to supply surplus milk to other milk companies
3. If they want to maintain out-of-season supply then recognise the cost of this and remunerate farmers even if this is at the expense of future price increases.

I hope that this information is useful to you in your considerations.

Yours sincerely
DAVEY & MAYNARD

Per:

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