

David Binney

Senate Inquiry into Milk

The Binney Family has dairy farmed on the North Coast of NSW for almost 60 years . I'm the third generation to take up the challenge of dairying.

I would like to point out some key issues for discussion.

- 1) **Farming, the Environment & costs**
- 2) **Dairying and deregulation**
- 3) **Dairying and the market place**
- 4) **Milk security / Farm investment**

Farming and the environment

It's nothing new for farmers to deal with seasonal changes in the weather.

What are ever increasing are the responsibilities farmers have today just to run their farms and sell their milk.

Some examples are; QA, NLIS, Chem Cert Accreditation, and Johnes disease control the list is long and growing all the time.

The dairy industry has shown it is willing and can step up to meet our customer's expectations on producing a clean green product. The problem is there is no reward. It's been done for no extra money. Today there is no ability to pass on external forced increased costs of production. It costs money to be clean and green!!!!

Dairying and Deregulation

The Dairy industry has been deregulated for 11 years. What we have learnt as farmers in this period is there is no consistency of milk price returns. This creates all sorts of issues such as; poor ability to budget, hard to set farm plan longer than 1 year, instills lack of desire to invest, hard to talk about succession planning as younger generation see mum and dad struggling to make ends meet. This some times is the end of the family farm.

What has large effects on this industry and some of the issues that effect Dairy pricing for us is;

Extreme Weather events, high Aussie dollar, low global dairy commodity pricing, poor Processor performance and now supermarkets fighting for market share with Generic

Milk. All out of the farmers control and any two of these together mean tough times ahead for the farmer.

The single largest impact on the Dairy Industry today since deregulation clearly is GENERIC MILK. Today it is sold cheaper than the cost of production to gain market share crushing the margins of the processors branded milks which will flow through to the farm gate and erode returns for the farm. For the supermarkets to say it has no impact on farmers returns is an insult as not all farmer supplied processors have contracts to supply Generic milk.

It is also widely known that processor's tender milk at reduced rates to gain contracts of supply into supermarkets generic milk purely because of the large volume to gain efficiency in their processing plants. Processors and farmers are being squeezed by the big end of town so to speak. This is a direct outcome of deregulation.

Dairying and the market place

Now more than ever dairy farmers monitor the marketplace of their product and understand the effects it has on their businesses. An outcome again driven by deregulation.

The position dairy farmers are facing today is one of uncertainty. Processors set pricing normally annually but will change when and if the market requires. Increases in milk price are normally driven by supply shortages and therefore come slowly. On the flip side Processors pass on price cuts very fast as most dairy farmers are on supply contracts not price contracts which provide flexibility to the processors but no protection on price to the farmer. Price reductions could be driven by many issues such as mentioned above ; oversupply, Aussie dollar, change of processor supply to supermarket generic contracts and as seen the latest supermarket price war on milk. Which brings us to Milk security and on farm investment?

Milk Security and on farm investment

As many people understand when a business is under financial pressure one of the first things to be cut from the budget is capital investment. Since deregulation the financial pressure most dairying business felt put an end to a lot of capital investments on farm which has had an enormous impact on our industry some examples are ; loss of efficiency gains, Harder working conditions which cause stress for both farm owner and employee's, higher costs of production which equals lower returns or losses , lower living standards, some health issues such as depression, anxiety and weight gain are all human costs of business under pressure . The result of any one of these issues could force dairies to shut down.

The loss of a dairy business to its local economy is huge. Its a well known fact give a farmer \$1.00 and they spend 95c. Qdas financial reporting system time and time again reported average dairying returns on assets (ROA) in the North coast and SEQ area's range between 5% and -2% in the period of 2004 to 2008 a far cry from the returns demanded on the ASX.

Summary

In conclusion it is very clear to me there needs to be a new mechanism for farmers to sell milk for a sustainable and secure future of dairying in Australia's domestic supply region. Common ground has to be found for farmers, processors and retailers to work together to deliver the brilliant fresh product we work so hard to produce for the consumer. Not the big end of town abusing their power driving returns down to the little guy just for market share.