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Committee Secretary
Senate Select Committee on Agriculture and Related Industries
Department of Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee Members,

re: Pricing and supply arrangements in the Australian and global chemical and fertiliser industries

Murray Goulburn Co-operative (MGC) is Australia's largest dairy company. Our co-operative is wholly owned by dairy farmers and its objective is to maximise returns to its farmer suppliers. MGC directly employs approximately 2,500 people mostly in regional Australia and in 2006/07 had revenue of about \$2 billion of which approximately 60% was generated from exports.

MGC has approximately 2,600 active suppliers. According to ABARE the average expenditure on fertiliser and chemicals by Australian dairy farm businesses in 2005/06 was about \$25,000 or 10% of total farm expenditure. Given recent significant price rises it is therefore reasonable to estimate that collectively MGC suppliers will spend in excess of \$100 million on fertiliser and chemicals in 2007/08. Consequently, access to these inputs at internationally competitive prices is critical for the ongoing success of dairy businesses.

Prices paid by dairy farmers for fertiliser and chemicals have approximately doubled over the past 12 months and in some cases final supply prices are not known and there is doubt over the timeliness of supply.

These price increases will have a significant impact on farm profitability particularly if these effects are long-term or permanent and we see any relative softening of world dairy prices and therefore farm incomes.

In making this submission to the inquiry on behalf of the board of MGC I make the following key points:

- MGC understands that the world market for energy, agricultural commodities and key inputs has changed significantly in the past few years.

- However, MGC is not in a position to determine the extent to which prices rises for chemical and fertilisers in Australia are due to international supply and demand factors as opposed to any domestic or international structures or related market failure. Accordingly we look forward to a comprehensive examination of the supply chain and market settings for these key products and any recommendations on how to make these markets operate more effectively.
- Any further rationalisation of the Australian fertiliser and/or chemical industry would raise serious questions about effective competition in the marketplace. MGC welcomes the review in terms of increasing the sectors' understanding of future competitive forces for these key inputs.
- MGC is interested in the review's findings in regards to the assessment of the underlying causes for price increases. A more detailed understanding of the market settings will allow companies like MGC to consider any longer-term strategies to address fundamental issues such as future research, development, extension or risk management.
- MGC would like the committee to consider the impact of energy costs on these products and note the significant impact that energy costs have on the global trading environment. The committee's deliberations will be relevant to the Australian Government's consideration of an emissions trading scheme. We ask the committee to note Australian agriculture's exposure to global trade and the sensitivity of our competitiveness in these markets.

Please do not hesitate to call if you have any questions about any of the matters raised in this submission.

Yours faithfully,
Murray Goulburn Co-operative Co. Limited



Ian MacAulay
Chairman