

Submission to Senate Select Committee on Agricultural and Related Industries – Inquiry into food production in Australia

Liquid Milk Supply and Related Issues

My name is John Wilson and I represent the interests of the three equity partners of Limberlost Dairy, namely John and Penny Hewitt, John and Bev Shepherd and John and Lorna Wilson.

The Hewitts and Wilsons entered into a partnership to convert a farm at Kayena from drystock beef to a productive dairy farm. This partnership commenced 1st October 2006.

One of the key issues prior to the commencement of this partnership was to ensure we had a sale for our milk. After discussions with both National Foods Limited (NFL) and Fonterra we elected to take up an offer with NFL to produce winter milk for the liquid milk market in Tasmania. They made a letter of offer which was dated 5th April 2006 from Greg Henry (the then Field Officer for Tasmania) with copies to Glen Bake, Paul Pafumi, Garry House and Robin Campbell.

At an on farm meeting with Greg Henry and Paul Rees, we agreed to seasonally calve in February, at a time that best fits the requirements for NFL. They get more milk over the late summer, autumn and winter and relatively less in spring, thus meeting their milkflow requirements.

This commitment came at additional cost to ourselves in that we were not able to buy cows calving at this time (nobody calves then as too much of the time the cows are milking requires additional high cost feed inputs) and so had to delay the mating to bring cows into line. In addition we needed additional capital expenditure specifically for this calving pattern such as a stand off area, a feed pad, higher standard of track access for wet conditions, additional land drainage and extra plant. It is estimated that the additional cost or lost income from delaying mating was \$675,000 over setting up the farm to calve in the spring. We still felt the farm had land and climatic advantages for winter milking and agreed to spread these additional initial costs over a number of years of production.

We gave indications of production of 2.1ML in the first season (06/07) and 2.9ML (07/08). NFL agreed that they would buy all of this milk at contract milk prices and we proceeded from here. The total investment of land, stock and plant was just under \$6.5M.

The first season we produced 1.6ML and last season 2.4ML. These are down on our estimates due to less cows than budgeted, a higher loss of production per cow in changing the calving pattern and two seasons of drought.

In June 2008 a neighbouring property came on the market. I rang Greg Henry who was on leave and then Paul Rees. He came and visited the farm on the 27th June 2008. I explained our intention to take this opportunity for expansion, but needed to know if NFL wanted the extra milk. His words were “that they (NFL) would take all the milk we could

produce so long as we continued with the February calving pattern". I indicated to him that we would increase numbers from 500 to 600 and then 800 over the next three seasons. In volumes of milk this would represent 3.0ML in the (09/10) season, which we will do and 4.0ML in the 10/11 season.

At this time there was no indication, or reason for a price drop and we proceeded to borrow a further \$1.5M to purchase and develop a further 80 ha. Subsequently we have taken in a third equity partner.

Now as this land is coming into production. We have now been told (less that 12 months later) that NFL has a surplus of milk, does not want increased production and for the first time is differentiating the price between contract and over contract milk – over contract milk being paid at a lower price. In addition the average price being paid has nearly halved. Just to add further injury, we had been assured that any increases in pricing would be in the Jan – Aug period not over the spring months. The current pricing schedule proposed by NFL in fact has taken the monthly milk price weighting away from this period of the late summer, autumn and winter and put it into spring further penalising our production pattern .

If we compare the price we were paid per litre last year to the proposed price for this year on our expected 3.0 ML then our operation is down in milk income by \$780,000. We cannot sustain this and will not be able to operate at a breakeven situation. We can elect to run up debt, run down the farm assets or underfeed the cows. None of these options do we want to take, nor feel we should have to take, just to add to NFL profit line.

In summary.

1. At the commencement of this business venture we entered into a business relationship with NFL with an element of trust and mutual understanding. This trust has been broken with them not honouring their word and having no respect for the livelihood of there suppliers, just greed for their own business.
2. We were encouraged to increase production by NFL, but despite their assurances we doubt that our contract volumes will increase in line with our growth.
3. In the past the contract and over contract milk prices have been the same, but NFL has indicated by their actions on prices paid this financial year that over contract milk will attract significantly lower price. (July and Aug over contract price was only 62% of contract milk price). In their contract they are not even obliged to collect over contract milk.
4. We in good faith designed our operation from the start to have the calving pattern most suited to NFL and as promoted by their monthly payment structures, just to have the structure changed without any reason or warning.

5. The dramatic reduction in the prices offered to us this season bears no relationship to changes in the retail price of milk. We do not accept their argument that the world commodity prices have slumped. We are producing milk for the liquid milk market in Tasmania. We believe they are ripping us off, because they can. They have brought up all the competition and they know we cannot move to Fonterra at the moment.

We ask the Committee to consider these matters and will be pleased to respond to the Committee's questions at the Inquiry.

Signed

John Wilson

John Hewitt