

**Submission to Senate Select Committee on Agricultural and Related
Industries – Inquiry into food production in Australia
Liquid Milk Supply and Related Issues**

Senators, this written submission is provided for consideration at your Select Committee sitting in Devonport on 6 October, 2009.

I understand the difficulties milk suppliers in Tasmania are experiencing and this contribution will show that National Foods Limited applies the same appalling treatment of suppliers elsewhere.

My specific concerns relate to an unpaid sum by National Foods of \$191,000 plus GST. This figure exists due to our “disqualification” for a retrospective (back) payment for milk in the 2007/08 financial year.

In Victoria, dairy producers have the opportunity to supply milk to many different processors. Although this has been the case for more than 20 years, most dairy producers remained loyal to their original processor. Since 2000, dairy producers have become much more willing to change processors for a better deal elsewhere.

This has happened in Northern Victoria particularly where the reduced supply of irrigation water has resulted in major shortages in milk production relative to local milk processing capability. Although this willingness to change processors initially created some competition, it wasn't long before processors became very frustrated with dairy producers changing processors once /year or whenever they saw an opportunity for better deal elsewhere.

To the milk processors, it appeared that they could no longer simply rely on milk supply despite whatever price they paid for milk. To resurrect the loyalty that they had historically enjoyed, National Foods (and others) decided that they needed to employ some new tactics.

In 2007/08 the international price rose quickly, and National Foods prices needed to increase in order to compete with the export milk sector. To do this they paid retrospective price increases to each Victoria supplier in order to bring the price closer to the export price that other Victorian dairy producers supplying the export sector were getting. This was strategy that they used twice during 2007/08 season. The first time it was given without conditions, however on the second and final occasion in 2007/08, National Foods decided that suppliers could only qualify for that retrospective payment if they signed a milk supply contract for 2008/09. As expected, virtually all Victorian National Foods suppliers signed up because no one could afford to incur such a severe financial penalty.

In our particular case, we had decided to cease dairying for the time being and did so on the basis that National Foods had assured us that we would not be financially penalised in anyway due to our departure. In the fullness of time, it was proved that we were foolish to belief National Foods.

To emphasise and explain our circumstances the following is a transcription of a letter I sent to National Foods Limited on 15 August, 2008 when it had become clear that we would not be receiving the retrospective (back) payment.

“Re: National Foods Back Payment

We write to express how disgusted we are that National Foods has refused to pay us the final 2007/08 Back Payment. From the outset, you need to understand that we are talking about an estimated \$191,000 plus GST; a very significant amount of money for any agricultural enterprise.

Despite selling our herd in late April we made a conscious decision to not decommission our milking plant. We considered it to be an important future option for us to be able to recommence dairying, and therefore we chose to keep it operational. Further to this, we have continued our personal interest in dairy livestock and in the new management options (eg robotics) that are getting closer to being commercially viable. Kate continues to work as a dairy cow veterinarian.

In the lead up to our decision to sell our milking herd, we made the effort to keep NFL informed of our thinking, and at no time were we informed that we would be denied any Back payment for milk. Had we known that we would be denied such a significant sum we would have continued to supply milk.

Since we commenced supplying you in September 2004 we have built an excellent working relationship with NFL. Given this, you can imagine how insulted we were when, on August, Glenn Blake informed us that if we did recommence dairying in the near future, that we would still not qualify for the Back payment as we would be considered by NFL to be “New Suppliers”. Not only does this demonstrate the NFL doesn’t care about our business and personal relationship, but also that NFL is not serious about purchasing milk from us at any stage in the future.

In our opinion the idea of recommencing to supply milk is equivalent to the supplier who has decided to significantly downscale their operation yet continue to supply milk to NFL. If this was in fact we had done, we would doubtless have qualified for the Back Payment. When you consider our situation, this is arguably what we have chosen to do, with the difference being that, temporarily, we are not producing any milk.

Glenn informs us that most NFL suppliers have signed a new contract. Consequently NFL management will doubtlessly be very pleased that such severe financial bullying has seemingly been successful. To the contrary, this tactic will;

- Make suppliers deeply suspicious that they are not getting the best deal
- Leave them wondering how they can change who they sell milk to or if they can actually cease dairying without been severely financially penalised by NFL at some future time.
- Ultimately damage the supplier / NFL relationship due to a strong feeling of been trapped into on-going supply to NFL despite what other processors may offer.

Many suppliers are too scared to say anything, and quietly accept an overall lesser milk price rather than confront NFL. It is possible that additional ill feeling toward NFL will occur in the very near future, as the new pricing approach assumes that MG offer the best deal when in fact they do not.

It is clear that the intention of your 7 July letter to Victorian suppliers is to ensure that current NFL suppliers remain loyal to NFL. Withholding the Back payment until a new contract is signed is nothing short of Blackmail. Not only do we contend that the Back payment is a market driven financial reward for milk already produced, but also that in our particular case, we have not been disloyal to NFL in making a decision to stop producing milk for the time being. Historically NFL was a company that many Victorian dairy farmers actively sought to supply however your current attitude to Back Payment will guarantee that it will no longer be the case.

As you will also be aware, we thoroughly enjoyed the Partner's Group Study Tour to USA in April and although we certainly had a wonderful time, our positive thoughts and appreciation to NFL regarding the experience have been marred since this Back Payment issue has emerged. The apparent generosity of National Foods pails into insignificance when, in the fullness of time, it comes to light that we have been denied such a significant amount of money that we strongly believe is rightfully due to us. If the payment was to be paid on 2008/09 produced milk we would, ofcourse, not expect payment, but since it was for 2007/08 produced milk, we feel NFL should do the honest and respectable thing and pass on our well deserved Back payment.

Further to this, Stuart queried NFL whilst on our trip away about how we would be treated once we discontinued supplying milk. On Wednesday 9 April, whilst walking back to the Hotel with Glenn after a very pleasant evening in Visalia, an assurance was given that we **would not** be disadvantaged financially by stopping our milk supply. Now three months later, it just goes to show how unsatisfactory a verbal assurance is.

Thank you for taking the time to read this letter and, hopefully, for reflecting on the quality working relationship that NFL and RW Hodge & Son have had and why that relationship will be sacrificed should your non-payment policy be maintained.

In the future it is possible that we may again be involved in milk production at some level and if NFL is going to continue to refuse to pay the 2007/08 Back Payment, please be assured that the opportunity to do business or have contact with NFL or the individual members of the NFL management team will forever be impossible.

We look forward to your response and hope that the matter can be resolved without the need for any further action."

We have now sprayed out our pastures and commenced producing grain. Since becoming a grain producer, it has become very clear to me that as a dairy farmer, the short shelf life of milk and the fact that you are so busy producing the product, that selling for the best price all the time is simply impossible. Milk processors know this well and take advantage of it!

In grain production we have the advantage of many marketing options (I have chosen to use the futures market) and grain can easily be stored until such time that the market price improves. Until such time that dairy producers have the ability to better market their produce under fair and reasonable conditions, we won't be re-entering the industry.

Senators on behalf of all present, future and past milk suppliers to national Foods Limited I implore you to take the strongest possible action that will result in proper conduct by the company thus treating its suppliers in a fair and reasonable manner.

Stuart and Kate Hodge