Submission from Dairy Farmers in Circular Head Tasmania for the Senate Inquiry into Unconscionable Conduct by National Foods

The dairy farmers of the Circular Head region are proud hard working people, who in recent years have been systematically undermined by National Foods through a pattern of behaviour which now has farmers fearing for the future of their family, farm, livestock and the community in which they live.

National Foods have set about a clear process of unconscionable conduct with the aim of lowering the price of milk paid to farmers through destabilisation and collusion.

This submission gives just a few examples of the process that dairy farmers in Circular Head have had to endure in their negotiations with National Foods.

It shows there have been deliberate delays in contract negotiations, the creation of uncertainty through inconsistent dealings and collusive statements all designed with the single aim of achieving National Foods' desire – to lower milk prices.

National Foods' actions can be summarised by the following behaviour:

- Lengthy delays in contract negotiations and the withholding of any documentation, effectively forcing farmers to sign at a lower price or face the uncertainty of no contract and the risk of being unable to sell their product – i.e. National Foods would not pick up their milk
- Inferences that if contracts were not signed, back pay would not be forthcoming
- Evidence of manipulation of the monthly payment periods to suit a lower milk price being paid to producers
- Evidence of collusion in the Tasmanian market with statements from National Foods representatives to a number of dairy farmers that their milk prices will only be set after solid milk processor Fonterra announces its price for milk, with one farmer being told the price will be "one cent" higher
- Dairy farmers negotiating agreement with one representative of National Foods, only to have the subsequent representative of National Foods deny any knowledge of such agreements
- Farmers not being given copies of contracts despite agreeing to them and repeatedly requesting them
- Contracts not clearly being explained to farmers
- Farmers being penalised if they produce under contract levels or over contract levels
- An inability to transfer milk contracts should their property be sold, thus slashing the value of the property
- Unwieldy and complex accounting systems put in place by National Foods which:
  - make it near impossible to reconcile accounts accurately;
  - do not provide itemised statements for remittance of extra payments; and
  - are unable to be clearly explained by National Foods staff.

Summary

Circular Head dairy farmers who supply National Foods were previous suppliers to Lactos Cheese Factory. Most of the National Foods suppliers in Circular Head are still contracted to supply this company until the end of December 2009. As a result of these contracts most suppliers have not yet received the dramatic reduction in milk prices that has been forecast and offered to farmers out of contract. Some farmers have been approached by the National Foods Field Representative, Mr Paul Rees, with regard to 2010 contracts and likely milk prices. Other farmers have not been contacted at all. Some farmers in this group will incur further losses when their contract ends as increases were made to their milk volumes this year that will not be honoured under the new contract as explained in detail below.

A small number of farmers in Circular Head had 1 year contracts with National Foods. These contracts ended in December 2008. These farmers have been out of contract since January 1 2009. National Foods offered new contracts to these farmers in July 2009. The content of the new contracts has many areas of concern and is favourable to National Foods only in all sections. Furthermore, the National Foods representative, Paul Rees, was not able to answer all details to questions arising in the new contract. This has placed considerable pressure on these farmers to sign the contract, exploiting the fact that their previous contracts had expired.

New contracts for 2010 have been supplied to some of the farmers whose contracts end in December 2009. These contracts are the same as what has been offered to those that were out of contract. It is of concern that National Foods will also pressure this next group of farmers into signing a contract that is clearly one sided, dictates how farmers should manage their farm and completely undervalues the cost of sustainable dairy farming. The plight of the Circular Head dairy farmers and the behaviour of National Foods and its representatives are explained in detail in this document.

General Complaints towards National Foods

Most National Food suppliers in Circular Head believe that the company via its field representatives has acted inappropriately and inconsistently at times with when dealing with farmers.

The following is a list of issues that have been experienced by the majority of farmers in Circular Head and these reflect the attitude of the company to the dairy farmers. Many of these complaints have built a foundation of frustration and anger amongst suppliers towards National Foods. The pattern of behaviour by this company and its employees follows in general terms and is then expanded on in individual farmer complaints. There are many questions that need to be answered by National Foods.

Company Representatives/Milk Supply Managers

- **Lack of communication** between field officers (past and present) and suppliers. Field officers rarely visit suppliers unless they require information or documentation i.e contracts from farmers. No regular meetings to see how suppliers are progressing or inform suppliers of company direction. Field officers rarely provide answers to queries from suppliers and regularly fail to return phone calls on queries that suppliers may have.
- Apparent misrepresentation of National Foods intentions of business by representatives on farm. As field representatives this is the only face suppliers have of National Foods and as such it is assumed by suppliers that any agreements made and signed by themselves and the company representative is binding. This has not been the case.
- Field officers not addressing all suppliers on all issues when visiting farms. It has very much been the case of some suppliers being informed of one issue and the next supplier not. This appears to be a deliberate act of dividing suppliers rather than encouraging cohesiveness.
- Constant inablility to return suppliers phone calls and answer queries

Documentation

- **Milk supply Statements** often have discrepancies between what is paid, the amount received and the amounts farmers have calculated. Further the statements are extremely complicated making it difficult for a lot of farmers to understand. When enquiring for help at head office they too cannot work out statement queries.
- **Remittance Advice** received for No-Disadvantage payments or back payments do not have any details as to how they have been calculated. This is an issue that National Foods has been promising to rectify and have failed to do so.
- **Correspondence** from National Foods whether it be a letter that notifies suppliers of staff changes within the company or on issues relating to contracts and milk prices are not received by all suppliers despite all being on the same contract.

New Contracts on Offer

- The terms dictate how farms will be managed due to constraints in contracted milk volumes.
- Decreasing market value of farms that supply National Foods compared with competing milk companies by not guaranteeing that the company will take on a new owner of a farm as a supplier if the farm changes ownership.
- Not all suppliers have been supplied with a Letter of Offer for contract and as prices are not fixed this does not allow suppliers to forward plan for the next year or set budgets for their business.

Head Office

- Suppliers are constantly treated with disrespect on the telephone by administration employees of National Foods. Most are unhelpful and try to refer any problems onto another office, usually at Burnie, Tasmania. However the Burnie staff who despite being friendly, can no longer deal with queries regarding statements and documentation.

- Office staff are also ill informed and this has caused suppliers to be very cautious with help received. For example office staff try to refer matters to the former field officer Greg Henry after he had left National Foods. They apparently were not informed that a current employee Mr Paul Rees was the new field officer.
- Extremely rude phone manner with many suppliers feeling that staff "treat us like dirt". The irony being that without dairy farmers these staff would not have the job position they currently hold.

Individual Farmer Perspectives on Unconsionable conduct by National Foods

D & I Anderson, Mawbanna TAS
The Anderson's were on a one year contract with National Foods which ceased on December 31 2008. Milk continued to be supplied to National Foods during the first half of 2009 without a contract and the Anderson's were paid at National Foods published rates. In July 2009 Mr Anderson approached the National Foods Field Representative, Mr Paul Rees, about a contract and what the upcoming season price for milk would be. Being unable to answer this question directly Mr Rees returned the phone call with the answer being that the spring price to be paid for milk would be approximately $0.20 per litre and that a new contract or Letter of Offer was in the mail. Prior to this letter being received and despite the Anderson's being out of contract since the beginning of 2009 a National Foods representative had not contacted the Anderson's in any way since a visit by the then field officer, Mr Greg Henry in early 2008.

The Letter of Offer was to be signed and returned by the 27th July 2009. Whilst Paul Rees provided the Anderson's with a document titled National Foods Income Estimate for F10 New Contract (an estimate of income based on figures provided by National Foods) he did not explain the terms of the contract fully to the Anderson's. As the deadline approached Mr Anderson asked what the consequences would be by not signing a contract and continuing to supply milk without a contract. Mr Rees' reply was clear that money owing to the Anderson's from National Foods for a back payment relating to the "No-Disadvantage" basis against Fonterra on their previous contract would not be paid. Mr Anderson was also concerned that without a contract National Foods would refuse to pick up his milk and in the end felt that at least by signing a contract he would be guaranteed a buyer for his milk providing him with some security. As the Anderson's understood it, an extension was granted and they finally signed the contract for a term of five years on 11th August 2009. Mr Rees phoned Mr Anderson on 11th September to notify him that his no-disadvantage payment had been calculated and would be paid into his account that day. Mr Anderson is yet to receive any documentation showing how this payment (or any previous back payments) have been calculated. The new contract is now in effect and for the month of September the Anderson's are being paid $0.208 per litre for their milk.

The Anderson's have been dairy farmers for 36 years and without doubt have estimated that the payments for their milk this season will be the worst they have experienced if the cost of production is compared with the price being paid. There has been over a 50% decrease in the farm gate price of milk but not a 50% decrease in the costs of producing that milk. As a consequence the Anderson's daughter and son-in-law have sought work elsewhere and the Anderson's plan to semi-retire has been replaced with them returning to full time farming and milking. Labour costs were the first area to be reduced and the consequences of this have already impacted on the welfare of Mr Anderson's herd. Without the extra labour unit stock is not checked as regularly and losses to calves and cows have already occurred. Mr Anderson plans to reduce his herd also due to the poor milk price and forecasts that his production volume will be decreased by 10% and he may be penalised for this under the terms of his new contract. Whilst there has already been some effects of a low milk price for these suppliers the continuing effects of further physical and mental stress remain to be seen.

J Elphinstone & S Medwin, Rocky Cape TAS
Mr Elphinstone & Ms Medwin were on a one year contract with National Foods which ceased on December 31 2008. In late December he received a letter from National Foods stating that at the end of the contract there would be a 3 month notice period for both parties. The letter from Paul Rees then goes on to state:

"The market for raw milk is experiencing considerable volatility with world markets deteriorating significantly in recent months and the domestic market is also experiencing unprecedented volatility.

Consequently National Foods requires further time to consider the full implications of the current raw milk market price movements. We expect to make a contract available later in January 2009. National Foods is mindful that it needs to remain competitive in the Tasmanian raw milk market to secure milk."

Any questions in relation to this letter were asked to be directed to either Paul Rees or Greg Henry. No contract was received by Mr Elphinstone by the above stated date. Mr Elphinstone rang these representatives on numerous occasions over the months between January and July as he was fully aware he was out of contract. The consistent reply he was given was that contracts were not yet available as National Foods were waiting for Fonterra to release their season published price before new contracts would be supplied.

In early July a Letter of Offer was mailed to Mr Elphinstone & Ms Medwin for a supply agreement or contract for 2009/2010 and onwards which was to be signed and returned by the 27th July 2009. Around the middle of July Mr Rees phoned Mr Elphinstone to enquire whether he had received the contract and if he had any questions. Mr Rees visited the farm in early August to explain the National Foods Income Estimate and the payment structure according to the National Foods "model farm". Mr Rees inadequately answered many questions directly relating to the terms of the contract.

Under the terms of the new contract “Contract Sales Volumes are to be nominated by the supplier for 2009/2010 however they are not to exceed monthly contract volumes you nominated for the 2008/2009 season. These volumes would become the minimum volume commitment for each year of the contract.” Mr Elphinstone had notified his intention to continue to expand his herd and therefore his contracted volumes each year to National Foods several years ago. More recently Mr Henry was aware of this and had agreed verbally for this increase in contracted milk. On questioning Mr Rees as to what the reasons now were behind no longer being able to increase milk volumes, Mr Rees advised Mr Elphinstone that National Foods had made a mistake with the Betta Milk supply contract with which they have to comply. As a result National Foods would be unable to guarantee that there would be future increases in contracted volumes to their suppliers. He could not guarantee that even if National Foods obtained markets for more milk that current suppliers would be offered an increase in their volumes and that if the company wanted more milk they would obtain it from what ever source was available including new suppliers. Mr Elphinstone’s understanding is that there was no commitment on behalf of National Foods to its suppliers. Whether a supplier was on contract for 1 or 5 years or off contract when it came to offering further contracted milk National Foods would not necessarily offer it to committed suppliers. When asked whether a 1,2,3 or 5 year contract would be best for Mr Elphinstone’s situation Mr Rees could not provide an answer. Mr Rees was further questioned on why Mr Elphinstone should sign a contract when only 3 months of prices were known and that signing a five year contract was signing up to a future of uncertainty. Mr Rees guaranteed that the minimum price for milk paid by National Foods would always be based on Fonterra’s price and indicated that the contracts were about obtaining a commitment to supply National Foods. Mr Rees also advised Mr Elphinstone that about half of the National suppliers had signed the contract and for varying terms.

Mr Elphinstone has not signed the new contract but is concerned that Natioanl Foods will refuse to pick up his milk unless he signs a contract. National Foods have not kept Mr Elphinstone & Ms Medwin informed as to their intentions for business throughout the year and still are unable to provide satisfactory answers to many questions they have in relation to the new contract on offer. Of greatest concern is the limitation on expansion of the contracted volumes of milk. This operation was intending to expand each year and the new contracts do not allow for this operation to increase in size at all. If milk prices continue at the current rate being offered by National Foods Mr Elphinstone would be forced to sell cows and reduce his herd numbers to comply with the milk volumes National Foods are contracting. Production costs would also have to be reduced and any further improvements to this farm will cease. Their intention to employ a labour unit will not go ahead. Current milk prices will mean that for this young family trying to build asset and make a living in the dairy industry will not be a reality.

CG, CJ & MC Batty, Wiltshire TAS
The Batty partnership was also a supplier whose 1 year contract with National Foods ended on December 31 2008. National Foods advised the Batty’s that a new contract would not be available until July when Fonterra’s price for milk was published. In mid July a Letter of Offer was received in the mail by the Batty’s. Prior to receiving this the

Batty's understood (under advice from a National Foods representative) that the new contract would be the same for all suppliers to National Foods across Australia and the Batty's assumed that this would also apply to the price structure on offer.

On receiving the Letter of Offer the Batty's approached Paul Rees of National Foods to set up a meeting and explain the terms of the new contract for their farm situation. The Batty's were concerned that a contract had been offered to them without any consultation into what terms the supplier would be prepared to do business. The Batty's believed that the new contract demonstrated that National Foods did not understand the nature of the business of farming i.e. a farm cannot change its infrastructure, calving patterns of cows and production costs overnight to suit a contract and that nor should it if this is not the most efficient and cost productive way to farm. Currently the Batty farm is set up as a winter milking farm to take advantage of the premium milk price that was offered originally by Lactos and subsequently National Foods.

Mr Rees went through parts of the contract with the Batty's but still left many questions unanswered. He did however make the Batty's feel pressured to sign a contract as they were concerned that if they did not sign National Foods would not pick up their milk. In explaining the contract to the Batty's Mr Rees explained that unless a long term contract was signed there would be no contract premium paid and that National foods wanted only a certain number of farms to sign up to each of the year terms on offer. As is stated in the new contract offer under the heading Longer Term Contracts "…National Foods will allocate on a "first come, first served basis" which will be determined by the order of receipt of signed contracts at National Foods' Docklands Office."

When questioned on milk prices for the "indicative only" months in the new contract Mr Rees commented to the Batty's that the price will always be 1cent in front of Fonterra's published price. As they understood it any step ups in milk price made by Fonterra to its suppliers in the period from July-December would be matched by National Foods. For step ups in the period January – June Mr Rees explained that National Foods would consider doubling these payments. However he conceded that the farmer would not really be in front as these payments would not be covering the months of highest production over the winter. Mr Batty also enquired as to whether there would still be a no-disadvantage policy and Mr Rees explained that there would be to Fonterra but not a policy to other National Suppliers implying that there may end up being different price structures for individual farms e.g for farmers whose contracts end in December 2009. The Batty's also got the impression that if they did not sign a contract there would be a good chance that they would not receive any back pays if Fonterra increased their milk price.

With the deadline for the return of the signed agreement (27th July 2009) looming the Batty's signed the contract for a five year term. The current price for milk supplied in September is \$0.208 per litre. This price is unsustainable even for this family who have 40 years of equity in their business. As a result costs will be cut in the form of labour and feed costs for stock which will eventually impact on animal health on their farm.

In the Batty's experience in the dairy industry previous contracts for milk supply have served to suit both the farmer and the milk company. The new contracts with National Foods suit only the company and have no consideration for the needs of the farmer. This attitude towards farmers was also felt by the Batty's when their previous contract was signed. The latter part of 2007 was a time of personal stress for the family and the field representative at the time Mr Henry asked Mr Batty to let him know if there was anything they could do to help. Shortly after National Foods sent a contract to be signed without any contact or help from Mr Henry. Furthermore this attitude is reflected in the new contracts where if a farmer was looking to sell their property National Foods will not guarantee taking on the new owner as a supplier. For the Batty's who have signed a 5 year contract the value of their property as a working dairy farm is now questionable for without a guaranteed milk contract who would buy it?

JH & TM White, Irishtown TAS
The White's are currently on a 2 year contract with National Foods which will end in December 2009. They have a split contract with one third of their dairy herd calving in autumn and two thirds in spring.

In 2008 the White's purchased a new farm and they were able to continue to keep their contract with National Foods. The White's were unsure as to what volumes of milk their cows would produce when moved to a new farm and approached the National Foods representative at the time, Mr Greg Henry. He stated that they would be able to review their contracted amounts at the end of 2008 for the following year 2009. In December 2008 the Whites rang Mr Henry to ask if he could come and help set their contract volumes for 2009. In January 2009 the Whites again rang Mr Henry to enquire when he would be meeting with them and at that time Mr Henry assured them that there would be no problems with volumes of milk to be supplied. In the middle of February 2009 Mr Henry met with the White's and together they completed and signed a Milk Supply Agreement 2008 and 2009 with the outcome being that the White's would be increasing production in 2009. Mr Henry took a signed copy of this back to National Foods. He assured them that a possible increase in volumes would be ok especially for milk supplied in the autumn and winter as this is what National Foods wanted. He also commented that there were half a dozen farmers in a similar situation.

As planned with Mr Henry the White's increased their autumn herd by 30 cows and started calving their spring herd 10 days earlier to suit their farm and their contracted volumes. In April 2009 the White's rang Mr Henry enquiring about an inconsistency on their milk statement. Mr Henry was to look into the matter and get back to the White's. He ceased working with National Foods that month and had no further correspondence with the White's. After receiving their milk payment statement in May the White's rang the new National Foods representative Mr Rees to enquire about payment for 2009 contracted litres. Mr Rees looked into the matter and returned their phone call the next day and explained that the company did not honour the 2009 contracted volumes that had been agreed on with Mr Henry. National Foods will only pay suppliers on the 2008 contracted volumes. He also claimed that a letter had been sent to all suppliers stating that the 2009 contract volumes would be the same as those for 2008. The White's did not receive this letter. The White's had been paid the 2 year contract price (approximately $0.46 per litre) for their milk based on 2008 contract volumes. Any extra milk produced above the 2008 volumes was initially paid at this price in April and May but then deducted from their milk payment in June. Mr Rees met with the White's in May and failed to honour the previous agreement signed by the White's and Mr Henry.

As a result of this failure by National Foods to honour an increase in production of contracted milk volumes on the White's farm any milk produced above the contracted amount for 2008 is now being paid at a substantially lower price approximately $0.27 for the month of July. This is a considerable loss of income when the White's are consistently supplying over 15% more milk than the 2008 contracted volume. Yet the volumes the White's are producing for 2009 have been within a few hundred litres of what was agreed on by Mr Henry. In addition the cost of increasing cow numbers and changing calving dates has been in vain despite assurance from the National Food representative at the time. If National Foods decide to change an agreement the supplier should be notified immediately so that decisions on farm structure and cow numbers (both of which require planning and financial costs) can be appropriately made by the supplier. The last time Mr Rees met with the White's was in May 2009 and the White's are yet to receive a Letter of Offer for a contract for 2010.

N & L Innes-Smith, Edith Creek TAS
The Innes-Smith's are currently on a 2 year contract with National Foods which will end in December 2009. They have a split contract with both autumn and spring calving cows.

On 26th May 2009 the Innes-Smith's were visited by the National Foods representative, Mr Paul Rees to inform them that they owed the company $11 079 for the 2008 calendar year. This was a result of the Innes-Smith's being outside their ratio of autumn to spring cows for their split contract. The split contract ratio is calculated on the production (in litres) for June, July, August as the autumn months compared with the production for October, November and December as the spring months. The production in the spring months is a maximum of 2.3 times that of the autumn months. The Innes-Smith's had been through their 2008 production with the previous National Foods representative, Mr Greg Henry and believed that their production was within the required ratio as is documented in their Milk Supply Agreement for January 2008 to December 2008 and signed by both parties. The ratio and contracted volumes for 2009 were also calculated and signed with Mr Henry but the Innes-Smith's have not received a signed copy returned to them. To date the Innes-Smith's have been provided with no documentation as to how the $11 079 was calculated off production figures. They have paid National Foods this amount.

The following is Mr Innes-Smith's thoughts and comments on the current situation with National Foods and also the ramifications of lower milk prices.

"We also supply Fonterra on another farm. We calve a traditional spring herd on that farm and milk to approximately 20 June and start sending milk again in late August early September. Our costs are a lot less due to not having to milk through the winter and we have no restriction on spring milk production. This is an easier system to cut costs and service in a downturn in milk price.

This July, August and now September period has been very wet with 190 millimetres of rain in July and over 300mls in August. So the extra costs with winter milking have been high due to extra pasture damage. We will have to re-grass about 10 hectares at approximately $500 per hectare plus we had to buy in extra feed – 200 bales of silage at $62.50 a bale landed (a total of $12 500), 100 bales of hay at $60 a bale landed (a total of $6000) and we bought maize silage at approximately $30 000. Spring calving herds have struggled through a wet spring with extra feed costs and pasture damage also plus the stress on cows and farmers but as a winter milkers we had already endured six more weeks of this pressure. Yes, as contracted National Foods suppliers we have a better price than Fonterra but I will be a long time trying to recover these costs.

Most farmers are fairly highly geared with debt. Farmers are at the bottom of the heap. Dealing with mud, cows losing weight, having to shoot cows and more dead calves than usual let alone thinking about how we are going to pay our bills at the end of the month. This season any cows with health problems such as calving paralysis, difficult calvings, infection that normally come good are having to be shot.

A group has been set up in Circular Head where a financial counselling and mentoring service is being offered to farmers to hopefully help farmers get through this tough period and so that we don't end up seeing any farmers commit suicide or walk out on their farms. As a rural community everyone suffers."

The Innes-Smith's have not been supplied with a Letter of Offer for a new contract as yet. The uncertainty by National Foods on confirming milk prices for all months of the period of the contract as well as not having received these documents means that the Innes-Smith's cannot start to make budgeting and farm plans for next year.

GE & VJ House, Forest TAS
The House's are currently on a 2 year contract with National Foods which will end in December 2009. They have a split contract with both autumn and spring calving cows.

In December 2007 Mr House met with the National Foods representative Mr Greg Henry to sign his current 2 year contract and to agree on contracted milk volumes. Mr House has never received a signed copy of these volumes despite several phone calls to Mr Henry. In January 2009 Mr House again met with Mr Henry to discuss contracted milk volumes as Mr House intended to increase cow numbers by 100 cows after purchasing neighbouring property. The agreed milk volumes were recorded on a Milk Supply Agreement document that was signed by both parties and witnessed by the House's sharefarmer. Mr Henry was to email a copy to the sharefarmers and post a copy to the House's. This document has not been sighted by any one since this day. The House's and their sharefarmer made a record for themselves at the time of the agreed volumes. Due to changes in farm structure the House's did not expand their operation to this level and so milk volumes in 2009 have been under their predictions. National Foods have paid for all their milk at the current contracted value. However, in the contracts on offer for 2010 the House's will be affected as "Contract Sales Volumes … are not to exceed monthly contract volumes you nominated for the 2008/2009 season" and the option to increase this annually will be unlikely. The increase in production on the House's farm made in 2009 will mostly be in effect for the months from June-December 2009 and these will not be used for contracted volumes for future contracts. It is likely that the House's will have to reduce cow numbers now to fit with 2008 contracted volumes and that despite Mr Henry's assurances that expanding milk volumes by increasing cow numbers would be welcomed by National Foods.

Whilst the House's are still contracted a milk price of approximately $0.46 per litre this will change on 1st January 2010. The predicted reduction in milk prices and restrictions on contracted milk means that the House's sharefarmers will no longer be employed and this milking herd will reduce in numbers rather than increasing as planned.

Knobs Pty Ltd – Farm Manager I Korpershoek, Forest TAS

Mr Korpershoek currently manages this farm on a lease arrangement from his parents. The farm is currently on a 2 year contract with National Foods that will finish in December 2009.

In January 2009 Mr Korpershoek met with National Foods representative Mr Greg Henry to agree on contracted milk volumes for 2009. Mr Korpershoek stated his intention of expanding the milking herd by 25 animals which would increase contracted volumes in 2009. Mr Henry advised that this would be fine. A Milk Supply Agreement was filled in and signed by both parties and Mr Henry advised a copy would be sent in the mail. A copy of this agreement was never received by Mr Korpershoek.

In April 2009 Mr Korpershoek calved an extra 25 heifers that he had bought at a cost of $1500 (plus GST) per head or a total of $37 500 to expand the herd. Milk volumes for the year have been above the 2008 agreed volumes but not more than 15% (as stated in the 2 year contract) but also below the predicted increases as calculated with Mr Henry for 2009. Hence there has been no penalty for this. However, with the Letter of Offer for contracts in 2010 it clearly states that "Contract Sales Volumes … are not to exceed monthly contract volumes you nominated for the 2008/2009 season" and the option to increase this annually will be unlikely. The increase in production on the Korpershoek's farm made in 2009 will mostly be in effect for the months from June-December 2009 and these will not be used for contracted volumes for future contracts. (The same situation with GE & VJ House as stated above). The expansion of the herd this year has been at a considerable cost and in vain. In a future contract based on the 2008 milk volumes Mr Korpershoek will have to decrease herd numbers by selling animals. Due to the downturn in the dairy industry and low milk prices these same animals are now only worth $900 in the current market. The value of these animals may further decline.

Mr Paul Rees visited Mr Korpershoek during the week of the 20th July 2009 to deliver a Letter of Offer for milk supply in 2010. Mr Rees explained the "model farm" and the pricing structure for the new contracts. However he failed to mention that contracted volumes for the new contracts would be based on 2008/09 production and not on any increased production in 2009. It was not until Mr Korpershoek read the letter for himself that he realized this discrepency and that this was not what was in the agreement with Mr Henry. Furthermore in the new contract there would be no room for expansion of the milking herd as production volumes would not be increasing. Hence the National Foods contract will force Mr Korpershoek to manage his farm according to the company's demands rather than how he had planned. In hindsight, Mr Korpershoek feels that Mr Rees poorly explained this new contract and that he deliberately emphasised areas he thought would entice the farmer as well as complicating facts for the farmer.

JA & AM Finlayson, Togari TAS

The Finlayson's are currently on a 2 year contract with National Foods which will end in December 2009. They have 3 calving periods a year to produce a flat supply of milk throughout the year.

The Finalyson's concerns begin with advice given at a National Foods suppliers meeting in June 2008 and then confirmed in a letter dated 14th July 2008. It was stated that suppliers individual milk statements were going to be audited for mistakes made in calculations of payments beginning in January 2008. This was a direct result of supplier complaints in regards to mistakes to payments when National Foods changed their computer software. In November 2008 Mrs Finlayson contacted the National Foods field officer with a spread sheet outlining the shortfall in payments from January to November in their milk cheques which the Finlayson's estimated to be approximately $10 000. The shortfalls came from incorrectly calculated amounts of GST, quality milk payments and sometimes from a discrepancy between total amount paid on a statement and the amount received in the Finalyson's bank account. The Finlayson's were advised that this problem would be corrected. They have contacted the previous and present National Foods representatives on numerous occasions with reference to this matter and each time have been told the matter would be dealt with. The last request to resolve this issue was in July 2009. The Finlayson's are concerned that if they choose not to continue to supply National Foods when their contract ends they will not receive the outstanding money they believe they are owed.

In August 2009 the National Foods representative, Mr Paul Rees visited the Finlayson's to explain a spreadsheet demonstrating the proposed payment system for suppliers who sign a new contract in 2010. Mrs Finlayson comments that "He said it was based on our existing contracted amounts. However, if analysed, milk that is claimed to be our contracted amounts are incorrect. They (National Foods) will receive the amount of milk contracted for the month and accept it for processing through the winter months, however they are paying the spring price of $0.20 per litre for a proportion of that milk instead of $0.46. On our farm this equates to about 40 000 litres. The income estimate shows that a substantial amount of milk is pushed forward into these lesser paying months than what will be received for those months and these litres should really be paid for at the premium winter price."

In reference to the 2010 contract on offer the Finlaysons are concerned about the indicative prices on offer for surplus milk supplied from January to August. The Finlayson's state "We are being asked to sign a contract for surplus milk where the price can be changed if they (National Foods) choose – with no minimum base. We are being restricted on growth and surplus milk is necessary for our business to grow." There is a huge difference in financial terms between the current old contract price of $0.46 per litre and the current new contract price of $0.20 or lower. Mrs Finlayson concedes "…we are expected to sign a document in good faith and ramifications on our farm could be as high as $200 000 plus." In addition the Finlayson's believe the new payment schedule is very unclear and deceptive as to what is really intended to be paid to suppliers. For example the income estimate formulated by National Foods clearly states that a 1 cent per litre bonus is paid for signing a contract for more than a year. However, this is built into the milk price being paid in that year but it will not be received as payment in that year. Contracted volumes are also an issue for the Finlayson's who along with a number of other suppliers submitted their expected milk production volumes for the 2009 contract in late 2008. National Foods is not honouring these volumes and that all contracts will be based on 2008 volumes. National Foods claim this is because of an oversupply of milk due to the company losing a contract for fresh milk (Betta) and penalizing farmers for a shortfall in planning.

The Finlayson's final concerns and the impact of the new contract on their farm follows.

"Our farm has 3 calvings to produce a flat supply curve. The cost of production is much higher than the spring price structure National Foods is currently comparing our payment system to. The majority of the supply base for National Foods is split and winter milking. We are being asked to sign a contract which in reality is a spring price over 1,2,3 or 5 years. We are unable to lock ourselves into a contract where we would send our business broke. It takes 2 to 3 years to alter a calving pattern which relates to total milk production. We are being asked to produce milk through the high cost periods in January to August and being offered a spring price which is not viable. With a contract the only way out is to sell your farm to stop supply."

Written and submitted by

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on behalf of National Foods milk suppliers in Circular Head, Tasmania