

The Tasmanian Dairy Industry Authority in their submission to the Senate inquiry into Deregulation of the Australian Dairy Industry characterised the position of the farmer as follows; and I quote:

Dairy farming is a capital intensive operation, requiring significant investment in farm infrastructure, skill and know-how. The considerable capital investment required for dairy farming includes the farm property and improvements, milking and milk storage equipment, buildings, livestock, herd genetic development, water storage and irrigation equipment, and effluent systems. Much of this investment is specialised - it is not transferable to other farming enterprises.

A dairy herd takes 3 years to gear up, and can be closed down – with the loss of substantial sunk costs – in the time it takes to dispose of the cows.

The relatively fixed nature of the farming infrastructure and operation is such that adjustments to production levels and profitability cannot be promptly adjusted. The factors such as the investment in the herd size and genetic performance, the capacity and throughput of the milking machine and storage equipment, and the investment in pasture quality are each relatively inflexible in nature over the short to intermediate term. Adjustments require medium - term planning, and an overall systems perspective on the costs and returns which interrelate with the above variables.

Milk is a high risk short life product. It must be moved quickly through the milking, storage and transport process onto the factory within hours.

The nature of modern competitive dairying technology is such that farmers require a development lead in period of up to 3 years for cows comprising a herd to start milking, and for a season or two later to reach their full potential. The investment in genetics, pasture and feed quality to support this development period is considerable. Conversely, the investment can be terminated in a matter of minutes – the time taken to load the animal on a truck to the abattoir.

There is little flexibility in managing a dairy herd once operational. The volume milked from a cow cannot be made to fluctuate in response to short – term changes in demand. This would cause serious harm to the ongoing

productivity and welfare of the herd. The dairy farmer must turn over his production on a daily basis.

As a consequence of these factors the dairy farmer is a very weak seller of a commodity product having no real ability to store production... End quote.

The exact same situation exists for dairy farmers today as it did for dairy farmers some ten years ago. Nothing has changed nor is it likely to change while the current system of payment by manufacturers for milk the dairy farmers produce is allowed to continue. That is there is no requirement for manufacturers to pay or honour their “committed” price.

Historically, manufacturers set an opening price for milk in June for the following financial year. That price may be for example, 80 % of what the manufacturers believe they can get from the market for the year, and as the year progresses, step – up payments are made to adjust the price paid to farmers for the milk they supply.

By adopting this method of payment, manufacturers are able to respond to any situation because the farmer wears all the risk. Never has this been more evident than in the lead up to Christmas 2008 when manufacturers informed farmers that instead of paying the “committed” opening price for the period February to June 2009, the milk price would be reduced. When faced with a situation that could leave them financially exposed, or have a negative impact on the balance sheet, the manufacturers pass all the risk back to their suppliers and step – down the milk price.

In more normal circumstances for example, manufacturers are able to protect preset profits, or cover poor performance or hedging exposure, simply by altering the number or size of the step – up payments. They never loose because there is no accountability or transparency.

Committee members, it is not my intention to drag the Dairy Industry deregulation debate back into the public arena, but I think it is important to recognise and acknowledge the path that the dairy industry has travelled over the past ten years that has brought us to where we are today.

In October 1999 the Senate Rural and Regional Affairs and Transport References Committee, with Senator John Woodley as chairman, in their

report Deregulation of the Australian Dairy Industry said on page 177 and I quote:

The operation of co-operatives.

8.43 Although not a central issue to the inquiry, the Committee was disturbed by the number of comments from witnesses and in submissions which were critical of the operations of the co-operatives and their lack of accountability and transparency. For this reason, the Committee considers that it may be appropriate for a review to be undertaken in relation to the operations of co-operatives and their accountability requirements and mechanisms. End quote.

As I said earlier, nothing has changed. There is still no accountability or transparency within our so called Co-ops.

Finally, I ask the committee to accept the fact that some of my responses might lack supporting statistical data and appear generalised in content. Also I accept and acknowledge that my views and opinions may not be endorsed by all dairy farmers or other dairy industry stakeholders, however that should not diminish in any way their importance or relevance to this inquiry.

I say that in the context of my appearance here as an individual dairy farmer, and I would like to thank the Committee for the opportunity to be here today. I have made available a small information kit containing copies of Murray Goulburn correspondence, income estimations, financial details for 07 – 08 and some cost of production figures which I hope you will find useful.

Thank you and I welcome any questions.

Cost of production estimates based on budgeted expenses and milk production of 1.2 million litres.

Item	Budgeted cost	Approx c.p.l	% milk income @ 50 c.p.l.	% milk income @ 40 c.p.l.
Dairy reqs	8400	0.7	1.5	1.75
Cartage	31000	2.6	5	6.5
Wages	31000	2.6	5	6.5
Electricity	9000	0.75	1.5	1.75
Fertilizer	60000	5.0	10	12.5
Fuel	9000	0.75	1.5	1.75
Insurance	12500	1.0	2	2.5
R & M	30000	2.5	5	6.5
Stock Fodder	120000	10	20	25
Veterinary	12000	1.0	2	2.5
TOTALS		26.9	53 %	67 %

Notes:

- Cartage refers to volume charge paid to factory
- Includes on costs. (superannuation, work cover etc)
- Fertilizer includes cartage and some spreading costs
- Stock fodder does not include feed costs associated with calf rearing



**Murray Goulburn
Co-Operative Co.
Limited**
ABN 23 004 277 089

140 Dawson Street Brunswick Victoria 3056
PO Box 4307 Melbourne 3001 Australia
Telephone (03) 9389 6400
Facsimile (03) 9387 5741

25 June 2008

Dear Supplier,

Re: Opening Milk Price 08/09

The following table details our committed opening price for 2008/09.

Notes		2008/2009	
		Fat \$/kg	Protein \$/kg
1,2,3.	Opening Monthly Milk Price		
	- July	4.02	9.98
	- August	3.34	8.28
	- September	3.12	7.73
	- October	3.12	7.73
	- November	3.12	7.73
	- December	3.12	7.73
	- January	3.34	8.28
	- February	3.44	8.53
	- March	3.54	8.78
	- April	4.02	9.98
	- May	4.12	10.23
	- June	4.22	10.48
2.	Collection Charge	\$7.50/stop	
2.	Productivity Incentive	Refer table (a)	
2.	Volume Charge	Category A - 2.5¢/Lt	
		Category B - 2.6¢/Lt	
		Category C - 2.7¢/Lt	
		Category D - 2.8¢/Lt	

Table (a) Productivity Incentive

2008/09		
Total Kgs Butterfat & Protein (excludes any grade milk)	Cents Kg B/Fat	Cents Kg Protein
20,001 - 32,500	1.0	2.5
32,501 - 45,000	2.0	5.0
45,001 - 70,000	3.0	7.5
70,001 - 95,000	5.0	12.5
95,001 - 120,000	6.0	15.5
120,001 - 150,000	7.0	17.5
150,001 - 180,000	8.0	20.0
180,001 - 210,000	9.0	22.5
210,000 - 240,000	10.0	25.0
240,001 - 300,000	11.0	27.5
300,001 - 360,000	12.0	30.0
360,001 - 480,000	13.0	32.5
480,001 - 720,000	14.0	35.0



With respect to the tables you should note the following: -

- Note 1.** The committed opening monthly milk prices include Base Price, MG Milkcare Incentive, Seasonal Incentive and the Premium 1 Quality Incentive.
- Note 2.** MG Milkcare Incentive, Productivity Incentive, Volume Charge and Collection Charge remain unchanged from 2007/08.
- Note 3.** Premium 1 Quality Incentive has been increased to 14¢ kg butterfat and 35¢ kg protein. Premium 2 Quality Incentive has been increased to 4¢ kg butterfat and 10¢ kg protein. Seasonal Incentives have also been increased.

Our committed opening price is up 9% on last year's opening price. We expect markets to remain firm throughout 2008/09 which will enable us to pay good step-ups as the year progresses. However, as always, we have to caution against unforeseen political, economic, currency or seasonal activity which can affect world supply and demand and impact on milk prices.

We will continue with initiatives such as the Trading Stores Loyalty Rebate and the provision of services such as MG Farm, MG Agrilink and MG Finance. We again anticipate paying a strong dividend on your shares.

Interest Free Finance

The existing interest free finance offer of \$100/tonne of grain, pellets or hay and \$100/megalitre of temporary irrigation water finishes on 30 June 2008. The Board has decided to replace this offer with a *new*, larger, more focused interest free finance facility of \$150/tonne of grain, pellets or hay; \$150/tonne dry matter (DM) of silage and \$150/mega litre of temporary irrigation water.

To be eligible, stockfeed and temporary irrigation water needs to be purchased and delivered between 1st October 2008 and 31st January 2009. The loan will need to be repaid in 10 equal instalments commencing the month after the finance is given and will be secured in the same way as other Murray Goulburn finance.

Final Step-up and Dividend for 2007/08 Season

We will announce our final step-up for the 2007/08 season in late July, after we complete our accounts for the year. We intend also to announce our annual dividend payable on ordinary shares at that time.

Remember too that the 2007/08 Productivity Incentive will be paid on 15th August and the 2007/08 Trading Store Loyalty Rebate on 1st September.

Wishing you well for the season ahead.

Yours sincerely,
Murray Goulburn Co-operative Co. Limited



Stephen O'Rourke
Managing Director





**Murray Goulburn
Co-Operative Co.
Limited**
ABN 23 004 277 089

140 Dawson Street Brunswick Victoria 3056
PO Box 4307 Melbourne 3001 Australia
Telephone (03) 9389 6400
Facsimile (03) 9387 5741

18 December 2008

Dear Supplier,

World dairy market prices have deteriorated rapidly and well beyond expectation over the past few weeks as the full impact of the deepening world economic crisis hits the dairy industry.

Many customers are now finding it difficult to obtain credit and insurance, while competitors are heavily discounting to move growing stockpiles. If we do not meet this price competition we also risk a build up of stocks.

It is our responsibility to pay members what the market delivers. This principle is key to the ongoing protection of a farmer owned Co-operative.

During July to November, 2008 our market returns justified the milk price paid. Unfortunately likely returns for December 2008 to June 2009 require us to reduce the existing milk price.

We deeply regret having to take this action but stress that we are in an extremely volatile market fuelled by an unprecedented collapse in world financial markets. World dairy prices have fallen more than 60% for powders and 50% for cheese and butter in less than 2 months, with no clear view as to whether they have bottomed or not.

For milk supplied in December and January we will pay the existing price. However for milk supplied from 1st February, 2009 to 30th June, 2009 the base price will be reduced by \$1.35 kg butterfat and \$3.38 kg protein. All other incentive payments remain as previously detailed. Over the course of the 2008/09 year this represents an adjusted milk price approximately 13% lower than the opening price advised in June. In the circumstances we will suspend the Supplier Share Equity Scheme for the period 1st February to 30th June, 2009. The attached table details the revised prices for the year.

Your Co-operative is financially very sound and able to carry a substantial part of the burden of this collapse. Strong retained earnings, a manageable stock position, positive contributions from Devondale and nutritional markets and aggressive cost reduction programs help us to limit the milk price reduction to well below the impact of the commodity market collapse.

If the market happened to improve between now and 30th June, 2009 any step-ups would be paid only on milk produced from February 2009 to June 2009. However we must caution against further unforeseen market decline due to the current world financial crisis or indeed other unforeseen political, economic, currency or milk supply issues which can impact on milk prices.

We remain positive about the future of the dairy industry and particularly MG. We have arranged supplier meetings mid January to further discuss details of the market and MG's response. Details are attached.

Yours faithfully,
Murray Goulburn Co-operative Co. Limited

Ian MacAulay
Chairman

Stephen O'Rourke
Managing Director

Attach.

TABLE OF MILK PRICING

The following table details the adjusted milk price for 2008/09.

Notes	Month	2008/2009 Adjusted Milk Price	
		Fat \$/kg	Protein \$/kg
1 & 2	- July	4.02	9.98
	- August	3.34	8.28
	- September	3.12	7.73
	- October	3.12	7.73
	- November	3.12	7.73
	- December	3.12	7.73
	- January	3.34	8.28
	- February	2.09	5.15
	- March	2.19	5.40
	- April	2.67	6.60
	- May	2.77	6.85
	- June	2.87	7.10

With respect to the above table you should note the following; -

Note 1. The monthly milk prices include Base Price, MG Milkcare Incentive, Seasonal Incentive and the Premium 1 Quality Incentive, but does not include Productivity Incentive which will be paid as usual in August.

Note 2. MG Milkcare Incentive, Seasonal Incentive, Premium 1 Quality Incentive, Productivity Incentive, Volume Charge and Collection Charge remain unchanged.

SCHEDULE OF MEETINGS

Wednesday	14 January 2009	9:30am	Leongatha Memorial Hall
		2:00pm	Yarram Ship-Inn Motel
		7:30 pm	Orbost Football Club Rooms
Thursday	15 January 2009	9:30am	Maffra Football Club Rooms
		7:30pm	Kiewa Community Centre
Friday	16 January 2009	9:30am	Cobram Barooga Golf Club
		2:30pm	Cohuna Golf Club
		7:30pm	Rochester Football Club Rooms
Monday	19 January 2009	9:30am	Simpson Public Hall
		2:00pm	Koroit Football Club
		7:30pm	Quality Inn International - <i>Mt. Gambier</i>