



**Dairy for life**

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23 March 2009

Ms Jeanette Radcliffe  
Committee Secretary  
Senate Select Committee on Agricultural and Related Industries  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Ms Radcliffe

Thank you for the invitation to provide a submission to the Select Committee Inquiry into Food Production in Australia and, in particular, to address the topic of prices paid to Australian dairy farmers.

In terms of the Inquiry, we have provided input to the Australian Dairy Industry joint submission lodged in August 2008 by Dairy Australia, the Australian Dairy Products Federation and Australian Dairy Farmers Ltd. We believe this submission is comprehensive and support its recommendations.

To add further to this submission, we offer the following comments.

For the last decade, farm gate milk price paid to farmers in Victoria and Tasmania, by either Fonterra or its competitors, has closely followed the changes in the globally traded price for the dairy commodity of whole milk powder. This is a well-documented fact in the Australian dairy industry.

The reason for this price relationship is the fact that food manufacturers, both locally and overseas, will shift purchasing patterns to seek out the most competitive price for dairy commodities.

We are aware of a recent example where a local food manufacturer commenced purchasing bulk cheese from the USA because it was more favourably priced than cheese produced locally. If the price of farm gate milk, being the key dairy product input, is not competitively priced, we run the risk of more local manufacturers sourcing product from foreign markets.

At times of high demand for dairy commodities, prices invariably increase which provides the opportunity for companies like Fonterra to also increase returns to farmers through a rising farm gate milk price. This has been the case over the past two years in Australia where local farmers have benefited from record highs for farm gate milk price. For the first time in local dairy history, a record seven price step-ups were provided to farmers in the 2008/2009 season.

In the months since the joint submission to this Inquiry made in August 2008 by the Australian Dairy Industry, a correction to farm gate milk price has occurred in Australia. In Fonterra's case, the base milk price paid to farmers in Victoria and Tasmania will reduce by an average nine per cent across the season while other major dairy producers in the same region have been reported as reducing prices by around 13 per cent.

This correction has been precipitated by a global collapse in demand for dairy commodities and was hastened by the global credit contraction restricting the availability of currency to fund global dairy trade. The extent to which this correction has impacted farm gate milk price paid by Fonterra to farmers in Australia has been cushioned by the strength of our underlying domestic brands business.

This underlying strength in Fonterra's Australian operation has translated into what remains a fiercely competitive farm gate milk price which, despite the recent correction, historically remains the second highest price ever paid to farmers. At the time of writing, the price paid by Fonterra to farmers in Victoria and Tasmania is 30 cents per kilogram of milk solids higher than that currently being offered by Australia's largest dairy co-operative, Murray Goulburn.

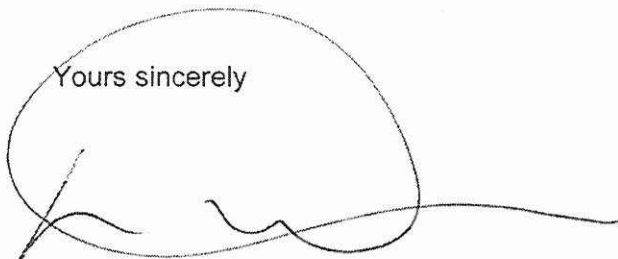
As to what the short to medium term future holds for farm gate milk price, over the past 24 months, the commodity price for whole milk powder has swung wildly between USD2,000 per tonne to USD5,000 per tonne. This exceptionally volatile environment is proving enormously challenging in forecasting the likely future price for farmers. That being said, we are encouraged by recent signs of a strengthening of global demand and the possible stabilising of commodity prices.

Fonterra is wholeheartedly committed to its investments in Australia. Fonterra's shareholders have invested more than \$2 billion in Australia and we are steadfastly committed to growing our business through our stable of iconic dairy brands, by contributing more than \$70 million through regional employment, and by developing enduring commercial partnerships with more than 1,500 Australian farmers.

Our objective is to develop and maintain a sustainable dairy business in Australia that benefits all who participate for the long term. We constantly strive to ensure we grow our local employment, we continue to provide consumers with the highest quality food products made in the safest of environments plus support the growth and sustainability of Australia's dairy industry.

Should any member of the Committee have specific questions about Fonterra's operations in Australia, please ask them to contact me directly on 03 8541 1958.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Bruce Donnison', written over a large, faint circular scribble.

Bruce Donnison  
Managing Director  
Fonterra Ingredients Australia