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**Australian Government****Department of Transport and Regional Services**

Senator Michael Forshaw
Chair
Finance and Public Administration References Committee
Parliament House
CANBERRA ACT 2600

Dear Senator Forshaw

At the hearings of the Finance and Public Administration References Committee on 13 and 14 April 2005 in Cairns, Departmental witnesses took a number of matters on notice and undertook to get back to the Committee.

Many of these matters have been considered in detail and I am able to provide the Committee with the following information.

A2 Milk Project

As requested at the hearings, copies of the following three letters are included at Attachment A:

- a letter from the North Queensland Regional Manager to A2 Milk seeking further information regarding their application,
- A2 Milk's letter of response to the Department providing the requested additional information, and
- a letter from the North Queensland Regional Manager to A2 Milk following the funding approval outlining the conditions and matters to be addressed by the proponents before a funding agreement could be signed with the new company, Star International Group.

The Department's North Queensland Regional Manager approached the Executive Officer of the Far North Queensland Area Consultative Committee (ACC) on 4 August 2004 asking that the A2 Milk project be considered by the ACC at their meeting on 6 August 2004. The A2 Milk application was entered on TRAX and assigned to the ACC on 17 August 2004 to enable it to enter the comments it formulated at the meeting on 6 August 2004.

With regard to the legal action against A2 Milk, I can confirm that after the Department became aware of the action on 26 August 2004, it did endeavour to find out more information about the nature of this action. In seeking this further information the Department did not ascertain the date the legal action was initiated.

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Finally, with respect to the meeting held on 11 June 2004 between Mrs Kelly and representatives of A2 Dairy Marketers, I was contacted by phone and was asked to join the meeting via teleconference. The Department is not aware of what other matters were discussed at this meeting prior to being contacted, and if they had anything to do with Regional Partnerships or Sustainable Regions.

I am happy to expand further on any of these matters at the next hearing that the Department is required to attend.

Yours sincerely



Leslie M Riggs
Executive Director
Regional Services

22 June 2005

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File Reference: A2 MILK 2004

Your Reference:

Mr Lindsay Stewart
Director
A2 Dairy Marketers Pty Ltd
PO Box 6501
Upper Mt Gravatt
BRISBANE QLD 4109

Dear Mr Stewart

Thank you for your application for *Regional Partnerships* funding for the "A2 Milk Processing" project which was received by the Department on 9 July 2004.

Assessment of your application is well progressed. Please note that **no commitment to funding your application can be assumed**. The *Regional Partnerships* programme is a discretionary grant programme and funds are limited. Therefore, your project may not be funded even if your application rates highly against the assessment criteria for *Regional Partnerships*.

Please also note that information provided to DOTARS as part of your application may be provided to third parties including:

- Far North Queensland ACC, your local Area Consultative Committee, which will be asked to provide advice on all applications from its region
- other government agencies and consultants used by DOTARS to assess the project and applicant viability, including assessment of financial viability and the ability to complete the projects
- other government agencies to assist the Department in working out appropriate sources of funding and to inform programme policy and development
- the Commonwealth Parliament to help the Department meet the accountability requirements imposed by legislation and Parliamentary guidelines

Amendments to your application can only be made by contacting the Department in writing. This correspondence should clearly outline the amendments you wish to make to your application and should be signed off by you or another nominated contact in your organisation for the application. We will advise you in writing of the outcome of your application as soon as possible after assessment is complete.

Based on information received to date, a **strong** case needs to be made regarding the following issues before further assessment can be progressed:

Partnerships and Support:

- The *Regional Partnerships* programme guidelines seek partnerships in the form of cash and/or in-kind contributions. Whilst not defined in the guidelines, as the programme has developed since its introduction in July 2003, a contribution of 50% will generally be expected from applicants and their partners particularly where the applicant is from the private sector and/or the project involves a commercial activity.

NORTHERN QUEENSLAND REGIONAL OFFICE

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- Your application currently has the Commonwealth as cash contributor for \$1.2 million which represents 83% of the total project cash cost and 57% of the total project costs. In order for this application to meet the partnerships and support criteria it is necessary for other cash funding partners to be introduced or for the existing partners to provide additional cash support noting the 50% comment above and the following queries in relation to the budget.

Budget

- It is important that the budget clearly reflects the project as this will form part of the funding agreement should your application be successful.
- Your answer to question 9 outlines a2 Dairy Marketers contributing \$250,000 cash, \$153,000 in-kind and Cuda Farm contributing \$400,000 in-kind for land;
- The project budget at question 11 outlines \$210,000 for staff/employment and \$40,000 for travel as in-kind from a2 Dairy Marketers;
- Can you please confirm the correct in-kind figures and also your method of calculation for the in-kind travel as this figure conflicts with your executive summary documents?
- Can you outline what the \$250,000 a2 Dairy Marketers cash contribution will be used for?
- How was the Cuda farm land valuation sourced?
- Clarification of your budget line items to confirm that amounts are based on quotes received or if estimations, how they were calculated particularly for the processing plant equipment?

Outcomes

- The over arching criteria for regional partnerships is value for money and while job outcomes are no longer a required outcome of projects they strengthen the project and assist in determining the value for money.
- Your rollout plan lists a number of positions at various locations before this project comes on board.
- So with that as background, can you provide further detail on the claimed 40 employment outcomes? That is, are they all directly as a result of this application; full time or part-time; broad indication of skill level and where they are likely to be located?
- Question 14 relating to impact on other businesses or groups in the region;
 - Can you provide some comment in relation to the possible impact on the Tablelands should the number of farmers you have outlined no longer supply milk to the current Dairy Farmers Group at Malanda. That is, do you believe it will adversely affect the long term viability of this plant? This will assist us to make some judgment on your impact in the region.
- Our reading of the application indicates you are seeking to process 60,000 litres of milk and based on this your executive summary claims a cash flow positive after 5 months and a

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projected profit of \$3.670 million. The cash flow statement indicates a cost price per litre of 39cents. Can you explain how this compares with your claims of paying up to 35% more at farmgate?

- Stage 1 of the project is the testing of 3000 cows for a2 milk suitability. Can you provide comment on what happens if a proportion or indeed all fail to meet the standard? Would this necessitate further testing and therefore additional cost until the "right" numbers of cows are sourced? If so, who will meet this additional cost?

General:

- What, if any, signed agreements are in place between a2 Milk and Cuda farm;
- Similarly, your application outlines that farmers may become shareholders. Can you provide some comment on the likely structure and how this relates to the new production facility?
- Is there any guarantee that a premium farm gate price can be maintained and how would this be contracted with individual farmers?
- It appears an appeal is in place regarding development approval and that this was likely to be considered by the Atherton Shire Council 1 July 2004. Has this matter been resolved to your satisfaction and can you confirm it will not impact on further necessary approvals?
- Would you also advise whether there is a possibility of processing a2 milk at a location other than the Atherton tablelands?

Your early provision of responses to the above will ensure the assessment can be progressed.

Please call me on (07) 4750 2777 in our office in Townsville if you have any queries on this matter.

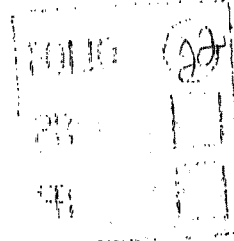
Yours sincerely


MICHAEL KITCHENER
Regional Manager

28 July 2004

Cc FNQ ACC

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5 August 2004

Mr Michael Kitchener
Regional Manager
Department of Transport and Regional Services
PO Box 636
Hyde Park
Castletown QLD 4812

Dear Mr Kitchener

Further to your correspondence, please find below responses to your questions.

Cash injection \$250,000 by a2 Dairy Marketers

This is an injection of start up funding for the company. This funding will be placed in the account from the commencement of the company to ensure that there are funds for normal commencement expenditures.

Processing plant equipment

With the experience through our contacts in the equipment areas we telephoned many companies to find out the estimated costings within the proximately of 5%.

40 Employment

The 40 new jobs are a direct result of this application. Listed below are the positions that will be forthcoming:

- 1 x General Manager Plant Operations
- 1 x Plant Manager
- 9 x Plant staff
- 4 x Drivers
- 3 x Office staff
- 1 x Administration Manager
- 3 x Quality Control Officers
- 2 x Farm Liaison Officers
- 1 x Accountant
- 1 x Sales Manager
- 4 x Sales Reps
- 1 x Tourism Manager
- 1 x Marketing Manager
- 3 x Café Staff
- 2 x Tour Guides
- 1 x Information Technology

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Dairy Farmers Group Malanda

The marketshare of white drinking milk that we are seeking is 2.5%. In all of our marketing and promotion we as a company are endorsing the encouragement of more people drinking white milk. In saying this if Dairy Farmers Milanda believe that 2.5% of milk will impact on the viability of the plant in my opinion they will cease trading without a2 coming to the region.

39 cents per litre

39 cents that you see is not the costing of the milk but the costing of the processing of the a2 Milk. The farmgate price will in excess of 35% and will be contracted separately.

Guarantee

The premium farmgate price will be maintained as it is contracted by legal documents for 3 years. In the benefit to a2 Dairy Marketers Pty Ltd 6 months prior to this contract ending it is our intention to go back to these dairy farmers and resign them. This would keep continuity of supply and part of our quality control would be to ensure that the farmer is capable of meeting our criteria and being profitable to be sustainable as an a2 supplier.

Atherton Shire Council

Per the revised application you will note that we are no longer proceeding Cuda Farms.

Other processing plant

As you would understand via the attached letter Dairy Farmers will not process our milk. In terms of other locations to process the milk, the Atherton Tablelands is the logical area for us as it is central to our Northern Queensland suppliers and will also cater for the export market into Asia.

Regards

Lindsay Stewart

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Department of Transport and Regional Services

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File Reference: N2004/1632

Your Reference:

Mr Lindsay Stewart
Director, A2 Dairy Marketers Pty Ltd
PO Box 6501
Upper Mt Gravatt
BRISBANE QLD 4109

Dear Mr Stewart

I am writing following our telephone discussion on Monday 20 September 2004, subsequent email and your recent advice from the Parliamentary Secretary, Mrs De-Anne Kelly about the approval in-principle of \$1,153,000 (GST Exclusive) for the *A2 milk processing* project on the Atherton Tableland under the *Regional Partnerships Programme*.


Based on the in-principle approval, the following matters need to be addressed prior to the Department forwarding a funding agreement for your consideration:

1. The funding agreement will need to be between the Commonwealth and the new company, namely Star International Group (SIG) which must reflect a structure of equity and 33.3% shareholding for the three parties being, A2 Dairy Marketers, Mungalli Creek Dairy and participating dairy farmers;
2. Development Approval for the processing plant to be sited at Mungalli Dairy needs to be finalised; and
3. Upon creation of SIG, the Department will undertake a viability assessment of the project in relation to the new company which will require the provision of:
 - 3.1. revised 3 year cash flow forecasts;
 - 3.2. a budget reflecting the revised Commonwealth contribution of \$1,153,000 (GST exclusive); and
 - 3.3. Evidence in the form of a bank guarantee or bank statement confirming A2 Dairy Marketers cash contribution of \$250,000 plus confirmation of where the cash shortfall of \$47,000 will be met.

Can you please address the above matters as soon as possible so that we are in a position to finalise a funding agreement.

Please call me on (07) 4750 2777 in our office in Townsville if you have any queries on this matter.

Yours sincerely


MICHAEL KITCHENER
Regional Manager
24 September 2004