



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

SELECT COMMITTEE ON AGRICULTURAL AND RELATED
INDUSTRIES

Reference: Food production in Australia

TUESDAY, 6 OCTOBER 2009

DEVONPORT

BY AUTHORITY OF THE SENATE

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

The internet address is:

<http://www.aph.gov.au/hansard>

To search the parliamentary database, go to:

<http://parlinfoweb.aph.gov.au>

**SENATE SELECT COMMITTEE ON
AGRICULTURAL AND RELATED INDUSTRIES**

Tuesday, 6 October 2009

Members: Senator Heffernan (*Chair*), Senator O'Brien (*Deputy Chair*), Senators Fisher, Milne, Nash and Sterle

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Carol Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Forshaw, Furner, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Minchin, Moore, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Siewert, Stephens, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Colbeck, Heffernan, Milne, Sterle and O'Brien

Terms of reference for the inquiry:

To inquire into and report on:

Food production in Australia and the question of how to produce food that is:

- a. affordable to consumers;
- b. viable for production by farmers; and
- c. of sustainable impact on the environment

WITNESSES

ABBOTT, Dr Angelique, Representative, Circular Head Dairy Farmers.....	44
BARKER, Mr John Scott, Consultant, Tasmanian Suppliers Collective Bargaining Group	2
BEATTIE, Mr Philip Cameron, Spokesman and Executive Member, Tasmanian Suppliers Collective Bargaining Group.....	2
BOVILL, Mr Richard, Coordinator, Fair Dinkum Food Campaign	55
CARTER, Miss Tracey, Private capacity	78
DIBLEY, Mrs Colleen May, Partner, Preolenna Chestnuts	69
EVANS, Mr Kim Ronald, Secretary, Department of Primary Industries, Parks, Water and Environment, Tasmanian Government.....	32
FERGUSSON, Mr Mark, Dairy Adviser, Tasmanian Institute of Agricultural Research.....	32
GRIBBLE, Mr Dave, Private capacity	78
JONES, Mr Symon, Private capacity	78
LAWRENCE, Mr John, Private capacity.....	74
McCALL, Dr Tony, Private capacity	55
OLIVER, Mr Richard Ernest, Private capacity.....	17
OLIVER, Mrs Josephine Margaret, Private capacity	17
PERKINS, Mr Kemball Lewis, Chairman, Tasmanian Suppliers Collective Bargaining Group	2
ROGERS, Mr Grant William, Private capacity.....	2
SYNFIELD, Mr, Private capacity	78
TYSON, Mr Peter Russell, Leader, Dairy Industry Development, Tasmanian Institute of Agricultural Research.....	32
WILSON, Mr John Phillip, Private capacity.....	17
WILSON, Mr John Phillip, Private capacity.....	2

Committee met at 10.03 am

CHAIR (Senator Heffernan)—I declare open this public hearing of the Senate Select Committee on Agricultural and Related Industries. The committee is hearing evidence on the dairy industry within its current inquiry into food production in Australia. I welcome everyone here today. At least it is bloody raining down here; it is not raining at home. This is a public hearing and a *Hansard* transcript of the proceedings is being made. Before the committee starts taking evidence, I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. The committee prefers all evidence to be given in public, but under the Senate's resolutions witnesses have the right to request to be heard in private session. It is important that witnesses give the committee notice if they intend to give evidence in camera. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, be made at any other time. The committee has allocated some time at the end of the day for brief individual presentations. If you want to make a presentation, please see the secretarial staff.

[10.04 am]

BARKER, Mr John Scott, Consultant, Tasmanian Suppliers Collective Bargaining Group

BEATTIE, Mr Philip Cameron, Spokesman and Executive Member, Tasmanian Suppliers Collective Bargaining Group

PERKINS, Mr Kemball Lewis, Chairman, Tasmanian Suppliers Collective Bargaining Group

ROGERS, Mr Grant William, Private capacity

WILSON, Mr John Phillip, Private capacity

CHAIR—I welcome our first witnesses for today, from the Tasmanian Suppliers Collective Bargaining Group.

Mr Perkins—I would like to thank the committee for finding the time and taking the interest to come and conduct this inquiry. We look forward to presenting a lot of evidence, and we will be open to questions. As a bit of background, the group has been established almost four years. It initially comprised 29 out of 31 of what we call the National Foods Leven Valley suppliers. They have been supplying liquid milk to Hobart going back to the old Betta days. Recently the Lactos suppliers have enrolled in our group, 100 per cent, which now takes us to approximately 80 suppliers in the group.

Our submission, as you can see, is quite voluminous. If senators require specific information, please ask. Also, there are two matters which we wish to emphasise, and I ask the indulgence of the committee to invite Grant Rogers to explain the model farm situation—which is something that is very complicated, but he will highlight to you how simple he has made it to understand. After that, John Wilson will talk about the economics side of the situation.

Up to date, there have been many examples of unfair and unreasonable bullying tactics by National Foods, and you will hear of some of those today through key witnesses. Many result from a company-dominant contract by National Foods which will lead us to ruin. Already banks are knocking on the door and making it very difficult to get finance. Basically, what happened was that the price offered formally last year was 49.7c on the base price. The cost of production is 39.8c in this scenario, and the offer this year is 29.7c, so it is pretty easy to deduce that it is about 10c less than we require to carry on the business—not to make money; that is just to survive.

I will get Grant Rogers to talk about the farm concept in a second. Then there is our response to a letter that National Foods have put out. Unfortunately they did not turn up here today, but that is their choice. The international market is not really responsible in this scenario. The original Leven Valley suppliers were producing whole milk for domestic consumption. The current price is only 20c a litre, and it will be that way for this month, next month and December. It is the lowest price of the competitors.

Mr Beattie—I am a member of the executive of the collective bargaining group, and somehow or other I drew the short straw to be the spokesman for our group—along with Kem, obviously.

Mr Barker—I am a consultant to the group. I have helped them prepare submissions and various advice in respect of their processes. I am available to answer any questions that you may wish to give me.

Mr Beattie—I had better start by saying that this is an example of what happens when a very big company loses touch with reality, loses its sense of responsibility to its suppliers and basically becomes very arrogant in the way it deals with people. Kem has briefly outlined the position, and I gather you have all had these papers for some time. I suppose that the first thing we need to do is to look at what the current milk price means to us.

Last year we were able to run our businesses profitably at 49c a litre. We had probably slightly higher costs last year than we will face this year because fertiliser and grain prices were much higher than normal and they have come back slightly this year. We were probably facing production costs of around 44c or 45c a litre last year with a milk price of 49c. We were able to operate as a correct business should do.

This year our costs have come back to probably 39c or 39.8c. But, as Kem said, it is very difficult to operate when you are being offered 29c. This month, next month and right through to December the milk price is 20c a litre. When you are faced with costs of 40c and an income of 20c, it does not take much maths to work out when you are going backwards.

What are the reasons behind why National Foods are doing this to us? They are saying that it is part of the world market. They are saying that they have to respond to world market signals. There is no doubt that the world market has come back considerably, although it has gone back up again very recently. The only problem is that National Foods are selling almost none of their produce on the world market. It is being sold here as liquid milk, yoghurt and as premium soft cheeses in Tasmania and on the mainland of Australia. So we are at a bit of a loss to understand how they can use the world market price to force our price down.

We also have some very serious issues with regard to the contract that has been written by National Foods and which we are not allowed at present to have any say in. I do not want to go on too long about the contract issues, because they are extremely complicated and in the hands of a solicitor at the moment, but you do have quite significant paperwork about the contract and about how unfairly and prejudicially it is written in favour of National Foods. We are really asking National Foods two things: to give us a fair price and to renegotiate our contract terms along much fairer lines.

Perhaps one of the reasons why National Foods are trying to persuade us that they are paying a comparable price to Fonterra is their use of the model farm. It might be best to call on Grant Rogers to explain the model farm.

Mr Rogers—My task has been purely to look at the model farm and pull it to pieces because I had huge concerns when it first came up. National Foods have come up with a smaller farm that shows in theory that they are paying us a premium. The reality is very different to that.

What they have done—I will just write this up on the board as I go along—is split the year into two six-month periods. They have July through to December and January through to June. This is Fonterra and this is National Foods. In the first six-month period National Foods will pay us the same as what Fonterra pays. So, if Fonterra pays 30c or opens at 30c, they will pay us 30c. However, to get to the 30c, you have got to fulfil a number of quality criteria and volume bonuses. The model farm is based on a farm that produces two million litres of milk a year, produces the same number of litres every day of the year and is grade 2 quality bonuses. They have worked out your quality bonuses and your volume incentives, and they are offering a 1c sign-on—sign the contract—incentive. All these bonuses are worked into the 30c. So they are no longer premiums; they are just part of it. They are called premiums, but they work it back into this thing. The other reality is, as John will show later, that no farm actually produces the same amount of milk every day of the year. Most of them produce more in the spring period.

The other issue is that they work on averages through this period. Fonterra pay slightly more in the first couple of months, in July-August, and then it goes down, whereas National Foods will pay a lot for July and August milk and then they will drop the arse end out of it for the rest of the season, which is what we are on at the moment. They work it out on the basis that, because we are supposedly producing the same amount of litres every day of the year, on average we are getting paid the same. So, again, in reality that is not right.

Fonterra step up during the year; they have step-ups. National Foods have said that they will match these step-ups. If Fonterra step up in the first half of the year, before Christmas and before 31 December, they will step up the same amount. So if Fonterra step up 2c there, ending up on 32c, at the end of the six-month period National Foods will look at what they ended up on for that six months and they will step up whatever they are required to to match it. So in this case they will step up 2c as well. If they were on 29c, they would step up 3c. Simple? That is simple. That is the easy bit. The difficult bit comes in the second half of the year. This is where they really try to work some magic and try to pull a lot of wool over our eyes.

In the second half of the year they have said that they will pay us a 4c premium per litre, over Fonterra. Again we have got the same flat supply curve. The difficulty occurs around step-ups, and this is generally when Fonterra step up—in the second part of the year. If Fonterra start on 35c out here and step up 2c, they step up right back here to 1 July. National Foods have said they are not going back here at all. What we will do is double the step-up. In theory it sounds right; they will double the step-up just back to 1 January. So in theory the model farms produce the same amount of milk in both halves of the year, so in theory you are getting paid the same amount of step-up paid to you. You are stepping up 4c.

The trouble is that at the end of the year they do the same thing—they have a tallying up. This farm here has ended up on 37c and this other farm here has ended up on 39c. They have said they will pay a 4c premium. To get that, they need to put on another 2c to take it up to 41c—a 4c premium. That looks good on paper but the trouble is that 2c of this 4c premium came from the step up paid to these guys back here. They have been paid it as well. If we take it a step further and put a couple of step ups in here and they get up to 39c then we are suddenly up to 41c just with the step ups. But those guys have already been paid that other 4c back here. So in theory we still have a 4c premium over Fonterra but in reality over the entire season there is no premium whatsoever.

We can take it a step further and have another step in this period—which could, incidentally, occur in August. If it occurs in August then these guys here will completely ignore it because it is after the end of the financial year. That is an aside. But if they step up again at any time—for example, if they step up another 2c—then basically we actually could end up worse off than Fonterra suppliers because of the way they manipulate the market.

CHAIR—We only have limited time today. We are interested in seeing the difference between Fonterra and National Foods but none of that is the solution—they are both going to give you a root-out. What I would be interested to know is: is Lion Nathan about to take over National Foods? Aren't we talking to Lion Nathan anyhow?

Mr Perkins—We hope to. But that does not occur until the end of this month, approximately. We have issued an invitation to talk to Lion Nathan but at this point they are not in charge of it. My understanding is that they do not take over until the 24th of this month. So this is relevant where we are talking about right now. That might change.

CHAIR—Do you have more you want to tell us about the difference between the two?

Mr Rogers—What I have said is probably not as thorough as this document. You can have a look at this document.

Mr Barker—That document is in the submission.

Mr Rogers—I will just summarise it, if you like. They are claiming that they are paying us a premium. To achieve a premium we have to achieve very strict quality criteria—and this is also about volume and when we produce it. All of these bonuses they claim they are paying us are included in their working out just to make parity or to make the premium. So basically they are not paying the same amount of money for the same milk. When you look at the step ups, you see that by not paying back until the first half of the year they are manipulating the use of those to turn them into a premium for us, which in reality does not exist.

Finally, they have basically capped our contract volumes. For what we produce over these capped volumes, at this supposed premium rate, it is at their discretion what they pay us—it is not at world commodity prices; it is at their discretion. So over our capped volumes they could be paying us 20c a litre for the rest of the year. That is pretty much it.

CHAIR—We need to get to questions at some point.

Mr Beattie—I think the question we are all asking is why we are having to describe this in the first place because we are not supplying the same market as Fonterra. The market that we are supplying is a '365 days of the year' liquid milk market, which requires much higher costs because we are being asked to produce milk right through the year, including in the winter with higher production costs and lower yields from cows. We need concrete to put the cows on. We need machinery to feed our cows et cetera. We are not supplying the world market so why are we being compared? This is the question that we ask National Foods—I do not expect the Senate committee to be able to answer this—but why are we being compared to Fonterra in the first place? One of the things that we feel we should demonstrate, probably now, is how we arrive at

39.8c per litre as our cost of production. That is, we believe, the minimum price that Fonterra should be considering paying us. Here I will call on John Wilson to speak.

Mr Wilson—I am a supplier to National Foods. What I would like to do, very briefly, is just to highlight, as Phil says, why we actually should not be compared with Fonterra at all. It is basically about the end products. As Phil described, the end product from Fonterra's perspective is a product that can generally be stored—it is powders, it is butters and it is hard cheeses. So the timing of production is not as critical as for National Foods—where basically they need the milk that day to produce products that have got a very short use-by date. In doing that, National Foods require basically a constant flow of milk every day of the year. The cost of production is inversely proportional to the amount of grass you are growing through the seasons. So in springtime when we have a flush in growth that grass production has a lower average cost than feed alternatives such as bought-in feed. So farmers producing milk at that time of the year are able to produce it on a much lower cost basis as opposed to, as Phil alluded to, in the winter time—

CHAIR—We understand all of that.

Mr Wilson—In saying that, basically Fonterra allow their suppliers to produce milk when those suppliers economically decide that is the best time. What you will find is that the vast majority of Fonterra suppliers calve in springtime to take advantage of the low cost. Given their requirements, National Foods actually encourage us as suppliers, through their contract system, to produce all year round. In doing that there needs to obviously be a premium there. Grant alluded to the so-called premium. The important point, I suppose, is that, in comparing the two pricing structures, if Fonterra required a constant flow of milk throughout the year then their payment structure would be a lot different to what it is now. They have the ability to pass on some of the benefits of the low-cost production times to farmers. But if they required that constant flow then their payment structure would be a lot different; they would have to put in much greater premiums to encourage farmers to produce in the off-season times. So for National Foods to base their pricing system on a pricing system that relates to 'let's give the farmers the opportunity to produce when it is most cost-effective' is basically wrong.

The last point I would make is that as National Foods suppliers we are actually contracted to produce a certain amount of milk for them every day. In doing that we make a commitment that it does not matter how bad the weather is, it does not matter how poor the grass is and it does not matter how high the grain prices are, we will endeavour to produce that milk. If a Fonterra supplier does his calculations and says, 'No, we've got poor grass growth. Our feed costs are too high. It is more economic for me to dry those cows off and not produce milk,' then he has that option. We do not have that option. In summary, that is the basic difference.

CHAIR—I think we should get to questions, if you do not mind. I will start and then we will go around the table. Isn't the problem that, because of the consolidation of the manufacturing of milk and the supply of milk, they will not disaggregate market milk from manufactured milk?

Mr Perkins—That is what they say.

CHAIR—If you go to Woolies, and I tested this out, you see that it costs \$2.29 for a litre of branded milk, and you can get it for \$1-odd a litre for no-brand milk. If you fly Virgin Airlines

then it is \$2.50 for 350 millilitres of water. If you take the bottle home then you could fill it 3,400 times out of the tap for what it cost you on the airline.

Haven't we got a more fundamental problem and argument between Fonterra and National Foods? They are both going to give you a root-out. This is about a global market. It is the same as with fertilisers. This inquiry is looking at the horrendous behaviour of the fertiliser companies. They are a global cartel. This is a cartel-type thing. I have to say that we have not yet imposed the carbon tax on you. It is \$17 a tonne; an irrigated dairy farmer would be insolvent anyhow. So my question is: in terms of the disaggregation of market and manufactured milk, what role does the use of permeate have? Does the use of permeate support the growth of home brands owned by the retailers and other low-equity brands with retail price points so low they have destroyed the profitability for all players? Would you like to explain? Maybe this committee does not understand what I have just said about the role of permeate. I had a bloke ring me the other day from the western suburbs of Sydney. He said he had gone in and bought a container of milk and taken it home, and it tasted like water. It was a brand name which had obviously been watered down. It is like 'sucker lambs'. This committee has looked at branding hoggets as lambs to take the edge off the prime lamb market. Isn't that what is happening here with watering down of milk?

Mr Perkins—To a degree. Basically, permeate is the waste product, and they put it into the milk. They cart a tanker load from Lactos down to the processing company in Hobart every day. It is between five and seven per cent that is used in the liquid milk market. So it does dilute it—you are right there—but to what extent is another issue.

Senator COLBECK—It appears from your description of the model farm calculation that it is almost designed not to pay any more than Fonterra pays as part of its process.

Mr Beattie—It is slightly cleverer than that, because it is designed to give the impression that it is paying more whilst not doing so.

Senator COLBECK—If you look at the situation with the second half of the year and the payment step-ups in the second half of the year running back to the beginning of January and consider that the July to December period is when the farmers, in normal circumstances, produce most of their milk anyway in a Fonterra sense, it appears that the real benefit to those farms is the fact that the step-up goes right back to the beginning of their season, because that is when the bulk of the milk is produced—in the first half of the season. So it would be very difficult for a farmer, under the proposed National Foods contract, to get anywhere near a Fonterra farmer under that sort of model, particularly when you take into account that it is virtually impossible to maintain the sorts of stability in supply that are required under the National Foods contract.

Mr Beattie—One of the other problems that National conveniently ignore is that Fonterra pay 2½ times as much for protein as they do for butterfat, whereas National pay 1.875 times as much for protein as for butterfat. So there is a completely different pricing structure, and to compare the two, as I have already said, is irrelevant. So, whilst you are right to point out the irregularities in this whole model, the model itself is flawed.

Senator COLBECK—You have described proposed penalties that are applied to the contracts. Could you give us some details of the parameters of those around limits on each side of designated amounts of supply.

Mr Beattie—Sure. This is the first year that we have had a limit put on our production. This is due to National acquiring Lactos and losing the Betta Milk contract. So they have got an oversupply of milk, which is created by their own actions. Whilst we find it hard to accept that they have an oversupply, I suppose the reality is that we must accept it. So they have limited us to the production in each month that we contracted to produce last year. If we go over that production, we have what is called ‘overcontract litres’, and they are at liberty to pay a lot less than their published price for those overcontract litres. Counterwise, if we go under our quota—for want of a better word—litres for that month, they have the ability to penalise us 20 per cent of the milk price for each litre that we go under. I must add that they have not actually ever done that, but it is in our contract. So we are faced with a position where they could be taking more milk from me and penalising me and taking less milk from Kem and penalising him. It is a win-win for them. There are some fairly dictatorial terms that we are being asked to sign, and that is why we are not prepared to sign contracts.

Senator COLBECK—I have one final question, but I have completely lost my train of thought. I will pass to Senator Milne.

Senator MILNE—Thank you for your evidence to date. I want to go to the issue of oversupply that you just mentioned. It was put to me earlier that the company itself had actually put the farmers in this position by encouraging people to increase their levels of production over time and now it is essentially dishonouring that by saying you will be penalised et cetera for overproduction. When I put that to the company, it emphatically denied it, and yet I see in your evidence that you have at least one statement from a dairy farmer who says he had a signed agreement—I think it was a Mr Henry, who was subsequently sacked. Can you just explain to me exactly how this works? How many examples do you have of farmers around Tasmania who did increase supply specifically at the behest of the company, which is now dishonouring those arrangements?

Mr Perkins—I do not know what the exact number is, but that was a ploy they used to encourage more production at that time, when things were looking good. But also, when the ACCC let National Foods take over Lactos, that disadvantaged everybody on both sides, because of the 12 million litres that Betta Milk used. They wanted to stay with National Foods but they were priced out of the market. They were getting their milk at 55c and then they upgraded the price to 72c. That was going to send Betta Milk broke, because they could not sustain that price range. To survive, they went and priced it from Fonterra—which they now get for 40c. The Lactos situation with Betta Milk was that it was no fault of the farmers at all that they lost that contract. It was purely the company’s fault through greed. They will probably try saying that they were paying too much for it in the first place, but that was forced by the conditions at the time.

I cannot answer your direct question of how many, but I know there is quite a number, and there is some evidence in there to suggest that those people were asked to produce more milk. Of course, what happens is that you cannot change your calving pattern in nine months. You can change the price in 12 months but you cannot change the calving pattern. If you have your cows

in calf, you cannot change it. Also, that takeover took one player out of the market, because Lactos was a competitor, and National Foods and the Lenah Valley people always had about 2½ million or three million litres surplus milk in November, which is the month of highest production. They used to just sell off the oversupply to UMT in those days, Lactos or whoever it was. But of course now Lactos and we are all in the same market. But they actually brought that in themselves. They lost that market. They are talking about \$30 million; \$12 million or \$13 million of it they lost themselves. Then when you take the downturn in production, which will be this year, the way it is going, that will be the result.

Senator MILNE—You said in your opening remarks that many of the farmers in your group of 80 to 90 farmers are headed for ruin if this is not resolved and if there is not a price paid that is better than the cost of production. What I am trying to get at is: to what extent is the company responsible for this, having asked farmers to incur greater production costs on the promise of a sale of that milk, and now they are in a situation where they cannot sign a contract because it is so unfair? That is what I am trying to establish here—the liability of the company in terms of those promises.

Mr Barker—Senator, I can help there. There are a number of examples that have been put to us, and some of the submissions relate to that, but we have used those as examples only. There are many more than just those that are in the submission. What I have found, looking at it, is that there have been many occasions where the farmers have made arrangements with agreement by the company's field staff and acted on those agreements with confirmation that that could continue, and yet at the end of the day the company has not honoured those arrangements. There seems to have been in the past a tradition where—

CHAIR—Are those arrangements in written contracts?

Mr Barker—No, I was just about to say that a lot of those arrangements—and it has been a trend within this industry, as I see it—are made in a verbal way and acted on and have continued on for years, and—

Mr Beattie—I have some comments on that. I think as farmers we have dealt for generations on the handshake and the man's word being his bond, and we are not dealing with this type of company anymore.

CHAIR—I understand that, but I also chaired the wine inquiry, which went for six months, but after 20 minutes it was obvious what was wrong with the wine industry. Part of the problem with the wine industry was consolidated winemaking, consolidated retailing and a very disparate, weathering-on-the-vine, grape grower who did wink-and-nod type traditional handshake-honour contracts, and they said—

Mr Barker—If I could just finish, the examples that we have show that these arrangements have been made and in the past the farmers have acted upon them, increased their production and whatever and the company has accepted that and everything has flowed, but there are many examples where, since National Foods have really taken over this whole scenario, particularly in the last 18 months, those agreements have just not been honoured at all. They have even been ignored by the company when they have been raised at a much higher level.

Mr Perkins—You will find later in the evidence produced today that the previous field person is now no longer with them. They have a great habit of changing the personnel, so you are dealing with one person one year and then someone else the next. It is the same in the office itself. We have been very loyal suppliers. Most of us—or the families—have been around for 50 years. It has come down through the generations. We have always had the loyalty and a very good relationship with the company, I would have to say, until the last two or three years. They have deteriorated since they have been taken over by the Japanese interests.

Mr Beattie—I think it is also important for us to point out the ethos that National seem to be working to at the moment. Kem and I and another member of the executive went to Melbourne to try to negotiate a sensible price. One of the senior executives—it is actually in the evidence here, but I would like to point it out—said to us that National Foods had no obligation to maintain farmers as sustainable businesses. And then he added, ‘If farmers make losses, so what?’ If we are dealing with a business or a corporation that has those business ethics, it is extremely awkward and extremely difficult for us to use logic or to use persuasion or anything.

CHAIR—I have got to keep moving. I am going to pass to Senator O’Brien in a second. This committee is looking at that very problem: how do we produce food that is affordable from an environment that is sustainable and a farmer that is viable? What you have just described is exactly what has happened in the fertiliser industry. It has happened in the wine industry. We will be recommending firm, written contracts in the fertiliser industry, because they absolutely gave everyone a bathing last time.

Senator O’Brien—Your organisation is the Tasmanian Suppliers Collective Bargaining Group, but do you actually get a chance to collectively bargain with National Foods?

Mr Beattie—Yes, we do. Actually, it has worked quite well in the past. Up until very recently we were 29 of the 31 suppliers, so we were the entirety, really.

Senator O’Brien—It was originally the southern suppliers, was it?

Mr Beattie—No, it was not. The reason that it was set up was that National were concerned that we were talking about prices as individual suppliers to each other, and they felt that was breaking the law. They actually terminated a meeting in Hobart one evening because of that and said that unless we formed a collective bargaining group they would not continue negotiating with us, so we did. Up until this year it has worked in our favour. We ought to stress also that we are not talking about a business that is on its uppers. We are not talking about a business that is being run out of some backyard. It has a massive headquarters building outside Etihad Stadium. It is a huge building with lots of overheads, and they are still talking about making \$178 million this year on the back of reduced procurement costs. So we are at a loss to understand—

Senator O’Brien—That is in your submission and we have limited time. I want to find out how the collective bargaining process worked or did not work with National Foods this year. Can you describe that?

Mr Beattie—Please forgive me. We get a bit passionate about this. We formed an executive of six members with a chairman. We did our negotiations with members of the staff of National Foods. Up until this year they have been flexible enough for us to have a robust discussion, and

then one of the executives goes out of the room and talks to somebody on the board and we can come to a deal. This year, who knows?

Senator O'BRIEN—What does that mean? Did they say they would not negotiate with you, or did they say, 'This is it. Take it or leave it'?

Mr Perkins—We did a negotiation, but when we were in Melbourne they asked for a flat price. We were talking about the pricing and they said they would not move the price. That was the final straw. We said, 'We've got to take it further than that because we can't survive.' They were very intransigent on moving the price and they still are. In fact, they have not moved it yet. They talked about it with Fonterra and they are still talking about it, so they have not moved it yet.

Senator O'BRIEN—They are now taking contracts to individual producers, are they?

Mr Perkins—All producers have contracts that have been issued to them. Some of them have signed, and you will hear later about that, but the majority of them have not. We have advocated that they do not sign them, because we have it in the legal process. The contract is heavily weighted towards the company. We tried this two years ago with legal advice and they ignored it, and we have come back at them this year because it is a desperate situation. We have some very strong legal advice.

Senator O'BRIEN—We have that in your submission. What is your group's view about how the company are obtaining signatures to agreements? Are they putting farmers under duress?

Mr Beattie—I think you will hear more about that.

Senator O'BRIEN—I might, but I want to hear from your group what you are hearing.

Mr Beattie—It is anecdotal, of course, but what we are hearing is that they are using the tactic of saying: 'Other farmers have signed; therefore, you might as well sign. You'll miss out on future payments if you don't sign.' There is some evidence that is going to be presented later of them saying, 'You won't get money that's owed to you if you don't sign.' So they are reasonably heavy-handed tactics.

Mr Perkins—It is a big stick. They will not give you money unless you sign up.

Senator O'BRIEN—You say in your submission that the cost of production is 39.8c a litre. Obviously that is not the cost the whole of the year, given the evidence you have given about variable costs. Is that the average cost, the highest cost—

Mr Beattie—That is the average cost.

Senator O'BRIEN—So to produce two million litres will cost just under \$800,000 a year for a farmer, and you are saying you will get somewhere in the vicinity of \$500,000 to \$600,000 for that milk. Is that what your evidence is?

Mr Beattie—Yes.

Senator O'BRIEN—So you are suggesting that the bargain they are offering guarantees a loss of a quarter of your production costs.

Mr Beattie—If I sign my contract, I will lose three-quarters of a million dollars this year on my own farm.

Senator O'BRIEN—And that is a known now?

Mr Beattie—Yes. I have never done a budget, looked at my figures for the following year and said, 'The more milk I produce, the more money I will lose.'

Mr Perkins—Phil is actually the biggest supplier of our group. He supplies 7½ million litres a year, so he has firsthand knowledge of that.

Senator O'BRIEN—Could you give us an idea of the cost of production if you produced seasonally only—that is, at the best time to produce the maximum volume at the lowest cost?

Mr Beattie—Approximately 5c a litre less.

Senator O'BRIEN—So, even if you are producing seasonally, you will lose money under their contracts?

Mr Beattie—Yes, absolutely.

Senator O'BRIEN—In addition to that, if you fail to produce the quality they require, they can deduct how much?

Mr Beattie—It is an unknown amount. For example, my own personal monthly litres went from 1.1 million litres in June to 490,000 litres in July, because I was changing my calving pattern last year to follow the signals they had given us. They will not even change the monthly amounts for me, therefore I am going to be penalised one month and penalised the next month—one for being over and one for being under. That is the type of intransigent, ridiculous behaviour that they—

Senator O'BRIEN—I have plenty more questions, but I understand that there has to be a share.

CHAIR—Thank you very much. Have you blokes done any work on the trail from the 26c a litre or whatever it is in the paddock to the \$2.29 in the supermarket? Have you actually trailed the cost to work out who is ripping you off the most?

Mr Beattie—With respect, that is probably a question for the next—

CHAIR—You blokes have not? I just thought that, as part of your homework—

Mr Beattie—We know how much it costs to buy a carton of milk. We know how much it costs to put the top on it. We know how much it costs to distribute it. We do not know what the own label wholesale price is. We know the wholesale price that the corner shop pays—

CHAIR—We will endeavour to find all this out, because it will be very helpful.

Mr Barker—Work is being done.

CHAIR—If someone can do it, we will be grateful. Obviously there will be some costs in there for executive holiday forums in Fiji and so on!

Mr Beattie—What we consider to be the crux of this matter is not really whether Coles and Woolies are making more money than National; what we consider to be the crux of this whole matter is what National are doing to us.

Senator STERLE—The collective bargaining unit had been working quite well for the last number of years until all of a sudden it did not suit the company. Is that right?

Mr Perkins—Basically.

Senator STERLE—I know I am going over old ground, but they are going individually now to farmers, growers, producers, whatever, and saying, ‘Sign, otherwise you will not get paid,’ and the like. Of your 80-odd members, how many have actually signed their new contracts?

Mr Perkins—I do not know exactly.

Mr Beattie—None of our original group.

Mr Perkins—None of our original group, but there are a few who, as you will hear later on in evidence, have signed under a bit of duress. That will be coming up later. Those people will be here. That is more an individuals thing. I would have to say that basically we have had a good relationship up till recently. They do go out and they do go around, and legally we cannot stop them doing that. They can do that. There is no problem with that. We just give advice from the executive to the group. I have sent out two notices already to tell them not to sign the contract, because we are trying to upturn it legally. As I said, that fell on deaf ears last time, but this time it is very comprehensive—you have got it in your papers there. We have not had a response to that. The legal response to the document has not come back from the solicitors. I checked that yesterday and it was not back. We are anxiously awaiting that. There is no way we will sign that contract till we get a contract that is suitable. They have so much power in that contract it is unbelievable.

Mr Beattie—I think it is also important to stress that last year we were pushing to sign contracts within about 10 days of finishing our negotiations. The process is that you sign a contract and get it witnessed, and they sign it and witness it and send one copy back to you. We received our copies about four or five days before the end of that contract year. So they held onto those contracts and none of us actually knew whether they had accepted our contracts or not. That is representative of the behaviour that this company demonstrates.

Senator STERLE—And you would be derelict in your duties, Mr Perkins, as chairman of your collective group if you did not advise your members not to sign for the betterment of your industry. But, having said that, what happens if you do not sign the contracts?

Mr Perkins—They are all out of contract right now—the whole lot.

Senator STERLE—What does that actually mean?

Mr Perkins—They are still collecting the milk. I have heard a few veiled threats—but I do not treat that very seriously—that they would go and pick the milk up from others, that they would discard our producers and get it off Fonterra. Of course, it would be totally unconscionable that they would do that but, having said that, I do not put too much past them right now.

Senator STERLE—Is it a practicality that they can get the milk they need from Fonterra?

Mr Perkins—They are all talking about overproduction, you see, so they are trying to cut the milk back. But of course it will automatically fall back this year because farmers cannot afford to buy the grain, especially the all year round suppliers. It will have to fall back. I know the forecast is going from 5,500 litres to 5,700 litres, but I cannot see that that will happen, because this affects all the farmers in Tassie.

Senator STERLE—I just picked up on a word you used about the dealings that National are having with your members—unconscionable. So no doubt you are getting advice about unconscionable conduct?

Mr Perkins—That is where we would like to go at the end of the day. We are going to the economics committee, and that is where all the hard yards are, with the ACCC and everything else. We will be fronting up there as well.

Senator STERLE—When you are in those collective conversations with National, is there a third party allowed in the room?

Mr Perkins—No, there never have been, unless there is a point to get across, outside or inside. The negotiation committee comprises six and we deal with the company, whoever they put up. It is basically the same people. I have asked to get the managing director there twice and I have never got him there yet. Even though he was going to King Island, he could not get across here. We have only ever once in the last five or 10 years had somebody from what I call the senior bracket come.

Senator STERLE—In my line of questioning, a third party is not someone higher up in the rankings in National. I mean a lawyer or coordinator.

Mr Beattie—The answer is no.

Mr Perkins—The answer to that is no.

Senator STERLE—No because they will not let you have someone or because you have not asked?

Mr Beattie—Probably the second, actually.

Mr Perkins—We have not asked because up until now we have always had a reasonable association. Even last year with the high price range we had five meetings. I put on the blackboard at the very first meeting we had what we needed and it took us five meetings to go up from 22 per cent to 24 per cent, to 25, to 28 to 32. That was desperation that made them decide to finish it up, because we were both getting sick of it. We signed it off in Launceston. I had the group there and they were going from one room to the other. That was on a rising price and they were still trying to keep it down. But we did achieve that.

Senator STERLE—My last point is a statement, Mr Perkins, and I mean no insult to your members. You are very good at what you do, and that is producing milk, but when it comes to deciphering legal documents they have a lot more resources behind them that can allow them to put all the legal gobbledygook in. You gentlemen have dealt with a handshake, and there is nothing worse than dealing with a handshake when the other side does not agree with those terms down the track.

CHAIR—Hear, hear.

Senator STERLE—You are not lecturing me, are you, Chair, because I have made a statement?

Mr Perkins—We agree with that. They have their own corporate lawyers and we do not underestimate that one bit, but we got sick of it.

CHAIR—To describe your relationship with what would be the monopoly manufacturer, would it be overstating it to say that they are predatory and perhaps sinister if, as Senator Colbeck said, there is a threat of withholding money? Is that sinister?

Mr Beattie—Yes.

Mr Perkins—Yes.

CHAIR—Will we hear evidence of that later in the day? This is jail material.

Mr Perkins—Well, there are people who would be able to express that view.

Senator MILNE—Just as a final point: it has been said several times that National Foods pay more to their suppliers in various mainland states than they do here; however, those people are currently in contract. Do you think that the rest of the dairy farmers around the country should be worried?

Mr Beattie—I think they should be.

Mr Perkins—Yes, they should be, because they will drop it when the contract—and it is the same right here, right now, in this state. About half the Lactos suppliers are still on contract for 46c a litre.

Senator MILNE—So it is not just a Tasmanian issue; that is the point.

Mr Beattie—It is a statewide issue.

Mr Perkins—No, it is—

Mr Beattie—It is a countrywide issue.

Mr Perkins—a national issue.

CHAIR—We know that.

Mr Perkins—You would understand that.

Senator COLBECK—What conversations have you had with the ACCC as part of this process, and what has been the response?

Mr Beattie—I have been to see the head of the ACCC in Hobart. Whilst he was very sympathetic, he felt that there was little that the ACCC could do.

Mr Barker—I have also spoken with him. The group have actually sought legal advice, which they have. They need to go the next step before they make a formal complaint, and that is to get more professional QC or SC advice. That is underway right now. I have also met with the ACCC, who have one complaint already lodged by one of the producers, have already started to make particular inquiries with them and are eagerly awaiting the submission from this group.

Mr Perkins—And we will do that in a few minutes.

CHAIR—Finally, having experienced the orange juice concentrate argument, I would like you to contemplate this question: are consumers getting what they pay for? Should labelling standards be further tightened to help rebuild consumer confidence in retail price points? Should reconstituted milk be required to be labelled accordingly? You can give an answer or you can think about it. But I can tell you that when we go into competing against—Brazil with their concentrated put our orange growers out of business. I thank you for your evidence, if you are not responding to that.

Mr Perkins—I would say yes to everything.

CHAIR—Thanks very much.

Proceedings suspended from 11.02 am to 11.16 am

OLIVER, Mr Richard Ernest, Private capacity

OLIVER, Mrs Josephine Margaret, Private capacity

WILSON, Mr John Phillip, Private capacity

CHAIR—For the *Hansard* record, could you give your name, rank and serial number and make an opening statement as well.

Mr Wilson—I am a dairy farmer and supplier to National Foods.

Mr Oliver—I am a dairy farmer at Cressy, supplying Hillwood Cheeses.

CHAIR—Do you want to make an opening statement?

Mr Wilson—Yes. You have obviously read through the submission that I put forward. I suppose I can probably add to a few things with some of the questions that I have been asked in the first session. My story is that, for a start, we were actively encouraged to convert a farm from basically a rundown beef farm, a fairly unproductive block, into a dairy farm. When I say ‘encouraged’, when we were looking at it initially, we approached both Fonterra and National Foods. Both companies were interested in what we were doing. National Foods were particularly interested. They encouraged us to look at the option of producing milk at the times of the year when they were not getting enough milk, which meant calving at an unusual time of the year, which was February. That meant that they had a supply of milk through their late summer-autumn-winter period and a bit less supply in the springtime. We looked at it. We did the sums on the pricing that they were indicating at that point, and the decision was made to go with National Foods. They accepted our supply in a letter, and we proceeded from there. This was in 2006. We have done two complete seasons.

We have actually done a second expansion of our business, which you will see in the notes. Again, that was endorsed by Paul Rees, from National Foods, who is the milk supply officer for down south here. That involved quite a large additional investment. The important thing to state, I think, is that Paul actually said that he would take all the milk that we could produce, so long as we continued to calve at that time of the year. That was quite critical to them. So that is one example—that is our own example—of them encouraging milk production. We are at the stage where we have just invested in that land. We have spent about another \$1½ million buying it and developing it and then, within less than 12 months, they are turning around and saying, ‘We don’t want any more milk.’ So that is one example.

The other thing I will touch on very briefly in this—and it is not in the notes—is the effect this all has on the family situation. My ‘hand-holder’ is not here today. She is totally disillusioned with the whole thing. We have done a lot of hard work. We have had two dry years. We are finally at the point where we think we can make some money, and that has just been pulled out from under us. She cannot understand why I get up in the mornings at some terrible hour.

We have put our everything into this operation. We have spent a long time building equity. We have put a lot of hard work into it. It is our superannuation; it is our retirement. It is our dream. But greedy multinationals who do not have regard for the families are benefiting. They do not consider what they are doing in terms of breaking the families, killing dreams and bankrupting people. It is all an endeavour for them to get a bit more return to their shareholders. I am here saying that that is not right.

To move away from that, the question was asked about the milk pricing for our farm. What I have done is go to Fonterra. I went to their field officer and said: 'This is the milk we are going to produce over the next 12 months. What will the milk price be based on your current stated prices at this stage?' This was at the start of the season. For our operation it came up at a figure of \$964,000. National Foods have said that their premium is at least 10 or 20 per cent higher than that, so we would expect for our farm to be getting somewhere between \$100,000 and \$200,000 more. When I run our figures through the National Foods pricing, we end up with a figure of \$957,000, \$7,000 less than Fonterra. That is our farm, the same figures and their announced prices. Since these figures, Fonterra have announced a step up. As Grant explained, National Foods will match their step up, but the relativity is still there. For them to come out and say based on their model that their suppliers will be 10 or 20 per cent better off is not right. Those documents are available.

There was a question asked about whether there were any specific situations where National Foods have held back payment—

CHAIR—Threatened to hold back payment.

Mr Wilson—All suppliers that supplied them for the 2008-09 season were promised—I would have to look up the exact word—what was like a back pay. It was a catch-up pay on the previous year. It equated to 2c a litre. In our situation it was nearly \$80,000. We were told that we would not get that payment unless we signed the contract for the 2008-09 season. They did not call it a back pay—and I wish I could remember what it was called—but it did relate to the production done in the previous year, and that was because their price was so significantly behind the Fonterra price for that year.

CHAIR—Was there any written confirmation of that?

Mr Wilson—I believe there was. There were letters to us as suppliers. I do not have one with me. It may have been called a loyalty payment. But I believe there was a letter. There are letters sent to suppliers.

CHAIR—I presume they will have lawyered, because the difference between an inducement, which becomes a criminal inducement, and a lawyered, cleansed version of a 'loyalty payment' would be something for the lawyers to argue about. I am a wool classer and a welder. But there is written confirmation, you say?

Mr Wilson—Yes.

CHAIR—Thank you.

Senator MILNE—To clarify further, there is written confirmation of that loyalty payment. Is there anything written about not paying it unless you sign?

Mr Wilson—Yes, there was a letter sent out, or it was part of a contract that we signed. I have not got that with me, I am sorry.

CHAIR—We will ask for that.

Senator MILNE—Those two documents are critical to us.

CHAIR—Thank you. We do not want to interrupt the flow of your presentation.

Mr Wilson—The last point I make with our operation is that, because it is a new business and a growing business, the growth factor is critical. Basically we have invested for an 800-cow farm. We are part way through—we are sitting at about 600 cows—and in effect they are saying, ‘Stop,’ but we have made this investment out there already.

We talk about costs of production as averages, and I went back and looked at our costs of production. In the first year we had only 400 cows. We were starting off. The cows were calving at the wrong time of the year so we did not get full lactation and all of that. Our production costs plus our finance costs were 61½c a litre. The following year, the 2008-09 season, we had just under 500 cows and we were able to drive our costs of production per litre, because we could spread it over more litres, back to 54c per litre.

Our production costs plus finance costs this year are budgeted at 46c per litre based on just under 600 cows. For next year—and we are just about to go out and buy more cows—we believe that with 800 cows doing four million litres our production costs, including debt servicing, would be about 40c a litre. So the growth component of our operation is critical. To stop our growth right now basically leaves us with too high costs and too high investment for what we can return. That is all I think I had to add.

Mr Oliver—I would like to highlight the actions and the behaviour of National Foods to us. As a bit of background: my family has owned the property for 17 years and my wife and I purchased the farm off the family in 2007 and did a dairy conversion. We entered into a five-year milk contract with Hillwood Cheese. They approached us. They heard we were building this operation and we signed a milk agreement. The milk agreement had a minimum floor price of 35c—it was never to fall below 35c plus five per cent in any month. We did this to underpin the business to protect ourselves from market and other forces.

We signed that contract for five years. We started milking in February 2008. All payments had been made to Lake River Dairy. On 25 September 2008 we were advised that Hillwood Cheese had changed business owners. They sought my confirmation that that supply agreement would be transferred to Lactos. We agreed. On 29 September National Foods took over as the new business owner. In December 2008 we were visited by Paul Rees and Greg Henry. They wanted us to enter into a new agreement with National Foods. I declined and said, ‘We already have a contract in place.’ In February when we received our milk payment they paid us 25c—a clear breach of contract.

In early April this year I met National Foods employees Paul Rees and Glenn Bake at Westbury to discuss the company's breach of contract. They advised me that National Foods were interpreting the contract that it would be an average over the whole season and not the minimum monthly price that was set. Quickly after that meeting I received a letter from National Foods confirming they were bound to perform the obligations of the Hillwood Cheese contract.

In May of this year our barrister wrote to National Foods about the coming season price offer of 29c and sought confirmation from the company regarding our contract price. We have not received a reply to that letter. On 1 July we received a letter from National Foods querying the clarity of the contract but still recognising its obligations to purchase our milk. Amazingly, on the basis of National Foods not previously raising the lack of clarity with us, National Foods wanted us to offer a new contract on their terms.

In July the new suppliers were Fonterra. I will give you a bit of background. When we entered into the milk supply agreement with Hillwood Cheeses, we had to base our price on somebody. So we based it on Fonterra, plus five per cent. For dairy conversions there is what they call a 'growth incentive' for the first two years as an incentive for new suppliers to get into the dairy business. When July payments came and the growth incentive was not there for the year I rang Glenn Bake in Melbourne and demanded payment. Glenn Bake said he would look into it. I subsequently received a telephone call from Paul Reese here in Tasmania advising that National Foods would pay it. This was subsequently confirmed in a telephone call that afternoon from Glenn Bake, who said he was the corporate bully boy when I answered the phone—a most insensitive remark.

On 16 July we received payment of the growth incentive for nine months only, when the growth incentive is for the full year. They have acknowledged they owe us that money but have still not paid it. The outstanding amount owed to us by National Foods is \$255,000. We sent a letter of demand to the company on 10 August and subsequently, on 31 August, received a letter from National Foods offering \$62,000. On 22 September we sent a letter accepting the offer without prejudice as part payment of the full amount. I have received no reply to that. So the sorry saga, and the financial and emotional hardship, is continuing. I must also add that during the time since the February price dropped up to now we have been negotiating to sell the property. We had a buyer who had to walk away because of National Foods. So we lost the sale.

Mrs Oliver—We have a letter from him, too, saying that.

Mr Oliver—Senators, the actions of National Foods are unfair, unreasonable and indeed outrageous. They have treated us disgracefully and are using their market power and financial resources in a most unconscionable manner. This, we believe, contravenes the Trades Practices Act. We have formally complained to the ACCC and await a successful outcome. We have copies of correspondence available for the information of senators, if required. That is our story.

CHAIR—Thank you. Would you care to table those letters for us?

Mr Oliver—I can.

CHAIR—Thanks very much. I realise that both Mr Wilson and you are under duress. Have you spent a lot of money on lawyers trying to get what is contractually rightfully yours?

Mr Oliver—At this stage we have not spent a lot of money because we do not have a lot of money left.

CHAIR—That is always the trick, isn't it? Justice denied is justice delayed.

Senator COLBECK—Currently, National Foods effectively still owe you about \$190,000?

Mr Oliver—No; two hundred and—

Senator COLBECK—So the \$62,000 is on top—it was over \$300,000?

Mr Oliver—It was \$255,000, and they have offered to pay \$62,000.

Senator COLBECK—So you have received an offer but not any money?

Mr Oliver—Not any money.

Senator COLBECK—I find this really hard to grapple with, because I had a meeting with National Foods in Canberra a couple of weeks ago where they told us that they were sending you a cheque. I wonder how you believe what these people are telling you.

Mr Oliver—We have since sent another letter demanding payment and a reply within seven days. It is due in a couple of days.

Senator COLBECK—Mr Wilson, you just heard Mr Oliver talking about a growth payment and a growth process within his contract. Did you have anything of that nature as part of your arrangements, given that you were actually growing your business and that National Foods knew that you were growing your business. Was there an understanding that your business would grow?

Mr Wilson—There was no specific payment for that growth. If we had gone with Fonterra we would have had the growth incentive that they pay. When we looked at it we built in their comparison as to which company we were to supply and, while the growth incentive was good money upfront, when you stop growing it disappears. So we took a longer term approach and went with National Foods, although we did not, in effect, have that growth incentive. Over a long period we believed that, for our operation, we were better setting up as winter milking and producing milk for the company that deals in milk.

Senator COLBECK—You made a comparison of the processes and the conditions at the time when you started this new venture and decided to go with one or the other of the two companies—obviously, National Foods—and it has brought us to where we are now?

Mr Wilson—That is right. Can I just speak regarding that sign-on fee. A letter to suppliers, dated 25 September 2008, went out with our contracts. On the last page, it says, 'There is a bonus of entering into a new supply agreement with us. National Foods will pay you a sign-on fee. The amount of the sign-on fee will be based on 20c a kilo of ... and 38c a kilo of protein, 2c per litre standard ... and protein for all milk supplied by you to National Foods during the 07-08

supply year. It is called an incentive payment. The incentive payment will be paid to suppliers once the new supply agreement has been signed.’ That is the wording in the letter.

CHAIR—That is very cunningly worded.

Mr Wilson—It is when you think about it.

CHAIR—If I had a lawyer look at that, I would shoot two out of three lawyers if I were a judge.

Senator COLBECK—Can you just go back to the dates again on that. It is from 2006-2007 to 2007-08; is that correct?

Mr Wilson—No, it is based on the production in the 2007-08 year, if we signed up for the 2008-09 year. At the time, our average price was a long way behind Fonterra’s price that year. I suppose we saw it as, in part, a way of catching up some of that difference, particularly when it was based on that year’s production.

Senator COLBECK—Is there any offer like that on the table at the moment for the new contract?

Mr Wilson—Yes. If you commit and sign up for a period longer than one year—two, three or five years—there are additional payments, and those additional payments are expressed in extra cents per litre, but that is extra payments based on an unknown base price. From my point of view, it would be very dangerous to sign up for a longer term contract when you do not know what price you are signing up for. If everyone signed up for five years, they could take three cents off the base price, add a three-cent premium and we are all locked in. That is the only incentive for longer term—

Senator COLBECK—So it is not necessarily an additional price; it could effectively be part of the model farm price that is being offered? It could be within that price?

Mr Wilson—They word it to say ‘on top of’, but it is on top of an unknown base.

Senator MILNE—Mr Wilson and Mr Oliver, you mentioned Mr Rees. It seems he is fairly central to making all sorts of promises that do not eventuate, from what I have heard. Is that statement, that they would take all the milk that you could produce, written down anywhere? Did you make notes on that conversation? Are there any phone notes or anything like that?

Mr Wilson—No.

Senator MILNE—Presumably in your conversations, when he identified himself as the corporate bully-boy, that is obviously something you noted at the time.

Mr Oliver—That was Glenn Bake, the southern Australia manager. My contract clearly states ‘for all milk produced at Burlington, regardless of the legal entity’. When we were negotiating the sale, all payments had been made to Lake River Dairy from day one of supply. They did not want to transfer the contract.

Senator MILNE—Mr Wilson, would you say there is collusion between Fonterra and National Foods about milk prices? It seems to me that one is not prepared to reveal the price they are going to pay until the other one does. I have heard that there are sometimes months when you do not know what your contract price is. Is there collusion? Could there be collusion? What is your take on it?

Mr Wilson—I am not sure of the definition of collusion, but there is certainly a delay, particularly in July when there is a change of pricing. For a large portion of July, we do not know what our price is for the milk we are sending, and National Foods certainly state their price after Fonterra have announced their price.

Senator MILNE—We heard evidence from Mr Beattie earlier that, because you are producing for two different markets with different pricing structures, there should be really no need for one to wait on the other. Isn't that right?

Mr Wilson—Yes, that is right. I do not believe that there is any relationship at all.

Senator MILNE—You do not have any evidence other than saying there is a month or two when nobody knows what the price is and one waits on the other?

Mr Wilson—No, personally I do not have evidence. What is interesting to me is that two years ago, when the international price was very high, National Foods argued at our supplier meetings that they were not in the international price arena, so why should they pay those higher prices. It would appear to me today that one of their fundamental arguments for the drop in price is the fact that the world commodity price is as low as it is.

Senator MILNE—On the world commodity price, National Foods is now saying that the relevance to that is that they do produce for the cheese market, albeit a small percentage. Can you explain why that is a deceptive statement in terms of the types of cheeses they produce and why that relies on round-the-year milk production?

Mr Wilson—In Tasmania, at King Island, what they call soft cheeses are produced. They have a short shelf life. They have limited storage ability, so they need a regular supply of milk. As I understand it, most of those cheeses are sold on the domestic market. I do not know whether any is exported, but I would believe that small amounts, if any, are exported. Again, we are dealing with a domestic market product.

Senator MILNE—So you stand by the claim that most of National Foods' milk goes into the domestic market and therefore the international price is irrelevant?

Mr Wilson—That would be my understanding—yes.

CHAIR—In terms of whether there is collusion, could you contemplate whether there is abuse of market power. I would not get too carried away with the ACCC. We learnt that with the fertiliser industry, where someone has 70 per cent of the market and 100 per cent of manufacture, so they are not a monopoly. With market power in milk, you do not have many options, do you?

Mr Wilson—One of the issues at the moment is, with the downturn in the commodity market, Fonterra has elected to not expand their manufacturing capacity within Tasmania. They have put things on hold. With the milk they got last year and what they predict to get this year, they are close to their full manufacturing capacity. I approached Fonterra as to whether there is an option for us to change to them. They said, ‘We’re not taking on any new suppliers until at least the end of November,’ which is past the peak milk flow, and then they would consider it on a case-by-case basis. At the moment we have got nowhere else to supply our milk.

CHAIR—One of the things the ACCC equivalent in Canada, for instance, does—where the top five retailers have 60 per cent of the market, whereas our top two have 80 per cent of the packaged market—is not only consider the impact at the retail end but at the producer end. The ACCC here does not do that; they are only interested in the other end.

Senator O’BRIEN—Mr Oliver, I am a bit unclear about what you were saying about the state of play with regard to the \$255,000 payment. Has National Foods communicated to you some basis for their refusal to pay?

Mr Oliver—They have acknowledged the July, August and September growth incentive. They have not responded in their letter to our claims.

Senator O’BRIEN—So they have made no suggestion as to why they are not liable to make those payments?

Mr Oliver—No, they have not.

Senator O’BRIEN—They have simply refused to make them?

Mr Oliver—Yes.

Senator O’BRIEN—In terms of the contractual relationship, the contract is presumably in the name of—

Mr Oliver—Richard Oliver of Burlington. I am the sole director.

Senator O’BRIEN—It is in your name and not the company’s name?

Mr Oliver—That is correct. The letter was addressed to me, but every payment, from day one, was made to Lake River Dairy.

Senator O’BRIEN—Whatever entity—Hillwood Cheeses—

Mr Oliver—Exactly. All milk produced on Burlington, regardless of the legal entity.

Senator O’BRIEN—And that entity was taken over by Lactos and then National Foods?

Mr Oliver—Correct.

Senator O'BRIEN—Does that entity, Hillwood Cheeses, still exist?

Mr Oliver—Yes.

Senator O'BRIEN—I am bemused as to why a contract that has been in operation and has been observed for some time is now being, in your view, breached and there was no communication to you, prior to this matter being raised publicly a few weeks ago or today's hearing, as to why National Foods refused to pay monies due and payable under that contract.

Mr Oliver—They have more money than us and their lawyers—

Senator O'BRIEN—But they have not said anything to you.

Mr Oliver—No. They simply refuse to give us reasonings. They say that they are interpreting the contract as an average over the season, and that was not the intent—

Senator O'BRIEN—Who said that?

Mr Oliver—Glenn Bake, and that also came from the legal department.

Senator O'BRIEN—In writing?

Mr Oliver—Yes.

Senator O'BRIEN—Presumably you have taken or are taking legal advice on their interpretation?

Mr Oliver—Yes, we are.

Senator O'BRIEN—And presumably that is a matter which will go to the courts in due course?

Mr Oliver—Yes, in due course.

Senator O'BRIEN—In terms of ongoing supply, are they taking your—

Mr Oliver—They are, but they have been threatening not to.

Senator O'BRIEN—They are bound under the contract to take it?

Mr Oliver—Yes, they are.

Senator O'BRIEN—For how much longer?

Mr Oliver—Five years—there are 3½ years remaining.

Senator O'BRIEN—The price is fixed in the contract?

Mr Oliver—No, it is a spot market price, the monthly price, plus five per cent.

Senator O'BRIEN—So you are getting 20.8c plus five per cent?

Mr Oliver—I received 26c last month. Breach of contract again.

Senator O'BRIEN—What should it have been?

Mr Oliver—It should have been a minimum of 35c, plus five per cent.

Senator O'BRIEN—So there is a continuing increase in the amount that you say is payable to you and your company from Hillwood Cheeses, now owned by National Foods?

Mr Oliver—Yes.

Senator O'BRIEN—And you have received no satisfactory explanation as to why that has not been paid, other than the suggestions—

Mr Oliver—Other than their explanation, saying that they are interpreting the contract as an average.

Senator O'BRIEN—If they are interpreting it as an average, does that mean that over this financial year, under the contract, they will have to pay a lot more than 35c in the second half of the year to make up for what they are paying now?

Mr Oliver—We do not know what those prices may be. That is in the coming months.

Senator O'BRIEN—But you are saying it is 35c, plus five per cent. If they are saying they only have to pay an average, are they saying they have to pay you the aggregate of the litres of milk that you supply them at 35c, plus five per cent? In other words, you take however of many millions of litres of milk and multiply that by 35c—

Mr Oliver—It is not that simple. The milk contracts are extremely complicated. The layman needs a computer program to work them out. They make it very difficult.

Senator O'BRIEN—You have a computer program that can work it out?

Mr Oliver—I have to go to a Fonterra supplier to check my accounts, because my pricing is based on Fonterra.

Senator O'BRIEN—What is the relevance of the 35c per litre, plus five per cent, minimum monthly floor price?

Mr Oliver—We set that as the floor price to underpin the business—our new business. We knew that if the price dropped, like it has, we would be protected.

Senator O'BRIEN—Your understanding of the contract is that you are guaranteed for this financial year—

Mr Oliver—Minimum monthly.

Senator O'BRIEN—For all the litres you produce, at least 35c a litre, plus five per cent?

Mr Oliver—Correct.

Senator O'BRIEN—So that would be the minimum you could earn for the year?

Mr Oliver—Monthly, yes.

Senator O'BRIEN—And over the year—obviously monthly and over the year.

CHAIR—Would your lawyer agree with you?

Mr Oliver—There were four people party to putting the agreement in place. Three of us were there together and the other was my bank manager, who also happened to be Hillwood Cheeses' bank manager. The minimum price gave the bank one of the ticks in the box for us to get to the loan.

Senator O'BRIEN—I understand that. All that you say they have said to you is that they only have to pay that as an average. They can vary the price throughout the year. Do I understand what you said earlier? The company came back to you and said, 'We only have to pay you an average price over the year'—

Mr Oliver—But the average is not in the contract.

Senator O'BRIEN—You say the average in the contract is 35c—

Mr Oliver—No, there was no average in the contract.

CHAIR—That is just their interpretation.

Mr Oliver—That is their interpretation.

CHAIR—You have to remember that the courts are about the law, not the truth.

Mr Oliver—The intent of the contract was a minimum monthly price—and never to fall below that. So in some months you might be paid 40, 50 or 60c then they will drop the price to maybe 22c to bring it back to an average of 35c. But that was never the intent of the contract and for the first season that we operated—and we started milking in February 2008 and the first season finished on 30 June—there was no averaging under Hillwood Cheeses. Then National Foods bought Hillwood in September and come February there was the big price drop when they dropped it to 25c.

Senator O'BRIEN—I am still trying to get my head around how the 35c plus 5c works in their estimation. If you are being paid 25c now, presumably you would need to go to 45c plus five per cent.

Mr Oliver—But the contract clearly states that they had to make it up.

CHAIR—You are saying that they are in breach of contract?

Senator O'BRIEN—I understand that, but on their interpretation that is what they would have to do to get back to the 35c plus average.

Mrs Oliver—I believe that they are going to adjust it at the end of the season next year so they will pay us the market price until then and they are now going to adjust it.

Senator O'BRIEN—You think that is what they are telling you?

CHAIR—Will that require a new contract?

Mr Oliver—It clearly states in the contract that they have to make up the price for those months.

Senator STERLE—Mr Oliver, are you the only supplier to Hillwood Cheeses?

Mr Oliver—No, not to my knowledge. There are other people.

Senator STERLE—To your knowledge has anyone else had problems of moneys being withheld due to the interpretation of the contract?

Mr Oliver—Not to my knowledge.

Senator STERLE—Because they have been paid it or because they have not requested it?

Mr Oliver—I do not know, and I do not know who else supplies them.

Senator STERLE—That is a shame. I suppose I should direct that question maybe back to the collective. It would have been very useful if we could tell whether it is just you being singled out—you and Mrs Oliver—or all of you or whether no-one is prepared to charge the extra money or pursue the extra money.

Mr Oliver—When the original owner sold Hillwood Cheeses to National Foods he told me shortly after I had signed that National Foods said to him, 'We do not like the contract,' and he said, 'Watch out.' They were his words.

CHAIR—There you go—a nice little threat. Are there four contracts similar to yours, do you know, that exist?

Mr Oliver—Ours is a unique contract with Hillwood Cheeses. Richard Hill, the owner of Hillwood Cheeses at the time, knew we were establishing the new dairy conversion and that we would be producing eight million to 10 million litres of milk and were to be basically the sole supplier.

Senator STERLE—The sole supplier to Hillwood Cheeses?

Mr Oliver—Yes.

Senator STERLE—What about the other producers?

Mrs Oliver—When we set up to supply them we were to be the sole supplier.

Mr Oliver—And there were no limits on the amount of production we could do. We could produce as many litres as the farm would allow.

Senator STERLE—Just to clarify this: there were other producers who were supplying Hillwood Cheeses but—

Mr Oliver—I believe there was one other when we started.

Senator STERLE—So when you started the verbal or written agreement from Hillwood was that you would become the only supplier?

Mr Oliver—No, it was only verbal that we would be the major supplier—not the sole supplier, the major supplier.

Senator STERLE—Okay, that clarifies that.

Mr Oliver—But with no litrage caps, no minimums or milk quality, and there were no deductions as there are with National Foods or with Fonterra. So with the milk quality there is a lot bigger range for us, which is worth a lot of money.

Senator STERLE—Sure. So going back to the nuts and bolts where you really find yourself at the moment: there were some gentlemen's agreements between you and Hillwood that were not in writing? Would it be fair to say?

Mr Oliver—Everything that we agreed upon is in writing in our contract with Hillwood Cheeses.

Senator STERLE—I do not know of any small business in Australia that can sustain a quarter of a million dollar loss over eight months. I do not know how you are doing it. Just to clarify, because I think I misinterpreted your opening statement: I think the Chair might have said to you, 'Is it in the hands of lawyers?' and you said that you did not have the money to pay lawyers.

Mr Oliver—Well, it is—

Senator STERLE—But then Senator O'Brien asked a question and you indicated that there is ongoing legal action.

Mr Oliver—Limited action. The letters are being sent back and forth to National Foods.

CHAIR—Has there been any offer of assistance from the farmer organisations?

Mr Oliver—No.

CHAIR—Surely it is time that this was all tested. The old NFF fighting fund was designed to do this. This is obviously a serious problem.

Mr Oliver—It is a serious problem.

CHAIR—This committee is also dealing with the most absurd fraud in the cattle market, Great Southern's cattle MIS, which is going to turn out to be the greatest cattle scam of all time. I asked the chief executive of Great Southern, who flicked his shares and fled and is now trying to buy back, in a different company, the whole show for the timber, 'Why have you got all these people on your payroll'—that is, Great Southern's payroll—who have up to \$1½ million dollar interest-free loans as a fixed administrative overhead for Great Southern?' You wonder why the cattle did not work! He said, 'We're competing with Macquarie Bank for employees.' I wonder whether there is not a bit of largesse like that built into this. Out of curiosity, is there a representative of the company or a lawyer for the company listening? Is there anyone from National Foods here today? No-one jumped under a chair, so I presume they do not have anyone here. Thank you very much for your evidence.

Senator COLBECK—I just want to ask one question about how far the price went up. National Foods have indicated to me, and I presume to others, that they moved to the market price of milk when the market was at its peak. Did you enjoy the benefits of that spike in prices over the last 12 months?

Mr Wilson—To a degree we did. I have not got the exact figure in front of me, but generally a supplier that is supplying winter milk will always have a milk price higher than a spring-calving supplier. The 2007-08 year was when there was the spike on the world commodity market. That was probably one of the rare occasions when a spring calver supplying Fonterra actually had a high milk price than a winter-milking supplier to National Foods. I believe the department have analysis of some of those figures, but I have not got them in front of me. That was probably one of the few years that happened. So, yes, we did get a higher price, but it was not as high as, say, a Fonterra supplier.

Senator COLBECK—That is fundamentally what I was looking for. If those figures are available through the department or some other source we can chase them down. Thanks.

CHAIR—I would like to ask one question to guide the committee on another matter. Have you guys as dairy farmers given any consideration at all to the impact of carbon trading on your industry?

Senator STERLE—That is a bit out of order. It has nothing to do with this inquiry.

Mr Oliver—It is the furthest thing from our minds.

Senator STERLE—Good answer.

CHAIR—Thanks very much.

[12.04 pm]

EVANS, Mr Kim Ronald, Secretary, Department of Primary Industries, Parks, Water and Environment, Tasmanian Government

FERGUSSON, Mr Mark, Dairy Adviser, Tasmanian Institute of Agricultural Research

TYSON, Mr Peter Russell, Leader, Dairy Industry Development, Tasmanian Institute of Agricultural Research

CHAIR—Welcome. I remind senators that the Senate has resolved that an officer of a department of the Commonwealth or a state shall not be asked to give opinions on policy and shall be given reasonable opportunity to refer questions asked of the officer to a superior officer or to a minister—who has declined to appear today. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policy or factual questions about when and how policies were adopted. Officers of a department are also reminded that any claim that it would be contrary to the public interest to answer a question must be made by a minister and should be accompanied by a statement setting out the basis of the claim. I now invite you to make an opening statement.

Mr Evans—Thank you, senators, for the opportunity to meet with you this afternoon. Firstly, apologies from Minister Llewellyn, who unfortunately could not get a pair in parliament, which is sitting today. But I am joined by Peter Tyson and Mark Fergusson, who are not part of the department but are part of the Dairy Centre within the Tasmanian Institute of Agricultural Research, or TIAR, which is a joint venture between the state government and the university. Peter is the leader of the dairy industry program.

CHAIR—The Tysons were the leaders of the landed gentry in the Riverina years ago.

Mr Evans—Absolutely; they probably still are. Mark Fergusson is part of the dairy industry development group as well.

As you well know, today's proceedings are dominated by concerns about one industry, dairying, which is the largest agricultural sector in Tasmania. Most of the presentations today focus on dairying and the specific issues it faces at the moment. At this moment I understand a rally of dairy farmers is also beginning, which will be addressed by the Premier and a number of other state and federal political representatives. It is therefore inevitable that in presenting my department's submission I will also concentrate on the dairy industry. But I would also like to stress that the submission that is before you has a wide range of concerns, as I think is proper, and summarises the key strategic issues facing Tasmanian agriculture. Some of the more general matters that we discuss in the submission will also be relevant specifically to dairying.

I would like to start with a couple of general observations with regard to agriculture in Tasmania. It is no news to those who know Tasmania, but it is important for the committee to be aware of the relatively large role agriculture plays in Tasmania's economy—at least double the national average in terms of the contribution to GSP, and much more when processing is added.

Agriculture is also more important socially and in terms of how people see the state than I believe it is in any other state. Tasmania is very much an agricultural state.

Tasmanian agriculture is particularly directed now to exporting to the mainland, and Tasmania's brand is the key advantage. This rests substantially on an established clean, green image. But the image does not generally translate into higher prices for farmers and they face a number of pressures at the moment, and I will talk more about those shortly. Before I do, however, I must emphasise that the state government sees agriculture as a major growth area in the medium and longer terms. In Tasmania we see agriculture as having potential for significant innovation to build on the natural advantage provided by relatively plentiful and accessible water. In other words, we address issues like the current dairy problems with a basically positive approach based on seeing growth in agriculture as a fundamental aspect of the state's future economy. This also means that Tasmania takes very seriously indeed anything that has the potential to knock Tasmanian agriculture off its growth path. Committee members are no doubt familiar by now with the basic structure and trends in the dairy industry so I will be brief. Details and relevant statistics are provided in our submission.

Dairying has been a success story of adaptation and modernisation in this state. As an industry, it has been progressive and it has consolidated its position as a very efficient, reliable and low-cost producer. Through the difficult years of the dairy industry restructure at the beginning of the decade, the state's dairy farmers seized their opportunities and have built a sector that has the largest average herd size in Tasmania. Some 450 farmers now produce 2½ times as much milk as 700 farmers produced 20 years ago. Dairies tend to be large and modern. Computer use is sophisticated and milk quality is high. The figures we have show that farmers have been able to support their expansion by keeping their costs of production low. This has provided a small but adequate margin against milk prices and allowed further financing of efficiencies and growth.

I will just turn to the current problems in the dairy industry. Tasmania's dairy industry, like that in Victoria, is mainly based on manufacturing—more than 90 per cent—rather than fresh milk. As such, it is very open to effects from movements in world dairy prices. As we all know, those world prices have been through a major spike and collapse in the past three years. It is well understood that this is bound to produce a corresponding fall in prices paid by local processors. However, this fall in prices is coming on top of unusual cost pressures caused by rises in grain, fuel and fertiliser costs. To cap things off, the weather has been cruel in the last couple of months. The final straw for many was the loss of power for several days following storm damage last week, a devastating event for dairy farmers.

By our calculations, costs of production are currently well above prices offered—that is, prices are about \$3.70 per kilo for milk solids and costs are at least \$4. In our experience, this is unique over the last two decades. This understates the problem, as the costs exclude financing. This can add up to a further \$1 per kilo of milk solids to costs. Unfortunately, this hits hardest the younger and most progressive farmers who have invested heavily in their farms. To complete this perfect storm, the current slight recovery in world prices is being offset by the high exchange rate of the Australian dollar against the US dollar.

So all dairy farmers are under stress, but there appear to be particular issues around the supply of fresh milk to National Foods. I am conscious that National Foods will be presenting to your committee tomorrow in Canberra, and everyone here today will be interested to see their

evidence. However, certain issues do appear to be clear, and I just want to highlight four as we see them.

Firstly, liquid milk suppliers traditionally get paid a premium for their commitment to produce year round and to a very high standard. This is certainly true for national suppliers, but it reflects a genuinely higher level of costs rather than any sort of advantage to fresh milk suppliers.

Secondly, the situation of processors supplying the fresh milk market is different to that of those operating in the internationally traded manufacturing sector. There is no external competition, and final prices are generally stable—certainly free of sharp downward pressures. Thus National Foods products remain at previous prices to consumers, while the prices the firm pays to farmers are plummeting. Meanwhile, as I understand it, the prices paid to suppliers in other states remain substantially higher. The company may tomorrow provide evidence of an oversupply in Tasmania and the factors determining prices in the higher cost regions like New South Wales and so on, but the fundamentals of the position appear to be as I have stated.

A third factor here is the potential imbalance of market power in the situation. This is a perennial issue for farmers in all sectors, but it is starkly evident here. The farmers are individually not powerful and they have few or no alternative outlets. At the moment, there are probably none, given that other processors are not prepared to accept new suppliers. Their large investments depend on one buyer, and that buyer knows farmers can do little in a situation like the present.

There are mechanisms designed to regulate these relations through the ACCC. This is definitely a case where the ACCC should be examining the respective positions of the two sides to this commercial relationship. But in the long run the relationship has to be more than commercial—that is, it is about more than margins in any one year. National Foods has a strong, continuing business in this state and the relationship with its suppliers is central to its profitability in the long run. At this point it seems that trust has collapsed. The interests of the company, as well as the farmers and the communities they live in, can only be served in the long run by good faith negotiations that have a long-term view. I urge both parties to commit to those negotiations. It would be reasonable, I suggest, for the company to do all in its powers to recognise the costs faced by its suppliers and ensure it does not force them to accept losses for every litre they supply.

Fourthly, and finally, this issue raises a wider matter. The roller-coaster ride of costs and prices in the past few years has highlighted the need to maximise the use of mechanisms for smoothing incomes over time. Tools such as the farm management deposits and tax averaging are critical. The federal government needs to keep updating and improving those tools and publicising their benefits to the agricultural industry. If I can just conclude, for obvious reasons I have concentrated in these remarks on the dairy industry but, as I said at the beginning, the submission I present today goes well beyond the current concerns around our dairy industry. We draw attention to a suite of issues that need to be considered, particularly in this state if we are to continue to be a substantial, reliable producer of high-quality food for Australian and overseas markets.

Other issues raised as particularly important for Tasmanian farmers include: expectations of natural resource management and animal welfare; the need for strong biosecurity; effective land-

use planning; and ongoing research, development and extension through the Tasmanian Institute of Agricultural Research. I would be happy to talk about any of those matters during the course of the discussion. I would like to conclude, however, by re-emphasising that, although we do see some challenges for Tasmanian agriculture, particularly in the short term, we see opportunity above all. So the policies and actions of my department and the government will continue to be directed towards the sustained and sustainable growth of the industry.

CHAIR—You had three conclusions there, so there you go. Could I just correct you, with respect—the price fall on the mainland in most areas is similar. In Wagga milk that was 52c or 54c is back to 26c or 28c because they have aggregated rather than disaggregated market milk.

Senator O'BRIEN—Thank you for your submissions and for taking us beyond the particular National Foods issue with this inquiry. In terms of the structure of the industry, do you see the actions of National Foods inhibiting the potential growth of the dairy industry in this state in the future?

Mr Evans—In the long term?

Senator O'BRIEN—In the medium term and the long term.

Mr Evans—I would certainly hope not. I see this as an absolutely critical issue for the immediate term. As I have explained in my introductory comments, it has been compounded by a number of other factors that have affected farmers in the current circumstances. It is critical from our perspective—and the reason that the state government take this issue so seriously and that we do work through those issues and support the farmers through these very difficult times is that we see the long-term growth opportunities not only in dairy but in most agricultural sectors as being very important for the future of the state. In that respect the government is making a very significant investment in positioning agriculture for the long-term. As I say, the short term is something that we have to deal with today, but we cannot lose sight of those long-term growth opportunities.

Senator O'BRIEN—If it were the view that the accumulation of business entities in this market by National Foods created an unhealthy competition situation—and you may need to take this question on notice—would the state government support a legislative change which would require disaggregation?

Mr Evans—I would like take that on notice.

Senator STERLE—Mr Evans, I will take you to part 2 on market power issues on page 3 of your submission,. I will just go down to the second paragraph and quote what your submission says:

However, the government is highly conscious of what is often perceived as a power imbalance in this area and urges the ACCC to continue providing for reasonable bargaining frameworks for farmers.

Is it the state government's view that there are reasonable bargaining frameworks for farmers?

Mr Evans—It is a complex question and I am not sure that I can answer that comprehensively here today. Certainly, we believe that the framework does exist to address a lot of these issues. I think there is scope for improvement in how that framework is used. There may well be a need for other measures. But we think that the ACCC is the right vehicle for dealing with the heart of these issues.

Senator STERLE—From what we have heard today so far—and it will be interesting to hear from the witnesses tomorrow—one would argue that there does not seem to be any bargaining framework for the dairy farmers in Tasmania. I think that is an understatement. I am just stating the bleeding obvious.

Mr Evans—In a legislative sense, that is a reasonable conclusion. One of the things that we would be very keen to see happen is for the processes—in particular those of National Foods—to take a long-term perspective of their relationship with the farmers. Their long-term future in this state, as I indicated earlier, is dependent on having strong relationships with their suppliers. The discussions that we have had with National Foods to date—and my minister has been in personal contact with the CEO—have urged them to get a far deeper understanding of the pressures on the Tasmanian farmers, to be far more open in their relationship with the farmers and to not take an, in our view, superficial and, in the view of many, opportunistic short-term approach.

Senator STERLE—For some history here, has the state government known of a situation similar to this previously?

Mr Evans—In the dairy industry?

Senator STERLE—We have been told very clearly that there is a serious breakdown between one of the two major milk companies in their relationship with their contractors, producers or whatever you want to call them. Is there a bit of history of this? Have there been ups and downs? Do we have these normal hiccups every cycle or every time the dollar goes crazy?

CHAIR—It is no different to—

Senator STERLE—With the greatest respect, Chair, I am asking Mr Evans. I will ask for your answers in the smoko break!

Mr Evans—I cannot give you a lot of specifics today, but it is no different to the relationships that exist between suppliers and processes in a whole range of—

Senator STERLE—I just want to talk about milk and the dairy industry.

Mr Evans—My colleagues might have a better understanding of the history than I, but I understand that there are often price tensions between suppliers and buyers of milk. Peter, I do not know whether you can elaborate on some of the history.

Mr Tyson—It was a usual process. In answer to the question, I believe that it is fairly common practice to have some tension at a time when you are negotiating in the dairy industry for milk prices. A lot of comparative analysis seems to take place and a lot of posturing goes on

to try and get the best situation for either party. Traditionally, that has been pretty much the way that the game has been played.

Senator STERLE—Okay. So the answer to my question is that this is nothing new to the dairy farmers in Tasmania.

Mr Tyson—It is a lot more deep and meaningful this time, perhaps.

Mr Evans—I would say that the current circumstances are unique in that they have collided with a whole range of other factors to exacerbate the pressures—

Senator STERLE—The used the phrase ‘a perfect storm’.

Mr Evans—on existing dairy farmers today. I do not think that we have seen circumstances in which farmers have been under such extreme pressure as they are at the moment.

Senator STERLE—Is it just because national food contracts are up and they are suppliers? Do we expect Fonterra to follow suit and then have blues with their dairy farmers or their contractors?

Mr Evans—I am unable to comment in detail on that. There are a range of commercial arrangements out there and I am not privy to the detail of those and nor to the state of all of the negotiations. Our involvement has been to work directly with National Foods to try to get a better understanding and to get them to take a different approach while at the same time doing what we can to support dairy farmers in this state through these difficult times.

Senator STERLE—I appreciate that. I am trying to establish if it is just National Foods wanting to attack their suppliers or whether this is a dairy problem in Tasmania every time contracts are up. That is all I am trying to sort out.

CHAIR—The ACCC will do nothing with this, I guess, because unless there is predatory behaviour market power does not seem to worry them. We have seen that in other inquiries. They are not equipped with legislation to deal with it unless there is predatory behaviour. Isn't this just because there is not really any competition in the market? In a cattle market where someone is buying the vealers and someone is buying the cows, they do not compete with one another. Isn't this the same? If you have one bloke mostly using manufactured milk and one bloke mostly using market milk, there is no competition.

Mr Evans—There are a whole range of circumstances here. At the moment, you have a set of circumstances in which farmers do not have too many other options because—

CHAIR—That is market power.

Senator MILNE—There is a lack of competition.

Mr Evans—the Fonterras of the world are not taking on new suppliers, so the suppliers have no bargaining power here. So I agree with what you are saying to a large extent.

Senator MILNE—It seems as though both Mr Tyson and Mr Ferguson have a responsibility for dairy development—growing the dairy industry in Tasmania. What strategies do you have in place to address this issue of market power, to bring in competition and to help the industry become better equipped to deal with these negotiations? We have heard quite a lot of evidence today that agreements have been made on a handshake and a discussion. People have been encouraged to increase supply. Then that has been completely disregarded. We have even had contractual arrangements being reneged upon. While at one level it is a good idea to grow the industry, there is not much in growing it unless the fundamentals in right in terms of people being guaranteed that the structure of the industry will enable them to get a decent income from it. What are you doing about that?

Mr Tyson—I would answer that question by saying that the industry, working with government, has established bodies over time that have come together with the express purpose of growing the Tasmanian dairy industry. If you look at the history of the growth of the industry, you will see that we have gone fairly well up until just now—very recently. Other states have not had that same sort of level of achievement—other than Western Australia, which has shown a very significant change using the same model that we have, pretty much. We have used a program called Dairy 500, which is driven through Dairy Australia and Dairy Tas—which is a subsidiary of Dairy Australia; its local group—working with manufacturers, government and farmer organisations to create a future and a vision for the industry and activities that will encourage development and investment in the Tasmanian dairy industry. A lot of that has come from getting overseas investment, so unfortunately it is not always local. A lot of it has come from New Zealand in more recent times. If you look at the history, we have had a great influx. Probably 30 per cent of the industry is now dominated by New Zealand influence now, which has turned the industry around in terms of the milk flows.

Senator MILNE—Building a sustainable industry is more than building milk flows and volumes and so on. We are talking about maintaining people on the farm. It seems to me that there has been a big focus on growing production but not much focus on putting in the fundamentals to protect those people who take the risks.

Mr Tyson—When we go to the farm level, not the industry level, we have in place what we call extension programs. These are discussion groups—community groups—that work with farmers on particular aspects of their business that would give them some advantages. If you want to look at it very basically, it is about trying to get as much as we can from the pasture that we own and getting that production turned into dollars.

CHAIR—How do you manage when the costs all get passed back? Isn't that just code for that?

Senator MILNE—I am talking about the structural change that puts in place some foundation under the industry so that these circumstances can be better handled. For example, what legal support services are there for the expansion of the dairy industry? What are these people supposed to do now as they face bankruptcy? Where does that leave your growth strategy?

Mr Tyson—Where that leaves the growth strategy is in the same place as that for any other industry that is suffering a multiplicity of adverse affects all happening at the same time. I, unfortunately, barrack for St Kilda. It is much the same for the industry at the moment: we are so

close yet so far away. In terms of looking at where the farmers in Tasmania are at the moment, obviously if they have grown their business they have greater debt. That greater debt has been encouraged by the very upbeat future seen in all the market signals and heard in all the noise everywhere in the world about the dairy industry. The dairy industry was projected to have a good future. Here we are four months in, and we have a global decline at the same time. I cannot answer your question about legal support.

Senator MILNE—It is the support services that I am talking about—that kind of thing. I can see that you have been out there increasing production, going into bigger properties, bringing in massive investment and leaving people completely vulnerable. That is where we are now. That was your growth strategy.

Mr Tyson—The underpinning?

Senator MILNE—The underpinning is not there. I can understand increasing the growth, but the underpinning to protect people who go in there and build the building blocks is not there.

Mr Tyson—You cannot protect them. What you can do is give them information that they can use in their decision making to give them a far better opportunity of being successful. We do benchmarking of farms in Tasmania to establish their performance. They know what they are doing, unlike in a lot of other industries that are only just finding out how to work out where they fit in the whole regime of production. That is not only benchmarking from a fiscal point of view; it is also environmental. And other aspects as well are being measured.

CHAIR—But isn't that fundamentally flawed if you have to deal with the capacity subsidy regime in the US, which competes with a subsidy regime in Europe? What is the point of having a grand plan if it all falls A over T based on what can happen in Europe?

Mr Tyson—It is better than having no plan at all.

Senator O'BRIEN—It would not be better to do nothing.

Mr Evans—What you are saying is perfectly reasonable and perfectly true, but that is the reality of life. From Tasmania, we can influence some of those negotiating agendas and positions.

CHAIR—With great respect, if a bottle of water is \$2.50 for 350 millilitres and people gleefully buy it, isn't there something fundamentally wrong with the milk industry when—

Mr Evans—If I can continue my point, the point I was going to make is that there is an external operating environment out there, much of which we cannot control. Where we can assist industry is in making the right strategic decisions in operating in that environment. Peter has touched on some of the things that are done through the Dairy Centre, but there are other programs as well. I will give you as an example the Taking Stock program, which is run through Dairy Tasmania with assistance from the Dairy Centre. It is about providing support for farmers to engage consultants to work with them to build their business management skills, to help them develop budgets and risk management strategies and to help them deal with the sorts of

circumstances that you are talking about. But at the end of the day farmers have to take some responsibility here too. We can provide support.

CHAIR—Thank you. It is a very long answer and we are running out of time.

Senator COLBECK—I want to continue along the line of the dairy development plan, which I know was released a couple of years ago. When I saw it I thought it was potentially quite conservative, but I think it was a good attempt by the industry to look at its future and to start planning for its future. As Mr Tyson said, in a period when things were looking positive I think the growth rate projected was something like five per cent, which in overall terms was fairly conservative. The issue for me is what is being done at the moment, particularly by bodies like TIAR to work with the industry to review that plan and see what needs to be done, given the circumstances that we are in. Mr Evans, you are demonstrating that it is a really difficult situation for the state government to deal with, and largely the state government is fairly impotent in this. It has some things that it can do, but the overall legislative framework is generally a federal one anyway, so the state government is impotent in that sense.

Mr Evans—With regard to dealing with competition?

Senator COLBECK—Yes. But I am interested in what work is being done to assist the industry to review the plan. Is there an ongoing review process relating to the fall in the global market, which I think is pretty much agreed to be an unforeseen circumstance which is influencing the prices? What is being done to assist the industry to deal with the issues that come out of that and to perhaps even review the plan going forward?

Mr Tyson—The Tasmanian dairy industry, unlike a lot of other state industries, actually has a strategic plan.

Senator COLBECK—Yes, I understand that.

Mr Tyson—That strategic plan placed all the emphasis on growing our business in Tasmania. That was the basis of the plan, because basically the philosophy at that time was that our industry was so small that, if we did not grow it, we were hardly going to have an industry that any manufacturing companies would look to support. So it was all based on encouraging investment in our state's dairy industry at a farm level and also at a manufacturing level. At this point in time, there is still some interest in those areas of further investment. I venture to suggest that, as soon as we see some glimmer of hope with regard to the global nature of the world we are in, you might see some fairly strong activity in the dairy industry in our fair state.

CHAIR—Do you think farmers will ever get the opportunity to pass the costs forward, though?

Mr Evans—No.

Mr Tyson—We never have yet.

CHAIR—But this is a doomsday thing. They were always going to go back. Why have we got Woolies and Coles with 80 per cent of the packaged retail market? Down here, 100 per cent of the manufacturing is in two hands. What hope have you got?

Mr Tyson—I still think you have to come back and look at history and look at what might have happened in the last five years in the next five minutes, because that is the speed of change.

CHAIR—Isn't competition of importance, though?

Senator COLBECK—So what you are saying, Mr Tyson, is that while there is a significant problem now there is, in your view, a long-term future for the industry to continue to grow, although the issue at the moment is how we manage to assist farmers to get through this particular problem?

Mr Tyson—Absolutely.

Senator COLBECK—So what work is being done to deal with that?

Mr Evans—In recent times the government has established a dairy industry reference group, which I chair, comprising all of the industry leaders through the chain.

Senator COLBECK—That includes the companies?

Mr Evans—They have been invited to join. Representatives from Fonterra, National Foods and Cadbury, I think, have all been invited to join. That reference group is due to meet for the second time next week. Last week we had an emergency meeting of that group—just me with the farmer leaders on the reference group.

Senator COLBECK—That was the meeting last Friday?

Mr Evans—Yes. That was to put together some advice for the state government about how it might help with short-term prices measures arising out of the events of the last few weeks, which come on top of the milk price issue. So we have some immediate things in place, and that group will be actively advising the minister and the Premier, but we have longer term plans in place, as Peter has talked about, in terms of the dairy industry strategic plan and the newly released TIAR Dairy Centre strategic plan. We have to keep the focus on the long term as well as the immediate crisis, and as part of that long term we have work being undertaken on a whole range of things including water development, which is critical to our long-term future, in our view, as well.

Senator COLBECK—What reaction or response have you had from the companies in relation to the strategic group?

Mr Evans—I cannot answer that question, because I have not seen their response to the invitation.

Senator COLBECK—So at the moment we know the farmers are on board because you have had a meeting with them, but we are not sure if the processors are on board yet at all?

Mr Evans—Yes. We know all the farmer groups are on board. We know all the relevant state government agencies are on board. It is more than just my agency. There is the Department of Economic Development, Tourism and the Arts and the Department of Health and Human Services, because there are some significant social issues out there as well, and other service providers.

Senator STERLE—Were they at the first meeting?

Mr Evans—Those other agencies?

Senator STERLE—No, the companies. I think that is what Senator Colbeck is trying to get to.

Senator COLBECK—No. He said that earlier.

Mr Evans—The companies were not involved at the first meeting, and they were not involved because the advice that the Premier and the minister were seeking was what short term measures the government needed to put in place to support dairy farmers.

CHAIR—The obligation of the companies under the directorships is to maximise the profit of the shareholders and bugger everyone else. I will just put two questions on notice and one that is not on notice. Has the department traced a litre of milk from the farm to the supermarket shelf, where it becomes \$2.20 a litre from 26c a litre? Have you actually traced who gets a snap at it all the way through?

Mr Fergusson—No, we have not.

CHAIR—Why not?

Mr Fergusson—It has never been in our brief to do that.

CHAIR—Why wouldn't that be the most sensible thing you could do to explain to a farmer why they can only pay him 20c or 26c a litre, yet the price of milk in the supermarket, depending on how much permeate you fiddle around with, is \$2.20 or \$2.30? Why wouldn't that be a sensible thing to do?

Mr Evans—That is a really good point that you raise. One of the things we have been trying to encourage National Foods to do as part of the discussions the minister has been having with Mr Waugh is to become more actively involved in some of that. We have a lot of benchmarking stuff at the farm level, but we have to get through the chain. Ministers sought an agreement with Mr Waugh that we will open up our cost structures through the benchmarking work that we have done and have asked them to do the same. That is still a work in progress, I have to say.

CHAIR—Generally, big corporations build a lot of fixed administrative overheads into their prices, which buggers up the farmers. On notice, does the use of permeate support the growth of home brands—owned by the retailers, obviously—and other low-equity brands with retail price points so low they have destroyed the profitability of the sector for most players? Are consumers getting what they pay for? Should labelling standards be further tightened to help rebuild

consumer confidence in retail price points, and should reconstituted milk be required to be labelled accordingly? You can take those on notice.

Mr Evans—We are happy to take those questions on notice.

CHAIR—Thanks.

Proceedings suspended from 12.45 pm to 1.30 pm

ABBOTT, Dr Angelique, Representative, Circular Head Dairy Farmers

CHAIR—I welcome Dr Angelique Abbott, representing Circular Head Dairy Farmers.

Dr Abbott—I am a veterinarian. I am here representing the 22 Circular Head farmers who supply milk to National Foods. I have lived in Circular Head for six years and have worked alongside all of these farmers as a vet. I am also married to a third-generation dairy farmer, so I know how hard these people work for their living. I also know that the farmers of Circular Head are proud people who strive for excellence and best practice in the way they manage their farms. Circular Head is renowned throughout Australia as being a centre of dairy excellence.

In writing this submission I interviewed eight farmers who thought they had been unjustly treated by National Foods. Whilst the remainder of the farmers did not have specific complaints towards this company, they have all experienced the poor attitude and indifference that the other farmers have received. All farmers feel that, since National Food bought the Lactos Cheese Factory in 2006, the lines of communication between the company and the farmers have deteriorated rapidly. And the situation has worsened with Kirin Breweries' involvement in the last 12 months.

The issues outlined in my submission are directed mostly at National Foods, but they do relate to the industry as a whole and what it will face if multinationals are allowed to dictate how we farm. National Foods have abused their power as a large company and have consistently demonstrated a pattern of unconscionable behaviour when dealing with individual farmers. Every one of the farmers that I interviewed emphasised this point. From forcing farmers to sign contracts, in the cases that I outlined, to withholding money from certain farmers, to signing contracts and giving the go-ahead for the expansion of herds and then never providing the farmer with copies of those contracts—after farmers have taken measures to change the way they farm. It is clear that National Foods field reps have not been transparent when dealing with farmers in the past. When looking at contracts for the future, this is an issue that needs to be rectified. It must be remembered that, for a farmer, these field representatives are the only representation of that company that we ever see, so business dealings with them are considered binding.

I think that National Foods' abuse of power continues into the marketplace when setting prices for milk. A question that we need to ask is: why is it that the prices in our contracts are consistently set against Fonterra, when a company of the size of National Foods must know the cost of production of their individual products that end up on the supermarket shelves? And why are we not being paid according to that? It must also be asked: are these two companies colluding in price setting in Tasmania? If not, what role do the major supermarkets play in contributing to the cost of milk to the consumer? It is hard for a consumer, and a farmer, to look at this and say, 'If one litre of milk costs us \$2 in the supermarket, and producers are being paid 20c a litre, where is the rest of the money going?' It is clear from my submission that National Foods has very little understanding of how a dairy farm is structured. As a business, I do not think they understand that farming requires forward planning and that it cannot be easily be changed from year to year.

I think the question needs to be raised: what is the future of dairy farming in this country? As farmers, we want to produce the highest quality product possible and we want to produce it in a way that is environmentally sound and cost-effective to the farmer. It is important to us all that best practices are followed in terms of animal welfare. We know that this will not be possible unless farmers are treated fairly and are paid appropriately by milk companies. In the case of National Foods, the farmers in my submission will not be able to continue to produce milk in a fair way.

I think representing the Circular Head region is important for this state. We have the biggest area of dairy farming in the state and the income generated from these farms is a major driver of the economy in our towns as well as in the state. The impact of the projected milk prices by National Foods and the restrictions in the new contracts that we fear are in place will have massive consequences on the farmers and their families in our community. We will be facing not only reduced milk prices but also the devaluation of property under the National Foods contracts. The financial and emotional impact of the downturn in this industry is already being felt in our community, and this is only set to worsen.

CHAIR—Thank you. We have also had a fertiliser inquiry in recent months and there is obviously a monopoly at work in the fertiliser sector. One of the things that we discovered was that the field officers were used as cannon fodder by the company. Is Mr Paul Rees, for instance, the bloke who has to go out and take all the punches for the company and, as stated in this submission, in some cases misleading?

Dr Abbott—Yes. The field representative is probably in a difficult position working for a large company. From the farmers' perspective, we would hope that the field representative would take our concerns back to the company. As far as we are concerned, they are there to represent the company. As I said, they are the only face we see of this company.

CHAIR—If you write the contract, you write it with the field officer?

Dr Abbott—That is correct. They are the only people who come to your farm to explain anything in terms of contracts. They are the person who will sit down with the farmer and talk about what the farmer is planning for their farm and where they are heading in the future.

CHAIR—To the best of your knowledge, does the company churn these field representatives so that they do not have to deal with the same cranky farmer for more than a certain time?

Dr Abbott—I think from the farmers' perspective it would appear that they do not stay in the job for very long. I cannot comment on whether that is due to pressure from the company as well as from the farmers, because there are some angry farmers and I am sure that the representatives get some angry phone calls from those farmers at times.

CHAIR—Finally, would you say that the Circular Head dairy farmers have been treated with contempt by the company? Do you think that the approach of National Foods to the farmers has been a cold blooded financial one of 'Sorry, old mate, you're going to have pay the cost of this because we've got to continue to perform for our shareholders'?

Dr Abbott—Yes, I think that is so.

Senator COLBECK—Dr Abbott, you mentioned that one of the pivotal points in time in this whole process was the National Foods takeover of Lactos.

Dr Abbott—Yes, that is correct.

Senator COLBECK—And from that point in time there has been a significant change in attitude and behaviour towards suppliers?

Dr Abbott—Yes. Lactos was always seen as being open to communication and contracts with Lactos were in both parties' favour, so they worked together. The aim of Lactos was to produce a high quality, high end-market cheese and, therefore, they wanted a certain product—a high quality milk—from farmers at certain times of the year. That is certainly what the farmers who produced for Lactos were providing. As far as we were concerned, from speaking to all the farmers, Lactos were always open to negotiation, and that has changed dramatically since National Foods bought that company.

Senator COLBECK—Your submission gives a good and quite broad scope of different experiences that farmers have had. Do you think that National Foods really understand what they are dealing with—who they are dealing with and the issues the farmers that they are contracting have to manage and deal with?

Dr Abbott—No, they have no understanding. Perhaps the field officers would have an understanding to a point, but once we go beyond the field officers I do not think that company understands what it is like to milk cows every day of the year. They have no concept of how farmers must plan for their future. Contractors cannot be handed orders to change things in a day or two. Farmers are looking three or four years into their future and planning their farm structure according to that. When we talk to field representatives about that, that is what we are trying to get across and plan for our future with them.

Senator COLBECK—Issues of threats to withhold payments or not make payments such as the no-disadvantage back payments are mentioned in a couple of the individual farmer precis. Is that a relatively regular occurrence?

Dr Abbott—In terms of withholding payments?

Senator COLBECK—With respect to signing a contract or that being the outcome.

Dr Abbott—It has only occurred with the new contracts that have gone out. A lot of the farmers in the Circular Head area have not seen our contracts yet. It was implied to those who were up for renewal of contracts that they would not receive their back payments. By signing these new contracts we are signing for a future and we are giving up the right to anything that was owed to us in the past.

Senator COLBECK—I note that a lot of farmers had been out of contract since early in the year and had not seen an offer until July or August.

Dr Abbott—Yes.

Senator COLBECK—Could you give us a perspective on the impact on a farm business of being out of contract for that period of time? There is obviously no advantage in that for a farmer, but what advantage would there be in National Foods holding off, apart from finding out what the competitors are going to be pricing and then trying to benchmark their price against that?

Dr Abbott—Certainly, in the case of those farmers who were all off contract for that period of time, a number of those farmers tried to ensure that they could get a contract in that six-month period. For those farmers it was a great uncertainty to them. From day to day they did not know whether National Foods would pick up their milk, which meant that they would have no income. It also meant that they had no idea what price they were going to be paid from week to week and month to month and, therefore, could not really plan in terms of budgeting for food, cattle, animal welfare, increasing farm labour units or going ahead with any projects that they had planned for their properties. There was no certainty for those farmers in that period.

Senator COLBECK—A question to finish on. I was down there a couple of weeks ago, so I have had a chance to see it. Could you put on the record the layered circumstances that exist on top of that uncertainty at the moment? I think it is worth us having an understanding of how diabolical circumstances are down there with the weather at the moment. What is it like on the farms and what is that doing to capacity to produce and meet the requirements of National Foods?

Dr Abbott—First, the winter that we have just had has had record rain levels in all areas of Circular Head, which means that for those winter months we do not get grass growth when we have paddocks that are full of water. The farmers have not had the grass to be able to feed their cattle. Second, the impact of having that amount of water in your paddocks means that you put your herd in the paddock and the paddock ends up churned up by cattle walking, so what grass you have there is turned back into the soil. We have farmers who are facing the situation of having very low milk prices and who have had such awful weather conditions on top, which means that their cheapest form of feed has been turned into the ground. That means that we now have to turn to higher-cost feeds—buying in hay, silage and grain.

Senator MILNE—I asked previously about collusion between Fonterra and National Foods. I really think this will get to the ACCC, and the more specific evidence we can present the better. I see in your submission a couple of examples where farmers were told that whatever the price is it will be one cent better than Fonterra's. Have you got any more evidence than what is here, or any other reason to suggest that there is collusion?

Dr Abbott—No. I think the idea of collusion has probably come from when field representatives have come to our property. I have gone and spoken to these farmers and said: 'What is it that has happened that you are upset about? What have these field representatives said?' These field representatives have said, 'Well, the price will be better than Fonterra.' Certainly the letter of offer does talk about Fonterra's milk price. The question that we all have is, 'Why are we constantly being compared to Fonterra?' Certainly, I do not have anything apart from that letter of offer and what a number of farmers have said. Whether National Foods are happy that their field representatives are going around and saying that, I cannot say. We want to know why we are constantly being compared to Fonterra for milk prices.

Senator MILNE—One thing I am very concerned about—it is obvious—is the impact this is having on community viability—in terms of the psychological health of the community, if you like. The fact is that even if you sell your property you get a lesser price because you cannot guarantee that you can transfer your contract. Is it a new thing that you cannot transfer your contract and that the new person has to start again?

Dr Abbott—Yes.

Senator MILNE—When did that come in?

Dr Abbott—It is in the new contracts on offer. My understanding is that prior to this there has not been an issue. If your farm was for sale there was an agreement, usually, that the milk company would take on that farm. If it was already a working dairy farm it would be taken over by the milk supplier that it supplied to.

Senator MILNE—So this would be adding to the emotional stress in the community. People are concerned that they are not going to make it through, even if they put their property on the market. They are going to suffer an even lesser price than they otherwise would because they cannot guarantee that anyone is going to sell milk from that property.

Dr Abbott—Yes, that is correct. Certainly, some of the farmers who I interviewed are at a stage in their lives where they should be retiring from their farms and selling their farms to new owners or other members of the family. That was something that would have been a reality in the next four to five years. If they cannot guarantee that they will be dairy farms then their properties are not worth the value of dairy farms.

Senator MILNE—We are obviously going to take this through the ACCC processes. In the meantime we have farmers up against the wall being offered 20c, with no prospect of this being resolved. What would you say is the impact in a community like Circular Head? What is the flow-on effect when you have a dairy community in such high levels of uncertainty?

Dr Abbott—Huge. It will touch—it already has, I think—everybody in the community. There would not be one person in that community who is not somehow involved with somebody who is a dairy farmer. It is already affecting the businesses in our community. Half the people who have come up for this rally today are the contractors who normally work on farms. We have the hay and silage season beginning in the next few months and some of those contractors are talking about not having any business for that period of time. Certainly, the local takeaway shops are not seeing the people coming in, and even the supermarkets will be affected because people do not have the money to spend on their daily needs let alone what is needed to keep the farms going.

Senator MILNE—Thank you. Would you mind tabling that letter? Also, when I asked you before about the collusion, you said that, apart from the letter, there was no evidence. Would you mind taking on notice to produce that letter and any other documentation that might come to mind? That would be very helpful to the committee.

Dr Abbott—Yes, I can do that.

Senator STERLE—Dr Abbott, are all your 22 members in Circular Head struggling?

Dr Abbott—No. The thing with the Circular Head farmers is that most of us are still on contracts until the end of December. So on 31 December we will come off a two-year contract with National Foods. There are currently three farmers who are off-contract of our 22 farmers. I think that is correct. Two of those have signed up for a five-year contract under the new contract terms and one has not signed up simply because of the timing of things that have happened in Tasmania in terms of forming a collective bargaining group. The rest of us who at this stage are still being paid 45c a litre are managing our farms well. Come 1 January, we do not know what our future will be.

Senator STERLE—What about the two that have signed? Do you know what they are getting paid?

Dr Abbott—Yes. They are getting 20.8c a litre.

Senator STERLE—Were they under duress to accept that contract or else?

Dr Abbott—Yes. The two people who I put in my submission really felt that the pressure was on them to sign or else. The third member who did not sign is constantly worried that the milk tanker will not turn up at his place to pick up that milk.

Senator MILNE—So they have threatened not to pick up the milk?

Dr Abbott—They have not received that threat but it is implied. That is something that these farmers feel. They are not on contract; there is no reason why that National Foods tanker has to turn up to pick up their milk.

CHAIR—So having signed two up at 20.8c, I presume the company thinks they have the rest where they want them.

Dr Abbott—That is the concern for the rest of us. The two farmers who signed were certainly under a lot of emotional stress to sign. There was a date quite clearly stated on the letter of offer—27 July. They had already been off-contract for six months and they felt that by signing that contract they would ensure that their milk would be picked up.

CHAIR—Would it be possible for you to organise for those two farmers to give evidence or would they be too emotionally drained to do that? It would be interesting to know what they went through.

Dr Abbott—There is no harm in asking.

CHAIR—Would one of the emotional drains on those two farmers be that they may privately think they have betrayed their neighbours?

Dr Abbott—I do not think any of us would say that they have betrayed us.

CHAIR—I am not saying that.

Dr Abbott—Would they think that?

CHAIR—Yes.

Dr Abbott—I do not think so, no. I think we are a community that tries to help our neighbours.

Senator STERLE—Let us not beat around the bush, Dr Abbott. If two have already signed up, regardless of being under duress or not because of day-to-day problems of money flow and all sorts of other pressures upon them, National Foods are not silly enough to think that they are going to pay those two something different if the rest of you start screaming. That is the sad, harsh fact of life. I have dealt with a lot of situations like this in my previous life.

I just want to clarify one thing. I think you said something along the lines that National Foods would not have a clue how to run a dairy farm. I think you have too much faith in humans, because I think they damn well do know what it costs. I think they would have access to every forecast from fertiliser prices to weather, fuel prices and the whole lot. They do know what pressure you are under. These so-and-sos can put single farmers under such pressure because they have more information available to them than any single farmer. I think you are letting them off the hook. They will be at our meeting tomorrow and we will certainly challenge them along those lines too. Just to clarify: you are decent people and you deal from the heart, but you are not dealing with similar people on the other side of the table. I do not need to tell you that. That is not a lecture; you already know that. But you are letting them off too easily.

Senator O'BRIEN—I was interested in any insights you can bring to the committee about costs of production in the Circular Head area. Given the evidence we have already had—and I am not sure if you were here when we heard that.

Dr Abbott—I was not here. I am not the right person to go through specific costs of production. Certainly Circular Head is an area that is known for grass growth. It varies from farm to farm, to be honest, depending on the farm you have, what herd you have and which months of the year you are milking. I think in terms of the cost of production it is probably best to leave it to those who can answer that. Most of the farms that supply National Foods in Circular Head milk through the winter. That was what National Foods wanted when they bought the Lactos cheese factory—they wanted winter milk. So the costs of production in those months are higher than they would be if we were spring milkers.

Senator O'BRIEN—And just for completeness, there are some individual farm circumstances contained in your submission. Are those farmer partnerships aware that that is in the submission? Have they authorised you to bring that information to the committee?

Dr Abbott—Not all of them have read the submission but certainly at the last meeting I said, 'Look, the information that I came and spoke to you about and the discussions that we have had I have put into writing and are going to the committee now.' I asked if anyone objected for them to come and see me.

Senator O'BRIEN—And presumably no-one has objected. Was there anyone who is not in there who did object?

Dr Abbott—No.

Senator O'BRIEN—In terms of the way that the current price in your farm contract was arrived at, was that achieved by a collective negotiation? Was there a collective bargain to reach that price or was that just offered by the company when the contract was signed?

Dr Abbott—No, certainly two years ago when the contracts were up for renewal there were negotiations between farmers and the company in terms of getting a higher price for milk at that stage—or getting the best price for milk at that stage. That was the price agreed on by both parties.

Senator O'BRIEN—So you had the company as one party but who was the other party?

Dr Abbott—There were a number of farmers involved. I would have to check exactly who was involved in that, but there were a number of farmers from Circular Head involved in negotiations with the company at the time.

Senator O'BRIEN—Was that just a Circular Head negotiation or were other districts involved as well?

Dr Abbott—I cannot comment on that. I am sorry.

Senator MILNE—I just wanted to follow up on the question about other adverse circumstances happening at the same time with the weather. In relation to the breakdown in electricity supply recently, how many of your Circular Head farmers had outages for quite long periods of time?

Dr Abbott—Certainly I have not spoken to everyone since those power outages. From what I have gathered, in Circular Head I think we were less affected by the power outages than further up the north-west coast and most people were only out for a few hours. Some were out for the day at most. So I think in general power was restored quite quickly to our area.

Senator MILNE—In terms of what governments could do to provide support in the meantime given the circumstances, what do you think would be the most critical support that governments could give, notwithstanding the money that is there for the fighting fund for legal fees?

Dr Abbott—I think farmers are going to need support to keep their animals fed and to keep their farms running. That is certainly an issue.

Senator MILNE—So some emergency assistance to get through.

Dr Abbott—Yes, that is right. If we are going to stay milking then we need to keep feeding our animals and we need to keep feeding the people who work for us by paying them and keeping food on people's tables. People will get through hard times if they can keep going and they know that the future is brighter for them. But if we think that we are all going to continue to go backwards then the question will be whether we continue.

CHAIR—Thank you. Just to put a bit of perspective on the weather, it is too wet down here but it is too bloody dry where I come from.

Dr Abbott—I know. I think we would like to send it north.

CHAIR—In three weeks time they are going to put a block in the Lachlan River and let 1,000 kilometres of the river just drain out; and farmers have to make their own arrangements. With permeate do you understand the ‘milk ain’t milk’ argument? We now have ‘Black and Gold’ type of milk in the market which, just as with the hogget brand of lamb, takes the top off the market. Do you think that we ought to have more closely branded milk? We are getting people in Sydney now, for whatever reason, buying Black and Gold milk, which is obviously watered down in some way—whether it is with permeate or not. If you are on a tighter budget then you may be attracted to the cheaper milk even though it is sort of not milk. Do you think that is a problem?

Dr Abbott—I think it is a problem if consumers do not know what they are buying. We produce milk which most farmers would consider is a good quality milk. The question is: why is that not on our supermarket shelves, and do consumers really know what they are buying when they buy cheaper milk?

CHAIR—I am sure that this is a problem which this committee will help to highlight. As they used to say, ‘oils ain’t oils’ and now ‘milk ain’t milk’. Also would it assist your dairy farmers if we were able as a committee to actually track the 20.8c or 20.9c from the farm gate to the \$2.29 at the supermarket shelf and what happens in between? Do you think if the consumer really understood just how tough the dairy farmers are doing it then we could get some community action?

Dr Abbott—Yes, I think the key is the consumers. They are the people who buy our product, at the end of the day, and they need to understand where their product comes from.

CHAIR—I think we do need to do that exercise in milk.

Dr Abbott—Yes, I do too.

CHAIR—We can do it in water. In the present time in Australia—and I find this hard to believe—we actually import bottled water from China and sell it in our supermarkets. It is wholly manufactured and bottled in China. It comes in at 28c, wholesales for 38c and retails for \$2.50. And our consumers buy it—it is actually bottled water from China. As I said earlier, if you get on Virgin Airlines then you pay \$2.50 for a little bottle of 350 millilitres of water. You could fill that bottle 3,400 times from your tap at home for the price that it cost you on the plane. Consumers have to understand that dairy farmers are getting it in the neck.

Dr Abbott—Yes. I think the consumers do need to understand. I think that is probably a whole other issue. Consumers do need to know where their food comes from, and to keep agriculture in this country we need to make sure that the consumers want our products and that they do not have the opportunity to buy products from overseas or we will not have an agricultural industry in this country.

CHAIR—So at what stage of the game do you think your dairy farmers will turn their attention to Lion Nathan?

Dr Abbott—I really do not know. That is not something that we have really discussed at this stage—our focus has been to get this organised really and try and get ourselves together and stand as one.

CHAIR—It seems to me that there would be an opportunity if these blokes are seen as plunderers, pillagers and rapists of the industry then the new owner might like to tidy up the image and it might be a good opportunity for Lion Nathan—like with Incitec Pivot in fertiliser where they got rid of the CEO because they absolutely pillaged the industry with global greed on fertiliser. Perhaps this is an opportunity for change and a case of turning adversity into opportunity with a new owner.

Senator STERLE—Dr Abbott, I asked a previous witness from the state department if this was a normal contractual game that is played every time that National Foods want to renegotiate with the farmers. Is this what happens every time the contracts come up?

Dr Abbott—We would hope not! We have not been dealing with National Foods for that long. Most Circular Heads farmers have been on contract for two years, so there has not been a long history of needing to negotiate contracts with this company. As I mentioned previously, with Lactos there were always negotiations between the two parties. That is something that we fear. Younger farmers in the industry do not want to have this fight every couple of years. We cannot have this fight every couple of years. Who will be in the industry to do that? We cannot stay farming and have to fight for this all the time, and we will not attract new people to the industry either. There will not be a future there. We hope that by doing something now we can make sure that in the future we have good negotiations between our milk supply companies and farmers.

Senator STERLE—The previous witnesses led this committee to believe that this is just normal argy-bargy. Those are my words; those are not their words. They said there is always some to-ing and fro-ing, but—

Dr Abbott—Perhaps to answer that question fully you will need to speak to someone who has been in the industry a lot longer than I have.

Senator STERLE—That is a fair answer too. On page 1 of your submission you use some very strong wording in your second paragraph. I will quote you:

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.

They are very powerful words. Have the Circular Heads dairy farmers had any legal advice on unconscionable conduct?

Dr Abbott—Not individually. We signed up as part of the Tasmanian collective bargaining group so that they would go through those processes for us.

Senator STERLE—That is great. That just painted a clearer picture for me of where you all sit in the process. Thank you.

Senator COLBECK—I have perhaps more of a comment than a question. Senator Milne asked about the power outage last week. I was talking to a farmer during the rally at lunchtime who said he expected the outage would cost him \$20,000 by the time this season was up, with the higher costs for his equipment—generators and such—lost production, higher mastitis incidence and additional disease during the season. So there is a fairly significant cost from the power outage that occurred last Sunday. The guy that I spoke to would be a very typical farmer, so you could probably say that it is about \$20,000 per farmer on top of the significant losses that are being caused by the other circumstances.

Dr Abbott—Yes.

CHAIR—Let us put this into a bit of perspective. On the mainland, there are still some people on that same contract ending in December—46c a litre. That is on the south coast. But there are people such as in Wagga, where I come from, who have fallen back to 26c from 52c. This is not peculiar to here. These people, these corporates, tucked away in a high-rise in Tokyo or somewhere are pretty cold blooded in the way they go about it.

Finally, as it would be interesting to this committee, is it possible to find a field officer who no longer works for the company who would be prepared to give evidence to this committee? Can you think of anyone who might fit that description? You can take that on notice, if you like.

Dr Abbott—I could not tell you.

CHAIR—We would like to find one, because the same thing happened in the fertiliser industry. The guys who were told to go out there and bludgeon the farmers to death with the spiel from head office got very angry. Thanks very much for your evidence.

Dr Abbott—Thank you for listening to it.

[2.10 pm]

BOVILL, Mr Richard, Coordinator, Fair Dinkum Food Campaign

McCALL, Dr Tony, Private capacity

CHAIR—Welcome. I invite you to make an opening statement.

Dr McCall—I am at the University of Tasmania and am also a voluntary consultant to the Fair Dinkum Food Campaign.

CHAIR—God bless you.

Dr McCall—Whilst we are here talking about a price signal and how it is impacting on our dairy farmers, there are really some broader considerations that I think should be at the forefront of our thinking—that is, largely what role does food security, and will food security, play in Australian public policy over the next 15 to 20-odd years? As critical as discussions about food price signals are for our milk producers here in Tasmania at present, there are some long-term issues that will encapsulate and exacerbate those difficulties because they are at the heart of the real focus for the agricultural production inquiry and they are around the sustainability and viability of the agricultural sector. We need to give food security over the next 20 years the same sort of priority as we give to defence security and foreign relations.

When I first started working with Richard in 2005 when the potato growers ran into similar difficulties to our dairy producers, I started to look at some of the objections that our farmers had to the level of subsidy and support that the European Union provided for its producers and growers. At the time of course a lot of that criticism was around the lack of a level playing field, the failures of competition policy and the free trade implications of subsidised support in the European Union. It was not until 2007, when I took study leave in Europe and spent some time with not only retail sectors but producers themselves, that I came to understand that one of the things that drove the European support for their growers and farmers was that they actually valued what they did. It was not just a response to the fact that Europe had had those really significant food security issues attached to both the First World War and the Second World War. Particularly now in the 21st century those levels of subsidies and support for producers in Europe are about environmental amenity and a range of socio-economic and environmental issues that are extremely pertinent not only to the Europeans but to all food producers globally.

We will always see isolated price signals that do not actually reflect value in the marketplace. We will do that in Tasmania largely because our support for the notion of competition is really undermined by the actual characteristics of our marketplace here. Competition is an academic device. It really can only operate under certain circumstances. Those circumstances are quite acute. If all of those characteristics of the marketplace are not in place then the value that we place on competition will not necessarily transfer. It certainly will not transfer down the value chain to the producers that are largely at the bottom of that value chain. I think it is all right for us to be keen on the effectiveness and the efficiency components of competition but we need to understand that it can only occur if those characteristics are in place. Right now we are seeing

not very many of those characteristics being in place in the dairy industry in Tasmania and that is why we are here having this discussion about these price signals that dominate the issue here in Tasmania.

I think, at the end of the day, we need to revisit this mantra of competition around a food security policy that ensures that we do not continue to extract value from the value chain but instead put some value back into it so that we secure food production in Australia into the future. We know where those imperatives are around population, environmental amenity and the challenges of climate change. We need to move very quickly on that or we will be sitting there, as many of our dairy farmers in Tasmania are right now, wondering what happened to us, what happened to our rural and regional communities and what happened to the fabric and the glue that kept this island at the forefront of possibility around food security.

Not very many island states of this size and this capacity in terms of productive skills, soil, climate and the like are going to be able to be sustainable and viable into the future, but right now the price signal around milk is telling our dairy farmers that they should not be in the sector. That is not satisfactory under any circumstances. I think a broader food security policy platform would provide the legislative support for initiatives that would actually support value adding in the food chain—rather than allowing National Foods or some unscrupulous retailers and processors to continually extract the value without any necessary reference to the plight of the people who put the value in in the first instance.

Mr Bovill—I travel under the name of the Fair Dinkum Food Campaign, which is really just a brand name for farmers to rally around and to give them a voice. This issue around National Foods is a focal point. Any large company in Australia could behave exactly the same way as National Foods are behaving today. There are no rules in place to stop them. At what point do we say somebody is abusing their market power? At the moment, they could pay farmers 10c and claim that they have the right to do that, and, quite frankly, under the legislative framework in Australia today, they do. It is purely discretionary. Large companies—and we have many of them—have the capacity to just harvest wealth from those with less power.

We have to acknowledge, as Tony mentioned, what a marketplace really is. We have a couple of large retailers. We have the largest concentration of retail power anywhere in the world. And we have organisations like National Foods and a whole range of others that are formed almost by that aggregation of power. There are not the pathways to the marketplace.

A lot of this problem was caused in the deregulation of the dairy industry, when Woolworths first came out and let a national contract for milk and said, ‘We will only have one supplier.’ In one fell swoop, they changed the face of the whole milk market in Australia. National Foods at that time went in with a very, very low tender—way below cost of production—to win that contract, and overnight changed the face of the fresh milk market in Australia. If there had been eight reasonably sized retailers in Australia, that could not possibly have happened. If a large organisation that has 40 to 50 per cent market share says, ‘I will only have one supplier,’ that effectively says that they can control that marketplace. We say: what is reasonable competition?

On the other side of the equation, those retailers put prices out there which consumers determine whether they want to take or not. They have a right to go and shop around. They do not have a whole lot of choices. But what Woolworths and Coles do in that space is pick a mean

average price that they can make good money at and test that price up and down to see what the customer reaction is. They then balance that price against sales versus gross profit. They have computers that do those kinds of numbers.

A dairy farmer does not have that choice. He is locked into a contract, sometimes for five years. He has invested millions of dollars in a single project which is about dairy farming. He does not have the discretion to change in six-months time to become a beef farmer because he has just spent millions of dollars setting up dairy and has breeds of cattle which operate that way. We say market forces dictate, but market forces cannot dictate for small business in that respect. There needs to be an understanding that these people are weak in that position.

I was interested in the question asked of the previous proponent: how do we measure value in the value chain? Is there a way we can determine that a retail price which represents 20 times the production price is unfair? It changes with manufacturing processes, but there could be a mechanism put in place to examine that. The real issue is around the role of the ACCC—the remedies we have for abuse of market power; an understanding of what market power is and how it translates in the Australian environment; the fact that we have a system of creeping acquisitions which allows this to happen over a period of time and the ACCC, as much as they claim that they look at every transaction, are quite blind to us; and, a foreign investment policy which allows foreign money to take over existing businesses rather than come to Australia to invest in and to create new businesses.

We should not be opposed to foreign investment. It is the building block of any new country and Australia is only a new country but it should not be about selling off our heritage. In Tasmania we have lost our heritage with a lot of significant brands. If people want to come here to invest, to create new wealth, so be it, but we should not allow, through creeping acquisitions, the kind of circumstance we have with National Food where a simple process of producing milk in Tasmania to supply the Tasmanian community is owned by a company in a far off land. At the moment, that company would be repatriating more per litre in profit than these dairy farmers are currently being paid. That is grossly unfair. There are serious failings in this area.

CHAIR—Thank you very much to both current witnesses. You both speak falling into our term of reference which is: given the doubling of the food task by 2050, how do we produce food which is affordable from a sustainable environment and from a farmer who is viable? In terms of the ACCC and the consolidation of retail and manufacture, I presume you are aware that in Canada the top five retailers have 60 per cent of the market and in the US they have 40 per cent of the market, and in Australia the top two have 80 per cent. They look at just what you talked about. They look at not only the impact of retail but at the impact on the producer. Obviously if someone has a big share of the meat market and they do not turn up to an auction, it makes a hell of a difference to the auction. So it would be fair to say that I agree entirely with your comments.

Senator O'BRIEN—For fairly obvious reasons, the dairy sector is able to be distinguished from other sectors. If you grow grain, you can put it in storage, you can look for another buyer; if you grow poppies, there are two in the market here and you have a crop to harvest and sell once a year rather than every day and you are not dependent on a daily cash flow the way dairy is; and, in the dairy market in Tasmania you effectively have two buyers or perhaps only one if you are not already a Fonterra customer. Does that mean that there should be special rules for

dairy or should we have some common, market regulatory rules that apply to rural produce, or should they be rules that apply across all sectors?

Mr Bovill—Dairy, to a degree, is a special case because generally it is a whole-of-farm single-income enterprise. One of the advantages that farmers of other crops have is that they are discretionary about land allocation. For a poppy farmer, it is part of a mixed farming operation. They have choices about the crops that they grow. They make a determination each year about where their income streams come from. They can come in and out of crops far more easily. A dairy farmer does not have that discretion.

It is interesting. Dairy farming has very good prospects. The demand for milk products in Asia, both China and India, is going to increase. It is going to double in the next 10 to 15 years. There are great opportunities for these people, and those opportunities will become opportunities for Australia. This is a cyclical downturn. There is no question that part of this is brought on by the global financial crisis and the fact that every other country in the world with a major dairy industry, with the exception of New Zealand, is now subsidising its industry. The effect of that subsidy is to drive Australian prices down even further. It is how we sit as a country in these cyclical times and say: 'This is a viable and important industry. What measures can we put in place to take the curves out of it?'

There is no question that National Foods is a special case. We need to have a clear distinction about businesses that operate in the Australian domestic market and do not have to compete in that global marketplace. There should be a formula by which the farmer gets a certain percentage of the retail price. If that means that they want to drop the retail price and make the consumer get their milk more cheaply, that ultimately means increased supply, because that could dry up some of the surplus that is in the marketplace, which ultimately drives the price up.

One of the issues with all of these large organisations is that they distort the marketplace, because while they are driving down the price to the supplier it is not reflected in the marketplace, so there is no incremental increase in demand. Normally in a supply-demand curve, as the price comes down demand increases and the throughput tends to draw the price back up. It is quite evident that in Coles and Woolworths, particularly with fresh produce, on many occasions that does not take place. The price can come down in the market but the retail price never changes; therefore there is no price signal there, which is the normal factor that drives supply and demand. That is a very clear sign of market dominance. In a normal marketplace, there should be that movement that creates demand. I think that this case highlights that with dairy there is a complete failure in that marketplace, and dairy therefore needs special scrutiny.

Senator O'BRIEN—Special scrutiny or something else?

Mr Bovill—As you mentioned, if there is a failure in that area—and there clearly is—something needs to be looked at and put in place to give a degree of protection.

Senator O'BRIEN—Let me touch on the part of your evidence there. You were talking about the price consumers pay for their milk, but in fact the drinking milk—or 'market milk', as it has historically been known—is only a small proportion overall of the national milk production chain. The bulk of the milk is what has generally been known as 'manufacturing', whether it be

for butter, cheese or a dried milk product. Deregulation saw us move away from a two-structured price arrangement.

It is fair to say that the market has been adjusted in other parts of Australia where suppliers have dropped out because of low prices: prices have gone back up. For example, south Queensland and northern New South Wales, supplying the Brisbane market, have seen a rise in the price to producers to keep them in the market or get them into the market. But Tasmania is pretty isolated as an entity and it is not feasible for us to ship milk interstate so we have that limitation. How should we be looking at the Tasmanian market in that context, given that we are never going to have enough of a drinking milk market to take the milk of Tasmanian producers, who, with the exception of producers in the south of the state, are always going to be—it is substantial and growing—a manufactured milk market?

Mr Bovill—Firstly, the issue in Queensland is that they cannot produce milk as cheaply. They are not as efficient in growing grass and converting it into milk as we are in Tasmania. So they do not have a manufacturing milk business up there.

Senator O'BRIEN—Anymore.

Mr Bovill—Without a proper price signal they would not get people to supply fresh market milk. So, it indicates that fresh market milk has a different cost dynamic. If you want people to be in that market place, you will not get them. This is the con of National Foods. We have a successful processing milk business in Tasmania, which is doing it pretty tough at the moment. But most farmers say, 'We have a discretion: we can produce as much milk as we want when we can do it effectively; the minute we cannot do it we are allowed to drop out.' If you are a National Foods supplier you are not allowed to do that. Your contract is to supply, say, 100,000 litres a month every month. If you do not meet that commitment you get penalised by the contract. If you go over they discount; if you go under you are penalised.

This is not a commodity milk market supply. So they want to take the rules of a commodity market and apply it to their own unique requirements to supply a domestic market so that they can turn around and extract the price from the consumer that they can get. They are taking advantage of the fact that Tasmania is a commodity milk supplier but they are hiding behind the reality—as most of these people know—that it costs a lot more to produce that milk, certainly on the flat structure that National Foods wants.

Senator O'BRIEN—So are you saying that the contractors should be in a position where they have access to someone who would assess whether the contract was harsh and unreasonable and could arbitrate on that contract?

Mr Bovill—Definitely. I think that is the case for many people who have to deal with large organisations on a contractual basis where their whole livelihoods are dependent on gaining contracts. They are in a very weak position of power. National Foods could shut half of these guys down tomorrow and it would not make any difference to the livelihood of one person in that company. But these people's livelihoods would be destroyed.

I have met a lot of these people who are just out of contract. And they are really scared for their future. They do not want to talk out. They do not want to do anything against National

Foods because their houses are on the line. This is a significant power equation and it is being held over their heads. It is only the fact that they have been able to organise themselves that they feel they have some sense of protection.

Senator STERLE—How do they get that sense of protection?

Mr Bovill—The fact that there is now an overall negotiating group. They have a lawyer who is operating on behalf of everybody. If you consider unconscionable conduct of a big company against me as a small individual, the way the rules currently exist I have to go and get a QC to take a case against a company that has the capacity to employ 100 QCs. I have to fund that case to the ACCC and prove to them that there is a case. Then they may do something about it, at which stage my cows have dried up and I am out of business because this company would not sign the contract.

Having a group that is united and who have thrown in some funds—there is some money in the kitty—gives the idea that I am no longer an individual. Understand that I am not a milk supplier but as a collective they have some chance of getting a remedy. The problem is that under the rules of the ACCC 18 months would be the minimum to get a remedy but I do not think there has ever been one successfully pursued. It is not a path that any of these people can afford to go down. They are already very much weakened by a tough season and prices that they are losing money on. It is not a path many of them want to go down.

Senator STERLE—I can sympathise because I have spent a lifetime fighting for small businesses to be represented as a collective, and trust me: the last 15 or so years were very hard. In terms of the contract for the price of delivery of milk, is there some form of formula?

Mr Bovill—There is a formula, but it has been created basically to die it into the Fonterra contract. National Foods have been very clever in their contract: they never offer a price upfront. They will not offer a price until Fonterra come out with a price. If you look at the terms of their current contract, you see that they do not offer a price beyond this month. They are asking for a five-year contract with no price filled in.

Senator STERLE—So it is milk and see.

Mr Bovill—It is basically suck it and see. If you look at the terms of the contract you see that everything is completely one sided towards the company. They ask the farmers to get a legal opinion on the contract, but that is basically to protect themselves. In the past, when the farmers have gone back and said, ‘We don’t like this and we don’t like that,’ it has been: ‘So what? Sign the contract.’ There has not been any open negotiation. This group has sent a letter to the company stating, firstly, that they should not try to make anybody sign the contract, because many of the terms of the contract are completely unclear. I think there are three terms in the contract which are at the discretion of the company; after the contract is signed they can change the terms of the contract. There are terms in there which do not allow the farmer to communicate with any third party. If it is a fair contract, why should you be worried about that? Okay, the price is fine, but the terms of the contract should be open.

CHAIR—Can we see one of these contracts?

Mr Bovill—I think that can be arranged. A letter has been written to the company, pointing out the failures in the contract, the areas that need to be remedied and that they should not negotiate and ask anybody to sign that contract until such time as they have sat down and negotiated a fair and reasonable contract.

CHAIR—How do you actually sign a contract if there is no price? How do you buy a house if there is no price on the contract?

Mr Bovill—I would ask the same question.

CHAIR—I would not have thought it was a contract.

Mr Bovill—I cannot understand how it can be a contract. The advice that has come back from the lawyer is that the contract is unconscionable. They are asking people to sign up—

CHAIR—If you are signing up to nothing—no price—it cannot be a contract. I am a wool classer and a welder, as I said earlier this morning, and—

Senator STERLE—Unfortunately, it can be. I am not going to get into a blue with you; I do not need to. The sad part here is that we have a group of dairy farmers who have worn their heart on their sleeve and signed a supply agreement. Whether there is a price in it or not, I am sorry to say you have been screwed.

Mr Bovill—That is exactly right.

Senator STERLE—Unfortunately, the feeling is that the horse has already bolted.

Mr Bovill—No, it has only bolted for three people. There are many people who are out of contract right now. The lawyer has written to the company and said you must not ask anybody to sign this contract, because it is unconscionable. But it has also been stated to all of those farmers that if they sign the contract they are committed to the terms of the contract.

CHAIR—It might be an agreement to supply, but it cannot be a contract, because it does not define what you get back in return for signing the document.

Mr Bovill—Legally, though, that is what you have signed. You have signed on—

CHAIR—But it cannot be described as a contract. There is no second half to it.

Mr Bovill—This is an area for the ACCC again. Under the laws that we currently have, this company can make you sign—well, they cannot make you, but the fact is that they are making you, because they say, ‘If you don’t sign, we’re not going to take your milk and you’re out of business.’

Senator STERLE—That is the sad, harsh reality. If you did not sign and National Foods said, ‘Okay, thank you,’ virtually that is end of days. You really would not have another option, because Fonterra is in a different market. Is that right?

Mr Bovill—Fonterra at the moment have capacity constraints. They are right at their maximum capacity. Unfortunately, National Foods, because they have been busily destroying some of their markets, are supplying their milk to Fonterra. One of the curious things about National Foods is that they have a two-tier contract and say, ‘We can pay you X amount for the milk we use in our main business, the Australian domestic market, which is at a premium to Fonterra,’ when in fact it is not. It is a long and complicated equation that proves that it is not, but the producer ends up with less money in their bank account. On paper they have more—funny how it is not in the bank! Then with all the surplus milk National Foods say, ‘We can’t pay you that much for the surplus milk.’ It is the surplus milk market technically that Fonterra are in—that bulk commodity milk. National Foods say, ‘We can’t pay you as much as Fonterra for that milk.’ In turn, they are actually supplying a lot of that to Fonterra at the moment. I have heard that there is truckloads of National Foods milk going to Fonterra. That is because through National Foods’ own greed they lost the better milk contract, and they are doing some other things which are stripping value out of their business.

One of the sad things is you can run a business poorly, like National Foods, and then you can go and recover the profit by squeezing the farmers. Under normal circumstances most of us have to run our businesses pretty tight and effectively. We have to have good customer service and manage our costs and our inputs; otherwise we go broke. When large organisations can just guarantee that they make their gross profit by squeezing their suppliers, that is excessive market power. As an employee of one of these large companies I have seen it in effect. In a national phone hook-up we were told: ‘Gross profit wasn’t achieved last week. Go back to your suppliers and get another dollar a box off them.’ Everybody in this room who has done it tough this year would love to be able to go along to somebody and say, ‘I’m going to have another 10c a litre this week,’ but who can do that? The only people who can do that are those who have excessive market power. If they have the ability to do it, you would have to judge that they have unreasonable power in a marketplace, because that is not a normal transaction.

Senator STERLE—There are 80-odd farmers who have not signed, so let us make a bit of a forward prediction here. If it got down to the serious stuff and National Foods just said, ‘That’s it, or else,’ what do you think the majority of farmers would do?

Mr Bovill—I think many of them would be forced to sign.

Senator STERLE—That is the sad and harsh fact. You are very good at what you do but unfortunately the industry will somehow bleed to death slowly while continuing to supply milk to National Foods.

Mr Bovill—The whole purpose of the campaign that we are running, of being out there today and of us engaging with you in this Senate inquiry is to try and make sure those kinds of things do not happen and that behaviour does not happen, because realistically it is unconscionable. The sad thing is that these people have no remedy.

CHAIR—I hate to say this, but unless you can damage the brand and create public outrage that damages the brand these people are not going to change their minds.

Mr Bovill—That is the next step. If it becomes a choice between these people going broke and taking a bit of money out of National Foods, we have to try and balance the equation.

CHAIR—Like selling the Snowy, you have to get the mob onside. That rally today ought to be outside federal parliament in Canberra.

Mr Bovill—It would be very easy to create events in Melbourne and Sydney which would be terribly damaging to National Foods brands. We do not want to do that because the fact is that it is the dairy farmers' milk that is in that package. It is a ridiculous state of affairs—it is chemotherapy for this company. You actually have to go in and destroy a few good cells to get rid of the cancer that is in the business. If that is what we have to do, that is what we will do.

Senator STERLE—I will not incite a riot, Mr Bovill—this is from someone who has spent time in the back of paddy wagons, been chucked in headlocks, been belted around the head and been run over by a police horse. But I am not inciting a riot, so I will just pass on!

Senator MILNE—I just want to come back to the issue of putting value back into the value chain rather than continuing to strip it out. It seems to me that the whole free trade agreement process has been about stripping out value in Australia and spiralling down to the lowest common denominator. Given where we are now, what do you both suggest in terms of a left-field action from somewhere that can put value back in the value chain? Yes, you can put pressure on National Foods to try and pay a better price, but ultimately, if you go to what you are suggesting, Dr McCall, which is where the community recognises the value in having farmers in rural communities producing food for local consumption and so on, how do you actually get that? Other countries that have signed up to free trade agreements are subsidising all their own all the time, and we are not, and yet we subscribe to the same philosophy. We do not take them to the WTO, but we say we cannot do it because they will take us to the WTO. What is your suggestion for an immediate response to this in what could be done to put value back into the chain, as other countries do in subsidising their own farming production?

Dr McCall—I think that there is a really strong cause-and-effect relationship here that we are not talking enough about. The fact is that, in this particular case, cheese, butter, powder, liquid milk, yoghurts and soft cheese have suddenly become commodities. Once they become commodities then they become subject to the competitive global economy and power shifts to the retailers, the processors and the like. The point is: at what point do we say to our dairy producers, 'You are now competitive—that price, that efficiency, all the things that you do on a day-to-day basis actually make you competitive'? The race to the bottom could go to 80c a day—

Senator MILNE—And it still is.

Dr McCall—that the Chinese producers could do—

Senator MILNE—Exactly, and it will get worse.

Dr McCall—because there is never a point where our dairy farmers are actually competitive. So, to answer your question, I think there are two things we should be able to do. We should be able to form a legislative framework for food security, and we should be able to legislate some minimum price for the things that we consider to be vital, like milk. We must be able to do this, because, as you say, we are like lemmings in relation to free trade—

Senator MILNE—That is right.

Dr McCall—and to this competitive global economy. We are the only ones that, as a country, actually embrace it, endorse it and very rarely question it. Right now, 22 out of 27 of our OECD partners, as a consequence of what happened in 2008, are all going back into protective frameworks.

Senator MILNE—That is right.

Dr McCall—If you go to the UK, you see an ACCC equivalent with teeth, one that does not sit back waiting for someone to complain or waiting for the minister to put forward a term of reference that enables it to go out and look at what is happening in our industry here, which is unconscionable behaviour. It does not need a reference; it is an actively engaged policeman that is active on the beat, that can go out and investigate. But I think that the complex answer—it is not simple—to the question is that we need to provide a legislative policy framework around food security that actually values what these people do. Every other country—

Senator MILNE—Does it.

Dr McCall—in a liberal democratic political system does that. We have spent 25 years complaining about it.

Senator MILNE—You are suggesting that if we cannot beat them we should join them at once?

Dr McCall—Well, yes. I think we need to understand that we cannot isolate ourselves from the value that they endorse. To me it is really quite interesting. In Australia, we do not have any of what I would call the high-end retail operators in supermarkets. I spent some time with Waitrose in the UK when I was there in 2007. Waitrose are the Rolls-Royce of fresh food supermarkets in the UK. They only have a tiny percentage of the market, four to five per cent, but the reason they can survive is that they value.

I go into North London Waitrose on a Friday night, and there is a Richard Bovill equivalent in that store greeting people, standing in front of a video of his property, his family and what they do, and people stop shopping, walk over and shake his hand. He is a hero because they are not only producing quality food that is going into the Waitrose supermarkets; they are actually supporting environmental amenity and they are doing all the things that we value in the countryside and the rural sectors and the communities—and that is so clearly demonstrated by consumer choices.

You see, in value adding, you start by asking consumers, ‘What do you value about your milk?’ Here, it is about the quality, about the reliability et cetera. They are the things that drive consumer preferences. The fact is that not very many consumers of milk in Tasmania, even though they have been enlightened recently because of the media coverage of what is happening with our dairy farmers, understand what these companies are doing to these people. They would not accept it in their own family circumstances or their own business circumstances.

These people here are still people that in 2009, in the 21st century, shake someone's hand and expect it to be a contract. They take their word on things, and then they find, of course, that that is not a word that is going to be upheld and supported. So we need to say, 'Enough is enough.' We cannot keep defining everything as a commodity and throwing these people to this race to the bottom, because the race to the bottom is bottomless.

Senator MILNE—That is right.

Dr McCall—No-one in this room can say, 'Okay, I draw a line now; I declare that our dairy producers in Tasmania are actually competitive,' because we know that the next day it will be Brazil; it will be Vietnam; it will be China—it will be the next commodity producer of these products that will define what competitiveness is. And of course, in the case of National Foods, they sit here and say: 'You need to do this because we need to be competitive. You need to be competitive.'

I think we have forgotten what competition was about. We do not understand that it is a construct that relies on the characteristics of the marketplace being in place. And it was also about something else. It was about innovation and productivity. Productivity is one of the greatest drivers of what we value economically. In the last years of the Howard government, for example, productivity in Australia fell off. It fell off quite dramatically. It dropped dramatically. Who kept it going? These people. The agricultural sector was the only ABARE sector in the economy that actually drove productivity up. What else do they have to do?

First, they meet the two requirements of competitiveness. They are innovative and they are productive. If they are doing those two things, they meet the end, the purpose, of competition. We must value that. We must value it by constructing security and recognition of what they are doing. When they are doing something of value, we need to honour it. We need to support it one way or the other. As you say, and as everyone recognises, we are the only country in a liberal democratic political system that has an agri-food sector of such vitality that does not do it. And I, for the life of me, do not understand why we continue to be lemmings around things that no-one else is doing. I will just repeat it: 22 out of 27 of our OECD partners over the last 18 months have all constructed elaborate protectionist policies around every sector of their economies, not just because of the global economic crisis but because it is a political response to a real need, the same real need that is sitting behind us here.

CHAIR—I appreciate your remarks on the global food crisis, and part of the role of this committee is to look into that. It is interesting that we have propped up our car industry with \$3 billion or \$4 billion to protect against the importation of Indian and Chinese cars, but we are not prepared to do anything for our farmers. China put a 150 per cent tariff on fertiliser to keep it at home.

Mr Bovill—The Indians put a 40 per cent tariff on Australian milk because we were too cheap.

CHAIR—And they have 250 million cows!

Mr Bovill—We put a lot of costs on business in Australia. They are values that we think are worth protecting and yet we run a competition policy that can only see a price signal. As part of

all the trade agreements that we operate in Australia, we only look at a price; we do not respect anything that represents a value. The clearest case will come along with carbon trading when we are trying to fix a global problem, which is about cutting the globe's carbon emissions, not Australia's. If we put in place a charge on Australian business which does not charge imports that do not carry the same cost then, effectively, we will ultimately transfer the emissions to another country. We are ultimately doing that with so many of the other standards that we place on business in Australia. We make it difficult for that business to operate in Australia, because we only see price as the signal, so the business sets up overseas where it does not have to comply with any of those costs and regulations. We do not create a new standard in Australia; we allow a lesser standard to be imported into this country, because we can only see price. I agree with what you say: we have to have a system when we negotiate that understands value and that says, 'Hang on a minute, you do that in that country but it does not meet the standard that we apply to industry in Australia.' We have to recognise those things that are important to us; otherwise, in the long term, we will end up shipping everything overseas.

Dr McCall—For example, to get back to Senator Milne's question, we have a defence security policy arrangement in place that allows us to produce high-quality submarines that cost us 15 times as much as what they would if we bought them anywhere else. We buy them. We do that here in South Australia for a reason. We value the security component of the manufacturing. We want to increase the skills that are available in the industry and we want to maintain it. We have to think about agriculture in the same way. We have to say: if it will cost us a little extra to maintain the viability of these rural and regional communities here in Tasmania then we have to seriously look at how that might be constructed and at how we might actually add value to what we do rather than extract value out of it.

Senator COLBECK—I want to change the direction a little bit and go to your submission, Dr McCall. You quite neatly go through a number of characteristics that are present in a freely competitive market. On page 3 of your submission there are seven items listed there. You sort of addressed that in your opening statement, that those are present in that sort of market. I would be interested to know which ones you see as not being present. In the current circumstance we are talking specifically about milk. I want to go on to your discussion with the ACCC. As has been discussed with earlier witnesses, a lot of this started with the purchase of Lactos by National Foods and then there was an immediate change in behaviour that occurred following that circumstance. Obviously, that process was approved by our regulatory bodies. You have mentioned the policing aspect. Do you see there is perhaps scope for a structural change in the way that the ACCC operates where you have someone who actually approves mergers et cetera and then you have a separate body or organisation which actually does the policing. In the current circumstance, if the ACCC is looking at this, and says, 'National Foods are misusing market power,' then it is criticising, effectively, the decision it made to approve the merger in the first place.

Dr McCall—For the record, the point I was trying to make about competition and competitive markets is that, when we say we need to be competitive or we are going to construct competition, just because we pronounce that that is what we are going to do, things evolve. Economists are responsible for creating competitive markets. They talk about the following characteristics: there needs to be a large number of buyers and sellers; those buyers and sellers need to know what they want; they need to be able to pay for it; they need to be able to act independently of each other; they need to be able to be free to enter and leave the market; they

need to have information about products and prices which is free and accessible; and they also need to know that there are no costs beyond making the transaction.

To answer your question, Senator, in my view possibly only one or two of those seven components are actually present in the Tasmanian dairy industry and they would be: they know what they want and they are able to pay for it. All the other aspects of a freely competitive market are not present. That is a critical issue for us to understand. It is all right for us to come along and say our dairy farmers are not being paid a price for their product that meets their costs. One of the reasons why competition will not enhance that is because we do not actually have a competitive marketplace. It may be that in Queensland there are more attributes present in their marketplace that allow competition to provide more competitive pricing for producers and processors, but that is not the characteristic here.

My interest is in public policy, which is fairly dry and boring, but at the end of the day one of the things that I find really unnerving in Australia is that we are so reluctant to learn from what other jurisdictions are doing. I have just spent the last three or four months working with Richard on looking at how other equivalent ACCCs work. The most useful model we have, I think, is in the UK, because they do not allow the regulator and the policeman to be the same person. Secondly, they have enormous resources which allow them to, for example, present publicly socioeconomic and environmental impact assessments of the decisions that they make prior to making those decisions. They have full and open inquiries about the potential impacts of, in this case, mergers and the impacts further down the line. They are well funded and they are entirely independent of government, in the sense that they do not require the minister to be alerted to a crisis. Let's face it, the crisis has already happened when that effect takes place. It takes another 18 months for the processes to evolve.

Richard asked me to secure some legal advice in relation to how best to support a legal challenge under the ACCC. I went to a colleague in New South Wales. He basically said, 'Don't bother. It's not worth it. It's too expensive. You'll run up against the QC and you'll run up against a protracted, elongated process that you cannot sustain financially.'

CHAIR—All they have to do is keep it running and you pay their costs.

Dr McCall—Precisely. Just finally, my point is that there are better models of ACCC regulatory behaviour that we should look at, if we are fair dinkum about initiating action around those regulatory frameworks. We have a lame duck. We have a policeman who stays at home. It is not useful for anyone and it just allows this unconscionable behaviour to continue, because there is no open scrutiny of that sort of behaviour under our processes. We cannot tolerate it.

Senator STERLE—Has anyone raised the situation with the ACCC?

Mr Bovill—There have been approaches to the ACCC along these lines. I think the response from the ACCC is: 'You don't tick all the boxes.' What the boxes are about needs to be re-examined, too.

Senator STERLE—If there is some information that can be provided to the committee through your collective, that would be good.

Senator COLBECK—I have a final comment. You can go back to the actions of the major supermarkets, who made a conscious decision to go to one supplier for their market milk. That has exacerbated all of those things by concentrating all of that energy into one particular source. That brings us to the situation that we are in today and takes out one of the elements that you were talking about, Dr McCall, which is a large number of buyers and sellers. There was something like six or eight players in the milk market sector prior to the supermarkets making that decision to go to one. They were effectively wiped out as part of that decision-making process.

Mr Bovill—Yes. At that particular time, Woolworths' profit jumped dramatically. Roger Corbett, in one of his addresses, announced that a lot of the increase in profit had come from the deregulation of the dairy market. They harvested money from dairy farmers, and he acknowledged that at the time. The other—

Senator COLBECK—That is quite incongruous, given that the reason that you came to Canberra in 2005 was because McDonald's made a decision to move away from one supplier for risk based reasons and going to two suppliers, which saw the export of a large chunk of our supply. It is incongruous that two different situations came out of those circumstances.

Mr Bovill—What happened in the McDonald's situation, though, is a distortion. When you change your behaviour in such a way that it affects a large parcel of the market every major decision—these large market power decisions—has a huge impact. We have seen it particularly in produce over the last 12 to 18 months. Coles take an action to cut out a whole range of different suppliers. They wanted to come back to two suppliers for a range of different products. Automatically, that puts a whole bunch of people out of business. The other thing is that this stifles innovation. With most of those companies, the pathway for new people to come and supply them is almost impossible to travel.

CHAIR—They wanted to do MIS as a supplier, I can tell you.

Mr Bovill—The fact is that it is the little people, the start ups with a great idea, who need a platform to launch themselves. It is almost impossible in Australia because of the concentration of power. They only want to take on people now who have a capacity to be a national supplier. You cannot become a national supplier overnight. It takes a lot of steps. In the UK, the US or Europe, there is a whole framework of smaller retailers that you launch yourself through. People come along and say: 'That's a great product. Bring it into our stores as well.' We do not have that framework in Australia, because of the concentration of power that we have. Ultimately, we are losing our launching grounds for innovation in a range of different products in this country.

CHAIR—We might be over time. Thank you very much for that. Do you think that you can get that mob to come to Canberra?

Mr Bovill—You never know.

CHAIR—Thanks very much.

Mr Bovill—Let the grass grow long, and the cows will turn up.

[3.09 pm]

DIBLEY, Mrs Colleen May, Partner, Preolenna Chestnuts

CHAIR—Thank you very much for appearing, Mrs Dibley. What we are proposing to do is let you have five minutes of free rein. Then we might ask you some questions. Do you think that you can get yours in in five minutes?

Mrs Dibley—I reckon that I can gallop through it, yes. I and my husband Darrel have a commercial chestnut orchard at Preolenna in Northwest Tasmania. We established that particular enterprise back in the early 1990s. We were part of a community of some 16 dairy and cropping properties in Preolenna. At the end of the 1990s, we saw the sudden plantation invasion driven by the managed investment scheme phenomenon. Some 26 per cent of family farms in Tasmania have been sold for industrial plantation development. Despite the spectacular fall of Timbercorp and Great Southern, we still have continued pressure on our remaining high value farms.

The state government did for a little while in recent times establish through their agricultural land policy the idea that councils should have discretion with regard to plantation development on prime agricultural land, classes 1 to 3. Class 3 and particularly class 4 are the backbone of the dairy and high value cropping industries on the northwest coast, as you are aware. In our Inglis River catchment, over two thirds of the area is under plantation. That represents in dollar figures \$4.1 million at 2001 figures per annum of opportunity lost to the local economy from those 16 high value dairy and cropping properties that went under plantations. So we are looking at substantial opportunity lost.

In my submissions to the revue of the taxation of plantation forestry, I set out a number of criteria that I felt needed to be addressed. These included the notion that the tax deductibility of the cost of the trees should be spread over the life of the tree. This would bring it into line with orchardists. Investor plots should be identified with the farmer investor and not amalgamated into a pool, which was happening right throughout the early 2000 period. The rental for land paid in advance should be spread over the life of the plantation. Any secondary markets for investors should not include the carbon sink plantation scheme proponent. It is painfully obvious that the only buyer of those carbon sink plantations would be the proponent. The notion that long-term investments like plantations need incentives goes straight out the door, I think. Therefore, secondary market disposals to associates should be banned. On allowing avoidance of GST for investors in plantations—and particularly carbon sink plantations—they are not farmers producing food and therefore should not be exempt. Carbon sink plantations should not be established in catchments with greater than 15 per cent plantation cover.

The 2020 Vision has been an absolute nightmare in Tasmania. I consider that the MIS and other mickey mouse tax avoidance schemes should be reined in. Australia's food security is in danger of being jeopardised. I consider anyone who suggests that our island nation should not be self sufficient in food to be a traitor. I know that that is a very strong word, but having talked to a lot of English migrants to Australia who remember the Second World War and who remember the blockades of shipping, when you see only six or eight little ships tootling backwards and forwards across Bass Strait, that is our lifeline, quite frankly. Tasmania kept a lot of Australia in

food in the Second World War. We need to be cognisant of that and plan for our future. We are an island nation. We need to have defence security and food security. Thank you.

Senator O'BRIEN—Thanks, Mrs Dibley. I hear what you say about the number of farms in your area that ceased to be dairy producers. We received an exhibit today from the state government that indicates that, from the early nineties until now, dairy production in Tasmania has grown from about 350 million litres to somewhere in excess of 700 million litres. So, while the number of farms has gone down, production has near enough to doubled. That seems to indicate that, despite the change, there has been an increase in productivity in dairy. Given what we have heard today about the difficulties for existing dairy farmers due to other factors, isn't it fair to say that the managed investments have not been the issue that you thought they might have been in terms of dairy production?

Mrs Dibley—I consider they are still a major issue. Why waste classes 3 and 4 soils on woodchips when you can get a much higher value from that land out of dairying and cropping? It is just shameful to waste a resource in a high-rainfall temperate climate with those sorts of soils. It is as simple as that.

Senator O'BRIEN—And yet there was not the market for those farmers to stay in dairying at that time, despite the fact that we have seen a growth in productivity in the dairy sector.

Mrs Dibley—Can I give you an indication. In 1997, the appalling flood of plantation development commenced. The first major farm that went under in our area received \$1,900 a hectare on classes 3 and 4 land. Then in 1999 the next major farm that fell received \$3,300 per hectare for classes 3, 4 and 5 land. Then throughout 2000 we went from \$3,270 a hectare to \$3,841 a hectare, all for either class 3 or classes 3 and 4 land. In 2001, the last dairy farm to fall—a class 3 soils dairy farm—received \$4,819 a hectare. From \$1,900 a hectare to \$4,819 hectare—what was driving that?

CHAIR—The taxpayer.

Mrs Dibley—Exactly. That is the big picture. Those dairy farmers have gone to the mainland. We have lost their expertise—some wonderful farmers. A couple of those farmers are now managing dairy herds of 2,000 over there. They are bloody good farmers, and we have lost that resource. It is as simple as that.

Senator O'BRIEN—It still does not explain how we doubled production in that period that I mentioned, despite losing those lands. It indicates that there has been perhaps a move towards a larger scale on the properties that either existed then or have been created since that time.

Mrs Dibley—We are talking also about crop production. We went from creating seed potatoes in Preolenna to importing them from South Australia, and yet we have the best seed-potato-growing country in the business.

CHAIR—Anyhow, they are learning some hard lessons in the managed investment scheme world at the present time.

Senator STERLE—Mrs Dibley, in layman’s terms, do you believe that government should legislate that farmers cannot sell their land off—

Mrs Dibley—No. I am just pointing out to you what was driving it.

Senator STERLE—I have not finished yet. Do you believe that we should legislate that farmers cannot sell their land off to plantation farming?

Mrs Dibley—No.

Senator STERLE—You are not saying that?

Mrs Dibley—No. I am asking for a level playing field with regard to tax incentives and all those other things.

Senator STERLE—So you have no problem with dairy farms being sold off for plantations.

Mrs Dibley—If it is a level playing field, if it is not being driven by mythical investors from Sydney and Melbourne getting their tax—

Senator STERLE—Okay, but do you have any problem with land being sold off for plantations for trees?

Mrs Dibley—I would prefer it be the lower classes of land, and I would prefer that Private Forests Tasmania actually went out and beat the bushes amongst our farmers and got them planting their plantations on their poorer soils. But they are not doing that.

Senator STERLE—So you do have a problem, regardless of taxpayer-funded MISs, with good dairy land being sold off for plantation trees?

Mrs Dibley—Yes, I do have a problem with that.

Senator STERLE—Thank you. That is all I wanted to establish. It could have saved me asking you four times—

CHAIR—You will be pleased to know that so does the rest of the world because by 2050 the food task is going to double and it is estimated that 30 per cent of the productive land of Asia, where two-thirds of the world’s population will live, is going to go out of production. Obviously, we have to hang onto what we have got.

Senator MILNE—In presenting the graph on the cost of land there was one aspect which you did not mention—and I understand this to have been the case in Preolenna—that at a certain point dairy farmers cannot keep their land because the milk truck will not come out that far if there is just one viable property at the end of the line. I would like you to comment on how the last farmers to fall were effectively forced out. Secondly, apart from the loss of the farming expertise, what about the viability of the community, including the school? What about the long-term impact on that Inglis catchment from what has happened?

Mrs Dibley—First of all, with regard to the domino effect of the plantation invasion, the real crisis in the Meunna area, which is just west of Preolenna, came to a head when the last dairy farmer there was told he had to put in milk storage because the milk tanker would not be coming out to him every day. It was going to cost him around \$25,000 to put in storage. He already had real estate agents putting their feet under his breakfast table every day when he came in from milking. They would be there waiting for him to sell or accept an offer. He finally accepted an offer and went.

In Preolenna itself the last dairy farmer on the best soils—he was probably the most businesslike ex-New Zealand dairy farmer we had—was in the same position. The milk tanker was not prepared to come out because he was the last one and he had to basically put in storage. He was the one who drove the price to get out.

Senator COLBECK—So you are saying that the only factor impacting on land prices between 1997 and 2001 was MISs? There was no growth in land prices other than that?

Mrs Dibley—I would not consider that anyone could compete against those sorts of prices. An ordinary farmer could not compete against \$4,800 a hectare, surely.

Senator COLBECK—On what basis do you say that?

Mrs Dibley—It is an outrageous price.

CHAIR—Can I clarify that for you. We took evidence in Perth that the MISs charging \$9,000 a hectare were able to get the land for nothing because there was that much excess in the upfront charges to the bunnies, who were the investors, as opposed to the shareholders. We proved that they got the land for nothing.

Senator COLBECK—Thanks, Chair, I think. Mrs Dibley, that is an assertion you make. I do not agree with it, because what you are saying is that there was no price increase in agricultural land from 1997 to 2001. You have said to me that that was the key driver.

I want to go back to the comments you made about the community. Senator Milne makes assertions about the Preolenna community. There is a difference of opinion between Senator Milne and the Preolenna community as to how that community survives. I have been to the Preolenna field days and open days in April. They very stridently disagree with Senator Milne that their community has been destroyed. I suppose that is a statement as much as anything else, but having been there I know that some of the folks I spoke to would disagree with the statement that Senator Milne made that the community has been destroyed.

Mrs Dibley—The Preolenna festival is no longer held. We have a situation where discussions are now taking place about our fire truck. The fire brigade will cease because we do not have enough people to 'person' the fire brigade.

Senator COLBECK—That is not a unique circumstance, though. Last week I was in communities in Victoria that are saying exactly the same thing.

Mrs Dibley—We went from the potential for 33 families in 33 houses to 21 in 2002, and we are now down to 20, because the fire brigade had a fire practice where it burned a house down there about six weeks ago, so we now have the potential for only 20 families. Just over half of those families own their own properties, so we have a constantly shifting population of short-term renters. As a consequence, there is virtually no community there.

CHAIR—Thank you very much. We are going to have to conclude. Thank you very much for your evidence.

LAWRENCE, Mr John, Private capacity

CHAIR—I now call John Lawrence. We are going to keep the MISs together. Mr Lawrence, do you have anything to say about the capacity in which you appear? Then you can make a five-minute opening statement.

Mr Lawrence—I live on the north-west coast here. By training I am an economist and accountant; I have worked in both areas in my lifetime. I have taken a bit of an interest in plantation forestry, because it is definitely an issue in my area. I have written a lot of stuff on that. I felt moved to write you a short submission the other day because, while there are so many facts out there following the demise of Great Southern and Timbercorp, it struck me that there was not a lot of meaningful analysis going on. So I wrote you a short submission trying to set out what has happened with Great Southern over its lifetime, which is roughly 10 years—as a listed company, anyhow, when there is some good publicly available data. What I attempted to show there was where all the money came from and where it all went, in order to give the committee some idea of how an MIS works and what its effect is.

I could take a little bit from what Dr McCall said. He talked about how efficient the dairy sector is. What this information that I have extracted from Great Southern indicates is that the MIS industry is the exact opposite. When you look at what has come in and what resources were thrown together from equity and from banks and you compare it to what they finally produced—a few trees left standing that are currently in the hands of the receiver-manager—it is a very poor outcome. An economist would say this is an incredibly inefficient use of resources. That is basically the point of the little submission that I wrote you.

There are a couple of other things that I would like to mention, which are mainly to do with Great Southern because most of my reading of financial reports has been to do with Great Southern. When Great Southern were battling to stay afloat, as you all know, they went through Project Transform where they endeavoured to buy back six tree crops. From memory, it was the period from 1998 to 2002 in which they attempted to buy them back. At that stage, they revealed for the first time what the actual growth rates were. Over the six years, the crops were, from memory, 55,000 hectares. It turned out that the growth rates were going to be only 160 tonne over the projected 10-year period.

CHAIR—Instead of 250.

Mr Lawrence—Yes. What this means for the MIS model is that it is no longer an operative model; it can no longer function with those sorts of figures. If only 160 tonne per hectare is produced, at the current price per tonne for woodchips in the dry form—it takes two tonne of green to make one tonne of dry—the investor, the grower, is going to end up with \$8,000, bearing in mind that he has paid \$9,000 for it in the first place. So he is going to get only \$8,000 for it. But there were further ramifications. Great Southern were relying on getting 2½ per cent of that as rent at the end of the rotation. Now 2½ per cent of \$8,000 is only \$400. That was supposed to be rent for the 10-year period. So \$400 rent on land that averaged across the Great Southern portfolio of about \$6,000 a hectare was a miserable rate of return.

The MIS model, as Great Southern practised it, is no longer viable, because the pie is not big enough. There has been no real growth in woodchip prices at all. It has probably declined one per cent in real terms, but everything else has gone up. The price of land, planting, harvesting, freight and shipping has gone up. The pie is not big enough. The model is dead. There is not a sufficient rental return there any longer. That is one point I would like to make.

CHAIR—You will have to hurry with your second point because your five minutes is up. All of what you said we know.

Mr Lawrence—Okay. I would like to make a point about revenue recognition. This is a bit of an esoteric accounting point. In the old sets of accounts, Great Southern used to recognise some of their future income. The accounting policy was that it would not be recognised as revenue until the value of a project's net harvest proceeds could be measured reliably. When Project Transform came about, they changed their accounting policy. In December last year, Great Southern said that they now determined that a reliable measurement of the net proceeds from the harvest of plantation projects can be made after approximately four years of timber growth. In the accounts, they revealed something that they had kept well hidden for years and years and years—

CHAIR—Until Mr Young sold out.

Mr Lawrence—which is that they could reliably measure the net proceeds of a plantation after four years. I found this a stunning admission, and it was tucked away in the notes to the accounts. Everything that had been said and all the prospectuses that had been issued over those years should have referred to this very fact. They had been growing trees since 1993, and so from 1997 onwards they should have known what the potential growth rates were, but they kept that well hidden from the public.

CHAIR—We are well aware of that. We received evidence from the former managing director and chairman on the behaviour of the CEO, who, by the way, I understand has now floated a company and is buying back some of the debts so that he can enforce the mortgages. Talk about red hot. The evidence we received showed that you could never get a return on your money out of the Great Southern MIS. It was just impossible, as it was with the cattle scheme.

Senator MILNE—In the submission you made previously, Mr Lawrence, you identified that Great Southern's independent forester, in spite of knowing that the growth rates were not achievable, continued to put in the prospectus that as an independent forester he verified the claims, but the independent forester was never named. Was the independent—

Mr Lawrence—I think he was.

Senator MILNE—That is what I wanted to ask you.

Mr Lawrence—It was GHD. I believe they were the independent forester, from every document I have ever seen. They were involved in Project Transform too—the measurement there.

Senator MILNE—Okay. And you would be aware that, in spite of all this evidence on MISs, 100 per cent tax deductions continue to have the support of both major parties?

Mr Lawrence—Yes.

Senator MILNE—Thank you.

CHAIR—Senator Sterle?

Senator STERLE—Mr Lawrence, as the chair said, we have taken a fair bit of evidence, and the statement ‘very poor management’ goes a long way towards explaining the collapse of Great Southern and Timbercorp. With your expertise in this area, can you tell us if there have been any success stories with MIS in farming, in agriculture.

Mr Lawrence—Any success stories?

Senator STERLE—Yes, to your knowledge.

Mr Lawrence—Forest Enterprises, in their first crop, actually harvested ahead of what they projected. Maybe that was a success story. It certainly did not bring them any great rate of return; it only gave them a seven per cent rate of return. But they—

Senator STERLE—Seven per cent?

Mr Lawrence—That is the compound rate of return on their initial investment after tax, yes. So it was not a great rate of return. But they said they were going to grow 250 tonnes over 10 years—their rotation was actually 14 years—they actually grew more. Then again, that was only a paddock. It was not a huge crop.

Senator STERLE—Okay. In terms of a normal return, is seven per cent average, below average or above average?

Mr Lawrence—If you look at balanced super funds, you get more than that.

Senator O’BRIEN—It depends which fund!

Mr Lawrence—Lately! I am talking about 10-year averages. Given the risks involved, seven per cent is a very poor return.

Senator STERLE—Okay. Let us just look at some horticulture MISs. I have heard—and you might want to comment on this—that the garlic industry here in Tasmania has been a success story.

Mr Lawrence—I could not comment on that.

Senator STERLE—You couldn’t comment?

Mr Lawrence—No. I do not know. I have mainly looked at forestry.

Senator STERLE—Okay. In that case, that is fine; I will leave it there. Thanks, Chair.

CHAIR—Thank you very much for that, Mr Lawrence. Obviously the biggest investors in MISs are the taxpayer and the Commonwealth, and I have to say I think they are going to have to intervene, because we have received evidence of bloody outrageous behaviour by some of these characters.

Mr Lawrence—That is what I set out in the summary, the cash flow for 10 years—what the government has put in. Over the 10 years, I think it cost the government \$689 million—

Senator MILNE—For nothing.

Mr Lawrence—with the tax subsidies. I netted that off against the tax that Great Southern paid, because there is no question they did pay some tax. They were profitable in the early years. They could not quite—

CHAIR—Generally, we found that if it was a market based scheme it had a chance, but tax deduction based financial instruments comprehensively failed.

Mr Lawrence—They failed. Some of the areas you see in Tasmania where they have planted are just ludicrous.

CHAIR—All right. We are going to have to finish here. Thank you very much.

Mr Lawrence—Thank you.

[3.40 pm]

CARTER, Miss Tracey, Private capacity

GRIBBLE, Mr Dave, Private capacity

JONES, Mr Symon, Private capacity

SYNFLD, Mr, Private capacity

CHAIR—We will now hear from witnesses who wish to make a short statement to the committee.

Miss Carter—I am aware that you have copies of this document submitted by my parents. I am here on their behalf. They were dairy farmers on King Island in a unique position where they leased the Kiama dairy property off National Foods. They also sold their dairying business, being the cows and infrastructure, to National Foods as they left. I was asked to get them to submit what they considered to be breaches and misrepresentations in National Foods' behaviour, all of which are itemised on here. If you want greater detail, please ask. There is one thing that is not included there, and that is the fact that when they were in the process of selling the business, National Foods had their own valuer come in and value a large portion of the dairy herd at cull cow price. We then had two independent valuers who valued the cows at double the National Foods price. The local veterinarian, the only veterinarian on the island, while he was preg testing the herd said 'the herd was in bloody good nick'.

I say on my parents' behalf that National Foods abused their authority on King Island and abused their position on King Island and that we are not unique. I have asked if there have been other people from King Island representing themselves here and the answer has been no. I would be inclined to say that that is the case because they are too scared; they do not have an option—they are on an island and there is no choice. They have the monopoly and they do what they like. Do you have any questions about what is in this document?

Senator STERLE—I have only just seen it, unfortunately, Miss Carter. It has just been handed to us, so we are shooting blind.

Senator MILNE—I could ask a question in relation to the promises that were made about the calf-rearing facilities and so forth. Presumably none of those were made in writing?

Miss Carter—No.

Senator MILNE—Obviously they have not been delivered. Were any of these promises when they were luring your parents to go into this arrangement put in writing?

Miss Carter—Nothing at National Foods is put in writing. The inherent problem with not putting anything in writing is that there is no comeback, there is no accountability, and so the farmer has not even a leg to stand on.

Senator MILNE—That is right.

Miss Carter—They sold over \$1 million worth to National Foods. There is not even a receipt.

CHAIR—Who is they?

Miss Carter—My parents. They sold their dairying business to National Foods. We cannot even prove it was sold. There is no invoice, nothing.

Senator STERLE—They got the money?

Miss Carter—Yes, I got the money.

Senator STERLE—I guess you could look at some of the banking and things—

Miss Carter—There is no deed of sale.

CHAIR—Wouldn't the tax office want to know what the money was for?

Miss Carter—That is what the accountant is for. We have tried, believe you me.

Senator MILNE—Tried to get a deed of sale?

Miss Carter—Correct.

Senator MILNE—Surely, legally, they have to provide one, I would have thought.

Miss Carter—They have their own legal department. I do not know.

CHAIR—We will ask them for you.

Senator MILNE—We will pursue that.

Miss Carter—I know that this is predominantly for farmers who are not getting a fair price for their product. However in saying that, my parents have been out of National Foods Group for 18 months. They still have not been paid a retrospective payment, which is to the tune of approximately \$120,000. If you read 'Sale of Elk Enterprises Pty Ltd business to National Foods', it says, 'No retrospective payment' and it continues: 'Retrospective payments were to be written in the sale documentation of Elk Enterprises Pty Ltd as agreed by Jon Perrett, who said, "I will gladly put it in. However, there will be none."' That is, not for us, not for anybody. There is no retrospective payment.

Then a retrospective payment was made. Another supplier on King Island informed us that National Foods had changed the wording to 'a continuation of supply or loyalty payment to stop Elk Enterprises getting the retrospective payment.' The payment was made to everybody else. It was paid on the volume of milk produced for the 12 months prior. They produced it, they earned it, they deserve it: it is theirs.

Senator COLBECK—Did the other suppliers continue to supply National Foods?

Miss Carter—Yes.

Senator COLBECK—But the difference was that your parents ceased supplying National Foods—is that correct?

Miss Carter—Correct. But it was a retrospective payment based on the volume that had been supplied for the 12 months prior.

Senator COLBECK—So did somebody else continue to work on that farm and supply from that property when National Foods—

Miss Carter—They had problems getting people to take over my parents' business. Nobody wanted to do it. Consequently, they left their management to run it. It is my belief through my experience that National Foods do not have a total grasp of the costs it takes to operate a dairy farm. Well, they do and they don't. I have two cases here which are very valid, one being X staff phoning and saying, 'I have been told by National Foods that I cannot calve this cow at night because it is against occupational health and safety to work in an area that is unsafe and not properly lit, so I have to go home.' The problem with that is that you cannot do the springer beat. You cannot get herd 1 in at one o'clock and you cannot get herd 2 in at quarter past three in the morning and when you have got 1,100 cows that is a great cost in labour alone.

CHAIR—We are going to have to conclude because we have got to get on a plane because we have got a hearing in Canberra in the morning. We had to limit you to five minutes and your five minutes is up—

Miss Carter—That is a shame because—

CHAIR—We will see if we can come back to you. What would you like to say, Mr Jones?

Mr Jones—I understand that the spotlight here has been very much on National Foods. However I am here to address the meeting to shift the focus to Fonterra. I am not sure how aware you are, but since February we have been paid 26c a litre, which is well under what National Foods are currently paying annually at the moment. The focus has very much been on National Foods, however the dilemma for Fonterra suppliers—and Fonterra is a large multinational—is that we are well under the cost of production. I need to get the message across that it is quite serious and very much an issue. I want you to go away thinking that this is just not a one-company issue here—

Senator COLBECK—We do understand that and that is why, presumably, most of us will be back in November with the second inquiry that has been referred to Economics References Committee, which is looking at the dairy industry broadly. It is looking at the relationships with these supermarkets, the relationships across the industry, and the concentration of ownership, and Senator Milne, Senator O'Brien and I have jointly sponsored a motion that has referred this issue to the economics committee so that we can have a look at the broader industry. We do understand that this is not just about National Foods.

Mr Jones—The thing about this is that there is a whole range of issues which drive the price for Fonterra Australia that need to be addressed.

Senator COLBECK—Could I urge you to consider documenting what you are saying so that when we come back in a month's time we can address this more broadly.

CHAIR—We will invite you to give us evidence via phone hook-up to this committee. I am not worried about the other committee. We will gladly receive your evidence. I apologise that we are running out of time. We might be able to do it on the 12th.

Senator STERLE—I am not a Tasmanian. I thought Fonterra would have had the wind blowing up their backside, that they are great, so it is lucky you told us that.

Mr Jones—Thank you.

CHAIR—That was not the impression I had.

Mr Gribble—I would like to add to what Simon said about Fonterra. I understand that, as far as their exports are concerned, 30 per cent is to whole-milk products, another 30 per cent is to related products like cheese, butter et cetera, and the remaining 30 per cent or thereabouts is for milk powder, which is dependent on the world's depressed commodity prices at the moment. Comparing that to New Zealand, Fonterra pay a \$5.10 per milk solid payout against Tasmania, which is a \$3.60 payout. On top of that, in New Zealand they get a 55c—I do not know the exact term—quality payment. It is only simple mathematics to work out the difference between New Zealand and Australia. New Zealand is more wholly dependent upon the world's commodity prices, more so than Australia. Fonterra Australia would be more in a position to pay more than New Zealand.

CHAIR—They will also be advantaged by the treatment by their government of the industry in New Zealand, under the emissions trading regime, compared to what we are up for.

Mr Gribble—Which has been reviewed in New Zealand to make it a more workable arrangement.

Senator MILNE—Are you saying that Australian dairy farmers cross-subsidise New Zealand returns?

Mr Gribble—I would not know, but it almost looks like Australia is subsidising New Zealand.

Senator MILNE—That is what I am trying to establish.

CHAIR—We will come back to you over the phone.

Mr Synfield—I am sorry to steal time. Senator O'Brien was talking about the fact that production has essentially doubled in the number of years, despite the takeover of land by MIS. A lot of that is about market forces, but there is a distorted market force. The fact is that good, high-production dairy land in high-rainfall areas has been taken over by MIS. Dairying is going

to other areas and is having to establish itself with high infrastructure costs by having to put in centre pivots and a whole range of things, adding to the cost for a dairy farmer which would otherwise not exist if they were in the better rainfall areas. We have taken out of production areas that would have inherently lower costs to facilitate an industry that has been driven by forces that would not otherwise exist, and the land prices have risen. The government in Tasmania is spending a fortune on establishing irrigation schemes in what I would consider to be marginal areas in lots of cases to—

CHAIR—Western Australia is putting trees where there should not be and the plantations are failing.

Senator O'BRIEN—So we should not open up agriculture in the midlands or north-east Tasmania?

Mr Synfield—I am not saying that at all. Today we are talking about an industry that is crippled by the income not meeting the cost of production and we have an industry that really should not have been allowed in the first place to—

CHAIR—Miss Carter, do you want to finish your contribution?

Miss Carter—I was in the process of clarifying why I feel that National Foods do not have an entirely accurate grasp of the costs associated with dairy farming. Take into consideration that not only do they feel their staff should not work at night—that is bizarre in itself—but also that they should not be working Sundays. That is entire seventh of the year. You may have a thousand cows, and hundreds of calves—and they knock out Sunday? When those staff phoned us, we had no option but to say, 'You do the right thing; you are a farmer; you know what you should be doing; just carry on.' In my opinion National Foods is so dysfunctional and so disjointed that the HR department, when they get your time card, and the truck driver getting the thousands of litres of milk, are not going to add up to the guy who told you not to work on Sundays. It is so disjointed.

Senator COLBECK—I think there is a difference between not understanding the costs, which we have discussed, and not understanding what it actually takes to run a dairy farm. There is a very clear distinction.

Miss Carter—Correct. They, even as farmers, cannot do it. They are extraordinarily talented at turning a raw product into a fantastic global product, like the King Island dairy product. It is awesome what they do. But that is not their forte. They do not understand the costs that farmers have. Today, realistically, my parents and I gain nothing from coming here. The only thing we can gain is to help these other farmers out. We get it. We were there 18 months ago.

Senator COLBECK—I think your last comment puts it into one: National Foods just don't get it.

CHAIR—Could I invite you also to give us evidence over the telephone, perhaps on the twelfth?

Miss Carter—Certainly.

CHAIR—I apologise for cutting you short, but between Swifts, National Foods, a bloke called Stirling Buntine and the Great Southern cattle rogue scheme, King Island has had a bit of a doing.

Miss Carter—They have.

CHAIR—I am afraid that, as we need to get everyone on the plane on time so that we can receive evidence in Canberra in the morning, we regretfully have to leave. But we thank you for your very valuable evidence.

Committee adjourned at 3.57 pm