

# ANNUAL REPORT 2016



**Bonlac**  
**Supply Company**



Farmers representing farmers



# Company Information

Bonlac Supply Company Pty Ltd  
ACN 095 271 266

## **Directors**

Anthony K Marwood (Chairman)  
Aubrey O Pellett (Deputy Chairman)  
Christiaan L Hofing  
Gregory J Bourke  
Mark A Billing  
Leo M Delahunty  
Stuart J Griffin  
John G Dalton

## **Company Secretary**

William G Kermode

## **Registered Office**

327 Ferntree Gully Road  
Mount Waverley, Victoria, Australia 3149  
Tel: 03 8541 1588  
Fax: 03 8541 1822

## **Auditors**

rdl.accountants



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# Chairman's Report



The 2015/16 year was one that delivered turmoil and uncertainty for us all. There is no doubt that the announcement on May 5th that Fonterra would reduce the farm gate milk to \$5.00 KGMS for the 2015/16 season had massive impacts on all BSC farm businesses and caused much understandable distress. It must be remembered that Murray Goulburn's decision to reduce their milk price to a range of \$4.75-\$5.00 was the trigger for this event to occur - on the back of both their own poor performance and the sustained depressed global dairy market. This led to the dairy crisis we have all seen, and the significant flow on effects, not just for dairy farmers, but all dairying communities and the wider dairy industry.

I can assure you that the BSC Board did everything it could within its powers to minimise the impacts for all our farmers, including obtaining comprehensive legal advice on each party's obligations under the Milk Supply Agency Agreement.

On reviewing how Fonterra would reduce the 2015/16 milk price, BSC immediately identified the inequity for Autumn calving suppliers. BSC then worked with Fonterra to have the Autumn offset payment introduced, an extra \$2.50 KGMS for milk produced in May/June and paid in July/August 2016 milk pay.

### **NEW BENCHMARK**

Whilst the BSC Milk Supply Agency Agreement (MSAA) benchmark on milk price against the largest processor has served us well over the past 10 years (exceeding the benchmark return for 8 of those years), clearly we cannot have a benchmark mechanism in place against a processor that is under performing and also facing significant headwinds and an uncertain future.

BSC is committed to working with Fonterra on having a new benchmark mechanism implemented - one that is transparent and gives our dairy farmers clear signals on domestic and international global prices - which is reflective of Fonterra's business performance going forward and has a set of terms and conditions to ensure that the events of 2015/16 do not occur again.

As I write this report, BSC has begun the significant task of work on a new benchmark with Fonterra to complement the existing MSSA that will protect all your interests in supplying your milk to Fonterra. We intend to be in a position to engage with you in early 2017 on the outcomes of this work.

### **MILK PRICE 2015/16**

The average Fonterra/BSC milk price received for 2015/16 was \$5.13 kg milk solids, compared to \$4.76 final price being paid by the largest processor. It is cold comfort given the circumstances this year has delivered, but the Fonterra/BSC milk price is 37 cents above the benchmark return.

### **SEASONAL CONDITIONS**

It was an extremely tough year across all regions with Tasmania receiving record low rainfall, poor fodder harvest, fires and dry irrigation dams and then floods. All regions were heavily impacted through higher input costs for grain, fodder and water price and availability.

The 2016/17 year is again full of challenges with an opening price of \$4.75 and a forecast close of \$5.00, however seasonal conditions are excellent which will go a long way to offset a lower than average price.

### **BSC LEADERSHIP PROGRAM, NUFFIELD SCHOLARSHIP AND RABO BANK FARM MANAGEMENT PROGRAM**

BSC this year has enhanced its commitment in providing opportunities for our suppliers to partake in a range of leadership development programs.

- The 2016 BSC Leadership Program (in conjunction with Dairy Australia) is currently running with BSC sponsoring 6 participants,
- A scholarship was awarded to Wendy Whelan to join the 2016 Rabo Bank Farm Managers Program, and
- BSC is also proud to be able to sponsor a Nuffield Scholarship this year for one of our farmers. Duncan McDonald from Tasmania has been offered this prestigious opportunity.

### **ACKNOWLEDGEMENTS**

Firstly I would like to acknowledge our farmers in what has been the most challenging of circumstances and I thank you all for your support and commitment.

Thank you too, to Tania Luckin and Simon Finger (our retired BSC Board members) for their contribution to the BSC Board, and to the Fonterra Leadership team, staff and Regional MSOs.



**Tony Marwood**  
Chairman

# Directors

The Bonlac Supply Company Directors and details of their qualifications, expertise and experience are as follows:



## **ANTHONY K MARWOOD**

Echuca, Victoria  
Chairman  
Non-executive Farmer  
Director  
Age 56

Tony Marwood was elected to the Bonlac Supply Company (BSC) Board in 2006. He is a dairy farmer in Echuca, northern Victoria. Tony was a Bonlac Supplier Representative for seven years and in 2009 was elected the BSC Chairman. In 2004, Tony completed Dairy Australia's 'Advance in Dairy Leadership' program. More recently, Tony has completed the Fonterra Corporate Governance course in New Zealand. Tony is also a member of the GMW Strategic Advisory Committee and the ADIC Water Taskforce.



## **AUBREY O PELLETT**

Hill End, Victoria  
Deputy Chairman  
Non-executive Farmer  
Director  
Age 43

Aubrey Pellett was appointed to the Bonlac Supply Company (BSC) Board in May 2013. Aubrey runs a dairy farm in Hill End, Victoria. Aubrey has held the position of Director GippsDairy since 2010 and Director Rural Financial Counselling Service – Victoria, Gippsland since 2011. He holds a Diploma of Company Directors from AICD (GAICD), is a Nuffield Scholar, and he also completed the Fonterra Governance Development Course in 2015. Aubrey is a delegate on the BSC/ Fonterra Australia Supplier Forum.



## **CHRIS L HOFING**

North West Coast, Tasmania  
Non-executive Farmer  
Director  
Age 54

Chris Hofing was elected to the board of the Bonlac Supply Company (BSC) in 2011. He is a dairy farmer from the North West Coast of Tasmania. Chris completed Dairy Australia's 'Advance in Dairy Leadership' program as part of the BSC Leadership Development program in 2007. Chris is also involved in the National Centre of Dairy Education, and is a member of the committee which recruits and retains persons in the dairy industry. Chris is also a delegate on the Fonterra Australia Supplier Forum.



## **LEO M DELAHUNTY**

Murtoa, Victoria  
Non-executive Director  
Age 64

Leo was appointed to the Bonlac Supply Company Board in May 2013. He is a partner in a family grain farming business located near Murtoa in the Wimmera, growing cereal, canola and pulse crops. Leo's past experience includes being a director of GWM Water and was chair of its Audit, Governance and Risk committee. He was deputy chairman of GrainCorp and a director of Grain Growers Association, a director of PIVOT and Incitec Pivot and an independent director of Wimmera Racing Ltd. He was a co-founder of DIRT Management that established and managed the Warakirri Agricultural trusts for ten years, operating grain farms through eastern Australia. Leo is a fellow of the Australian Institute of Company Directors and a graduate of the AICD Advanced Program.

**MARK A BILLING**

Larport, Victoria  
Non-executive Farmer  
Director & Fonterra Supplier  
Forum Chairman  
Age 48

Mark Billing, together with his wife Sam, run a dairy farm in the south west region of Victoria. Mark was appointed to the Bonlac Supply Company (BSC) Board in May 2013 and is also chair of the BSC/Fonterra Australia Supplier Forum. Mark was the Victorian Dairy Apprentice of the year in 1988 and since then has been actively and enthusiastically involved at various levels within the dairying industry.

**GREGORY J BOURKE**

Melbourne, Victoria  
Non-executive Director  
Age 58

Greg is the former CEO and Managing Director of Patties Foods Ltd and has over 20 years directorship experience. Greg has held Senior Executive roles at George Weston Foods Ltd in Australia and New Zealand. He has served on the Board of the Australia Food and Grocery Council and has a strong background in finance. Greg is currently a consultant and non-executive director for a number of food manufacturing companies.

**STUART J GRIFFIN**

Westbury, Victoria  
Non-executive Farmer Director  
Age 33

Stuart was appointed to the Bonlac Supply Company Board in September 2016. Stuart and his wife are share farmers in Westbury, Victoria. Prior to taking up the role with the BSC Board, Stuart had been an active member of the BSC Supplier Forum since 2012. Stuart is also the chair of the Australian Milk Quality Steering Committee (since 2013), a member of the GippsDairy Workforce Steering Committee (since 2014) and is a Brigade Lieutenant in the Westbury CFA. Prior to dairy farming, Stuart (who is a registered veterinarian) operated as a vet in Northern Victoria (Tatura region). Stuart completed his Bachelor of Veterinary Science at Melbourne University, and has also completed the BSC Leadership Program.

**JOHN G DALTON**

Naringal, Victoria  
Non-executive Farmer Director  
Age 57

John was appointed to the Bonlac Supply Company Board in September 2016. Prior to taking up the role with the BSC Board, John had been on the BSC Supplier forum. John is also an independent board member of The Vet Group, and an active CFA member. John has previously chaired WestVic Dairy, The Regional Education Committee, and Workplace Planning & Action which was a Dairy Australia pilot program. John has an Associate Diploma in Applied Science (Ambulance Officer), an Advanced Dip. in Agriculture and is a member of Australian Institute of Company Directors.

# Directors

## **NORTHERN REGION – TONY MARWOOD**

Water still remains the dominant issue in the North. BSC continues to lobby Government hard on the Murray Darling Basin Plan in particular, the guarantee that the 650 gigalitres of Sustainable Diversion Limits will be delivered on by the MDBA, the removal of the 450 gigalitres of up water, for more flexible trading rules with environmental water and the independent social and economic study of the impacts on regional communities. The GMW connections program still has considerable ongoing issues and there has been strong representation from BSC and the ADIC Water Task Force to ensure that productive agriculture is the number one priority under the Connections reset. I look forward to seeing the Stanhope cheese plant completion as this will provide significant benefits for our farmers, the region and Fonterra's success here in Australia.

Poor seasonal conditions made for a very tough 2015/16, our key inputs costs all rose considerably, temporary water traded up to \$300 megalitre and



high grain and fodder prices all significantly impacted each dairy business's bottom line. The 2016/17 season has had an excellent start and we hope to see much lower water, grain and fodder prices this coming season, which will go long way to helping manage a low milk price year.

## **SOUTH / TASMANIA – CHRIS HOFING**



Season 2015/16 was a difficult season for suppliers, with a different range of issues that had an effect on milk production. Ranging from lack of rain, dry conditions for prolonged periods, lack of fodder on farms, the early start to irrigation and the issue of farmers not having enough water. Therefore this influenced higher costs of power and maintenance. In some parts of Tasmania, farmers were also affected by bushfires and flood

damage. Due to the reduction in milk price occurring in May, suppliers have had to make difficult decisions on how to manage their businesses. This has impacted farmer's health and wellbeing, as well as financial status in supplier's businesses and farming communities.

Gaining feedback from our suppliers about current situations when we meet or talk at events such as; supplier meetings, field days, community events, sports events and discussion groups, gives directors the opportunity to take on board concerns and relay them to Fonterra management. Forum members are also a good sounding board for directors. Thanks to Nick Cramp and Gary Van Der Drift who finished their term on the forum and welcome to Leigh Schuurings and Joe Timperon who now join Symon.

Suppliers are looking for ongoing support from their directors and field staff and Fonterra management to ensure that their businesses remain viable for the future. I look forward to representing our suppliers.

### **EASTERN REGION – AUBREY PELLETT**

Looking back on the 2015/16 season there is no doubt it has been one of significant challenge. Seasonal conditions across Gippsland were tough. The shorter than normal spring reduced home grown fodder production and the subsequent dry summer exposed farm businesses to the purchased feed market at a time of limited supply and high demand. Some areas suffered serious water supply problems. These on farm production issues were further complicated by the late season milk price revision. Given the wide range of calving patterns in Gippsland the severity of impact on farm varied widely. One of the most important jobs the regional Director performed during the year was representing the various on farm scenarios to Fonterra.

One of the new initiatives BSC in conjunction with local Forum members Pete Collins, Stuart Griffin and Rachael Finch organised was an information session for suppliers at Ellinbank early last summer. We were lucky enough to see the world class facilities and grass variety trials as well as getting an update from Fonterra

management. BSC is pleased to have continued to offer the BSC Leadership program and in addition offered to sponsor a place on the Rabobank business development course. Wendy Whelan, a previous leadership program graduate from South Gippsland was selected for this privilege.

Lastly I would like to acknowledge that Simon Finger and his family have chosen to no longer supply Fonterra and therefore is he no longer a BSC Director. For his contribution over the years I thank him and wish the Finger family well.



### **WESTERN REGION – MARK BILLING**

This last year has created a lot of challenges both seasonally and financially for our suppliers, however it was a good opportunity to bring together the BSC / Fonterra Colac and Noorat discussion groups to explore options for on farm response in the difficult times we are facing. It is important to keep the dialog going to help each other out.

I had the opportunity to speak to a lot of suppliers over the year and whilst I would have preferred it was under better circumstances I have enjoyed the interaction. Please contact me anytime if you need to discuss any issues that are concerning you.

There are currently several vacancies in the Supplier Forum team, plus another 2 additional vacancies coming up at the end of the year when Rachael and Symon finish up after 4 years of fantastic contributions. So keep an eye out in November / December when we will be sending around information on how you can join the Supplier Forum – with there being 2 vacancies

in the East, 2 in the West and 1 in the Tassie. You can also speak to me or one of the other forum members at any time if you have any questions about joining.





# Background on BSC Leadership Program 2015/16

The BSC Leadership Program is now in its 11th year, with 44 participants going through the program over that time. The Program provides a learning opportunity for suppliers to grow and develop their skills to lead in their community and industry.

Graduates of the program not only improve their own leadership skills to use on farm, many also go on to give back to their communities as leaders, such as roles on school councils, leadership roles at sports clubs and even local councils. It is a great way to showcase the industry within local areas and help our suppliers make a difference in their community from a dairying perspective.

Congratulations to the current year's participants: Janelle Fisher, Shaun Beard, Nikki Atkins, Nick Bermingham, Rob Schloss and Simone Ross.

Well known previous participants of the BSC Leadership Program include: Tony Marwood – BSC Chairman; Adam Jenkins – UDV President; Chris Hofing – BSC Director; Stuart Griffin newly appointed BSC Director; Nigel Brock – previous ANZ Farm Business of the Year Tas winner and Liza Fahey – finalist in Victorian Business Woman of the Year.

In 2016 our program underwent a number of changes in conjunction with newly expanded and enhanced programs offered by Dairy Australia.

Starting with the current group of BSC Leadership Program participants, the BSC Leadership Program now incorporates Dairy Australia's Emerging Dairy Leaders Program – which is the Australian dairy industry's tier one leadership program. The 12 month national program is conducted in 4 residential blocks with online and self-paced learning in between.

The program explores themes of 'understanding self and others', 'community and industry' and 'the world'.

Participants visit 3 dairy regions and meet leaders

of all types while earning a Diploma of Agribusiness Management from the National Centre for Dairy Education (NCDE/TAFESA).

BSC Leadership Program participants also receive further mentoring and networking opportunities – with both the BSC Supplier Forum and Fonterra management.

Commencing in 2017, again with the formal course components run by Dairy Australia, another program will be commenced for those who have already have leadership exposure and/or formal training – this program is the more advanced 'Developing Dairy Leaders Program'. The exact timing of the commencement of this 'next level' in the BSC Leadership program will be announced in the New Year.

The BSC Leadership program is generally run on an annual basis. For further information please contact your local BSC director, Fonterra Area Manager, or myself.

## **Will Kermode**

BSC Leadership Program Coordinator



**L-R: Nick Bermingham, Janelle Fisher, Rob Schloss, Nikki Atkins, Shaun Beard and Simone Ross.**

“This course is extremely interesting. I have met numerous people that are very intelligent and are in a range of different occupations. Other peers in my group have become great mates and am in regular contact with them. It has also been a benefit to my work life as I have learnt to trust others and let them have a go. Although the paperwork involved is a bit of a challenge the overall concept is great.”

~ Nick Bermingham

“The EDLP course has been very thought provoking and the self-assessment portion, while being a little confronting, has made me think differently towards work situations already. Looking forward to our next meeting in Tasmania to develop more and also see the way in which the Tasmanian farmers are recovering after the floods.”

~ Shaun Beard.

“The course is both rewarding and confronting. We have spent a great deal of time learning about our own personalities and that of others. I often refer to my notes, contact my classmates or talk to our leaders about both work and general life situations. It has already had a great impact on my life and skills base.”

~ Simone Ross

“So far we have done self-reflection and also analysing all aspects of our farm businesses. It has been really good because it makes you write things down and have discussions. This also creates action.

It is a really good group and mix of participants so it is great to network with everyone.”

~ Janelle Fisher

# BSC/Fonterra Supplier Forum

The establishment of the Supplier Forum in 2009 furthers the commitment of Fonterra Australia and BSC to our farmer suppliers.

Fonterra Australia/BSC believe that having a sustainable, committed and viable supplier base is an essential part of building a strong company.



Forum Meeting in Mt Waverley offices.

## **The Aim of the Supplier Forum is to;**

- Provide a structure that builds on existing organisations.
- Facilitate the inclusion of suppliers from all regions.
- Foster the level of understanding between all of our farmer suppliers and the company.

## **Forum Objectives;**

- To provide two-way consultation between Fonterra Australia/BSC and its milk suppliers.
- To provide input into wider business and industry issues.
- To provide leadership in contributing to an industry-leading value proposition for farmers.

## **This to be carried out by;**

- Providing communication between the company and our supplier base.
- Providing a shared knowledge of company direction.
- Providing leadership in increasing the loyalty and commitment of suppliers.
- Improving the responsiveness and understanding of company management.

We held our March meeting at Fonterra's head office in Melbourne again this year and welcomed new delegates Simone Ross from the North, Joe Timperon

and Lee Schuurin from the South. Guest speakers included John Droppert from Dairy Australia who spoke on how farm inputs were trending, Vin Delahunty from United Dairy Farmers Victoria who gave an update on their activities and Fonterra management updated us on their activities. As usual the interaction between supplier delegates and Fonterra management was spirited and constructive. At the Forum dinner we said goodbye to Kelly Barnett, Nick Cramp, Stephen Luckin and Gary Van der Drift. A special thank you and send off was also given to Chris Thomas who was the Forum coordinator for a number of years and was very passionate about the Forum and ensuring that we extracted the best from the time we had with delegates and Fonterra management.

A few weeks after the price drop announcement the forum spent some time with the senior Australian management relaying to them the impact on farm and the wider community, this was very constructive.

We will be seeking new delegates for the West and the East for the next term, so if you are interested in knowing more about the Forum or would like to apply to be a delegate please don't hesitate to contact me.

**Mark Billing, BSC/Fonterra Supplier Forum Chair**



# Contacts

## **FORUM CHAIR**

Mark Billing **0417 502 400**

## **SUPPLIER FORUM ADMINISTRATOR**

Seranne Chamberlain **03 8541 1900**

## **BSC DIRECTOR REPRESENTATIVES**

Aubrey Pellet

Chris Hofing

## **EAST**

Rachael Finch **0427 304 273**

Peter Collins **0407 708 863**

## **NORTH**

Simone Ross **0408 596 203**

Rob Schloss **0409 548 453**

Jarrold O'Sullivan **0413 777 973**

## **WEST**

David Conheady **0418 379 039**

## **SOUTH**

Joe Timperon **0428 528 155**

Symon Jones **0409 012 366**

Leigh Schuurin **0429 356 367**



# Summary Financial Results

The 2015/16 results are a reflection of the now simplified structure of BSC. Our income streams are now simply the Agency Fee income we receive from Fonterra, and any returns we achieve (including capital gains/losses) from our investments.

Post the repayment of the capital notes BSC held with Fonterra in 2014/15, all interest payments to BSC

ceased. The 2014/15 repayment of all A Class/Supplier and B Class/Dry shares post the repayment of this capital note, has also meant no dividends were paid or are payable in 2015/16.

Our expenses are primarily our directors fees and other administrative costs, particularly travel, postage/ printing and professional service fees.

Income Statement	FY 2016 \$'000	FY 2015 \$'000	Change
Agency Fee income	678	680	0%
Investment income (including capital gains)	62	449	-86%
Interest on Capital Notes (payments from Fonterra)	-	556	-100%
Other Income from Fonterra	-	1,774	-100%
Total Income	740	3,459	-79%
Director and staff costs	369	363	2%
Corporate Support	346	518	-33%
Distribution of Loyalty Bonus	-	1,508	-100%
B Class Dividend	-	159	-100%
Profit before Income tax	25	911	-97%
Income tax Expense	21	317	-93%
Total profit for the year after tax	4	594	-99%





**Proud Partners of the  
Bonlac Supply Company**