



Farmers representing farmers

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By Email: to dairyinquiry@accc.gov.au

RE: ACCC Inquiry into the Australian dairy industry – Issues paper feedback

Bonlac Supply Company (BSC) is an independent farmer representative body supporting all dairy farmer suppliers to Fonterra Australia. In response to your call for submissions, we would like to make comment on Issue 2 (Contracting practices) and Issue 3 (Transparency and price signals).

BSC works closely with Fonterra on opportunities and products that support their farmer's businesses. BSC is committed to their farmers having profitable and sustainable businesses, and continues to act on co-operative principles representing farmer's interests with a collective independent voice.

The BSC Board comprises 8 Directors, 6 of whom are Fonterra Dairy Farmers, with 2 Independent Directors. Director elections are held in November each year in conjunction with our Annual General Meeting, with all eligible Fonterra suppliers entitled to vote on the composition of the Board.

BSC has an agreement with Fonterra until the end of 2019, that in summary, guarantees milk collection and also that the average farm-gate milk price (FMP) paid to suppliers will not be less than the price paid by the leading Victorian Processor (ie Murray Goulburn 'MG').

The minimum price guarantee is designed only as a safety net, giving our suppliers comfort on a minimum competitive annual FMP. In 8 of the last 10 years Fonterra's FMP has exceeded that paid by MG, including last season 2015/16 where the final Fonterra FMP exceeded MG by 6.8% or 33c per kgMS (with Fonterra paying \$5.13 per kgMS and MG paying \$4.80 per kgMS).

The recent developments in the Australian Dairy Industry (acknowledging that Fonterra did step down their 2015/16 milk price to a more sustainable level late in the year) have resulted in a very challenging and distressing time for many farmers. And we acknowledge that we do not ever want to see a similar situation again.

Whilst we acknowledge the issues encountered in 2015/16 and the key drivers of those issues, we are also very keen to ensure that there are no knee jerk or restrictive actions put in place that will may also have longer term detrimental impacts to suppliers.

We are supportive of the proposals for processors to increase transparency and to have agreed notice periods for a step down.

We are however cautious in our support for moves that may place too high a level of guarantees on end of season milk prices, and shift too much commercial risk to processors - whether this be in the form of exact pricing mechanisms or tight restrictions on the ability to alter prices (such as the inability to step down in the 2nd half of the season in extreme circumstances).

We all need to acknowledge that an increased certainty on pricing may come with a potential cost – in that processors will be forced to be more conservative with their opening FMP for each season, and more conservative with any step ups during the year.

The opening season FMP is the key driver of confidence on a supplier's annual cash flow for a season, and a big contributor to overall farmer willingness to invest early in a season to maximise milk supply. Low opening prices and potentially lower mid-year step ups (even with the potential of a big balloon payment at the end of the season) will reduce supplier confidence to invest in their businesses.

We are simply wanting to highlight that suppliers need to not only be continually informed and have high levels of certainty around their annual incomes, but that that certainty needs to be there early in the season – not at the end of the season. We need to ensure that any changes to standard agreements and contractual arrangements do not also restrict or discourage the processor's ability to pay the highest milk price, at their earliest possible opportunity in the season.

We would also like to highlight several tools that are already available to Fonterra suppliers that gives farmers the ability to address the volatility in the market.

Designed specifically to address the increasing uncertainty in the market, in 2014/15 Fonterra introduced its Fixed Base Milk Pricing program. Then for the 2015/16 season Fonterra also introduced another new offering - the Milk Price Range.

Both of these optional programs can give suppliers greater certainty and the ability to better manage price volatility. Each Program is also separate to Fonterra Australia's standard milk pricing model, and variances in the program do not impact the returns to the broader supply base.


The Fixed Base Milk Price program is a price risk management tool allowing suppliers to lock in a volume of milk at a set price, similar to fixing part of a mortgage.

The Milk Price Range program, a newer Price Risk management tool introduced last season, builds on Fixed Base Milk Price by allowing participating suppliers to lock in a volume of milk within a set price range. This helps Fonterra suppliers to plan for the season ahead with some degree of certainty, whilst still being exposed to some market upside.

These price risk management tools use a tender allocation process for both suppliers and customers, which is separate to the standard milk pricing model and next season's opening and forecast prices. The process enables Fonterra Australia to match volume at a price point at which our customers are currently prepared to buy for the next 12 months, with volume at which our farmers are prepared to sell for the next 12 months.

It is our strong preference to see the ongoing development and maturing of optional models such as these being made more widely available to farmers – as opposed to other formal industry wide pricing guarantees or restrictions.

Yours sincerely,



Tony Marwood
Chairman
Bonlac Supply Company