

MEDIA RELEASE

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Milk procurement project attracts national interest

A South Australian Dairy Industry Fund project exploring what farmers want to see in their contractual arrangements with milk processors is attracting national interest.

The project set out to explore farmers' views about current payment models being offered by major processors, and what future milk supply procurement models should look like if they are to better support the dairy industry.

The project was initiated late last year by the Union Dairy Company (UDC), a joint venture between The Midfield Group and the Louis Dreyfus Company, which is due to start processing milk at its new plant near Penola in July, 2017.

"In the lead up to signing up their first suppliers, UDC was keen to find out what sort of features they should be offering farmers that would be most advantageous to their businesses, so the company decided to engage an independent researcher to go out and ask," explained Fund chair, Dennis Mutton.

"We agreed to co-fund it with proceeds raised from the sale of SADA Fresh milk, on the proviso that we could share key findings with the South Australian Dairyfarmers' Association and the broader industry," Mr Mutton said.

"To our knowledge no-one has carried out a project like this before, and the timing was critical, given last year's events, the current Senate and ACCC inquiries looking into codes of practice for milk supply contracts, and the rapid changes we are seeing in the Australian industry," he said.

"Traditionally farmers have been very loyal and rarely switched processors, but that situation has changed fundamentally in the past twelve months. For the first time, most farmers are actively considering making a move to maximise returns and build in better surety for their businesses.

"So having a better handle on what features farmers want to see in their milk procurement arrangements is essential information for processors, and the dairy industry associations currently negotiating with them."

The project involved conducting a series of workshops in the Limestone Coast region of SA and south-western Victoria, in November last year. Between 10 and 30 farmers operating diverse dairy farming systems of varying scales attended each of the workshops.

The workshops were led by the Melbourne-based consultancy, Freshagenda. Participants were encouraged to provide feedback about current milk procurement options being offered by major processors, what they liked and didn't like, what was working and what wasn't from a practical point of view.

They were also asked to share ideas about how payment systems could be improved, and alternative options that better took into account the needs of their own businesses, and the industry generally.

Freshagenda director Steve Spencer said that while there were no huge surprises, the workshops highlighted that the industry was going through a period of seismic change, on a scale that it had not witnessed for some time.

"Many farmers are deeply disillusioned with the status quo after events last year. They were still angry and reflected a significant loss of trust," Mr Spencer said.

"Participants in the workshops made it clear that they want open relationships with their processors - the importance of honesty, transparency and trust was raised at every meeting. They also want greater security, through better forward signals and accompanying intelligence."

Mr Spencer said that even though it was apparent that one model would never fit everyone's needs, the sessions revealed that there was plenty of common ground.

There was considerable interest in flat pricing and models that fixed a minimum price for a certain percentage of their milk, as opposed to traditional approaches that built in seasonal adjustments or were highly layered.

"Many farmers felt that volume and productivity incentives had complicated farm-gate milk prices and disadvantaged younger, smaller farmers," Mr Spencer said.

"There was also considerable discussion around the seasonality of pricing. Seasonal cash flows challenges have been an issue for years in some parts of Australia, with farmers having to cope with the lowest prices at a time of the year when the pressures to commit cash are high, because they are, for instance, making silage or buying supplementary feed.

"The workshops showed that challenge is widely felt in the South East and western Victoria, with several farmers commenting that seasonal incentives had in effect forced farmers to change practices and chase incentives for milk that is more expensive to produce."

Mr Spencer said farmers also wanted more transparent, simpler payment systems rather than having to work through monthly statements with multiple additions and deductions.

"And they asked for more market intelligence from their suppliers, about things like world market trends so they had more information to help them make better management decisions," Mr Spencer said.

Commenting on the project, Fund chair Dennis Mutton said that one of the most pleasing outcomes was the level of interest it had generated among processors, particularly newer entrants to the dairy market.

"In most of the State's dairy regions there is strong competition for milk supply at the moment, and processors are very keen to review their current milk procurement models to see if they can achieve a better alignment with what farmers are seeking. That is a heartening sign," he said.

Ends

For further information and to arrange interviews with Dennis Mutton and Steve Spencer please contact SA Dairy Industry Fund chief officer Ken Lyons on 0439 444 509 or email

executiveofficer@sadafresh.com.au. Please note that Steve Spencer will be overseas next week and unavailable for interviews during that time.