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HD **Shudder from the udder as milk price sours**

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Western Victoria **dairy** farmer Ben Bennett sighs when he sits at his kitchen table to talk about the state of the industry.

A New Zealander who came to Pomborneit, west of Colac, nine years ago, lured by cheaper land than was available back home, Mr Bennett admits to being stunned by the rollercoaster ride the \$13 **billion** Australian **dairy** industry seems to be perpetually experiencing.

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Troubles returned last week, when **Chinese** orders for **dairy** products were abruptly reduced. World **dairy** prices have crashed more than 40 per cent in the past two months and the world's biggest **milk** exporter, New Zealand's Fonterra, has cut its forecast for prices to be paid to farmers to 37 per cent below last year's record high. And Australian farmers like Mr Bennett are bracing for a sudden drop in local **milk** prices after the best year in a decade. "We know this industry waxes and wanes with the seasons, and we all begrudgingly accept that, but a step down in **milk** prices is the last thing we need," he said. "People are nervous because they are only just getting back on their feet.

"All the talk this season was for 45c-50c a litre for our **milk** after the terrible prices (of 35c) two years ago, but farmers are getting paid a lot less than that now and promises of later season price rises are already being retracted." Australia's biggest **milk** processor, Murray Goulburn, warned this month it might not be able to stick to its commitment to pay its suppliers an average price of \$6 per kilo of **milk** solids — equivalent to 45c a litre — this year if global markets continued to fall.

Managing director Gary Helou said any reduction in promised prices would be a "last resort" and that at least the falling Australian dollar would help hold the farmgate price of **milk** up against other gloomy global price trends. "We are going ... to defend that \$6 price (but) it will be a difficult task," Mr Helou said. He also urged farmers to be "cautious" when working out farm budgets or making investment decisions based on the promise of high **milk** prices.

Dairy Australia director John McKillop yesterday said that despite the current "market volatility", the long-term outlook for the Australian **dairy** industry remained compelling.

He said global trends, particularly the Asian food boom, were aligning to produce an exciting future for the industry and that the key need now was to boost Australia's annual **milk** production from its current depressed level of 9.2 **billion** litres, 16 per cent down on its 2002 peak of 11 **billion** litres.

"We must do more, we must increase **milk** production on our farms," he said. "We should look for 12 **billion** litres annual **milk** volume as a short-term objective and targeting a desire for 15 **billion** litres. We can achieve that but it will need more than \$10bn invested on farm." But Michael Harvey, a senior **dairy** analyst with agricultural lender Rabobank, warned that without improved profitability, the **dairy** industry was unlikely to see the production growth required to make inroads into growing export markets.

He said that with just 2 per cent growth in on-farm **milk** production predicted for this year, it would take a "fundamental shift" in **milk** supply growth to meet the sector's ambitions to lift production to 15 **billion** litres by 2020.

"For the majority of the farm sector, 2013-14 was a profitable season on the back of record high farm-gate **milk** prices that provided the opportunity for balance sheets to be restored, debts to be serviced, bank debt to be reduced and **equity** levels rebuilt," Mr Harvey said.

"Now Australia's large retailers are forming direct supply relationships with **milk** producers, the benefits of stronger collaboration exist to provide farmer producers with more certainty through annual **milk** pricing and longer contractual terms." Mr Bennett is one farmer who, after nine years supplying Murray Goulburn with 1.5 **million** litres each year, switched to selling his **milk** to the Bulla **company**, because it guaranteed increased revenue and a stable price across all months of the year, improving his annual **milk** cheque by \$100,000.

"It's having the certainty of a price that doesn't vary across the seasons that will allow us to plan and expand our (350-cow) herd to take advantage of growth opportunities and to live here for the long term," Mr Bennett said. "Too many people talk about this head-in-the-clouds euphoric stuff of every (person in **China**) eating an ice cream every day, but there is no sense in dreaming if the bills don't get paid. This is a **business** and we are in this to make a profit." **Business** P21

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