

IN THE AUSTRALIAN COMPETITION TRIBUNAL

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

RE: PROPOSED ACQUISITION OF WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED

Statement of: John Barnett

Dated: 28 November 2013

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Filed on behalf of Murray Goulburn Co-Operative Co Limited

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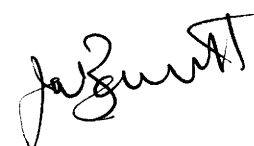
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I, John Barnett of Murray Goulburn Co-operative Co Limited (**Murray Goulburn**), Head of Logistics say as follows:

1 Background and role

1. I am employed as the Head of Logistics at Murray Goulburn. I am authorised to make this statement on behalf of the applicant, Murray Goulburn.
2. I started my role as Head of Logistics in January 2013.
3. My role as Head of Logistics includes the following responsibilities:
 - (a) supply planning, being the forecasting of milk supply, allocating milk to factories, and production planning of all finished products, including bulk, ingredient and retail products;
 - (b) managing the transportation of finished products from Murray Goulburn's processing facilities to its distribution centres;
 - (c) managing the warehousing of finished products at the distribution centres;
 - (d) managing the transportation of finished products from Murray Goulburn's distributions centres to customers;
 - (e) managing the shipping of finished products overseas;
 - (f) reporting on a weekly and monthly basis to Keith Mentiplay, General Manager Operations at Murray Goulburn; and
 - (g) managing the sales and operations reporting processes at Murray Goulburn.
4. I have had a number of years' experience in logistics as well as in the dairy industry. Prior to joining Murray Goulburn in 2013, I worked in the following roles:



- (a) From around 2007 to the end of 2012, I worked at Mondelez International (formerly Kraft Foods and Cadbury Schweppes), first as General Manager Supply Chain Development, and from around 2010, as Project Manager;
- (b) From around 2002 to 2007, I worked as General Manager Supply Chain for Bonland Dairies (which subsequently was acquired by Fonterra);
- (c) From around 1998 to 2002, I worked as General Manager Logistics of Carlton United Brewery and Fosters Group; and
- (d) From around 1996 to 1998, I worked as Manager of Logistics Development at Carlton United Brewery.

5. I have the following relevant tertiary qualifications:

- (a) In 1977, I completed an honours degree in Biotechnology at Massey University in New Zealand; and
- (b) In 1984, I completed a PhD in Biotechnology Engineering at Massey University.

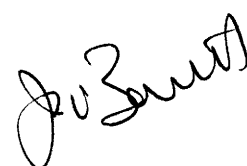
2 Overview of logistics

6. Murray Goulburn owns and operates seven manufacturing and processing facilities throughout Victoria and Tasmania. These processing facilities are located at:

- (a) Maffra and Leongatha in Gippsland;
- (b) Koroit in western Victoria;
- (c) Kiewa, Rochester and Cobram in northern Victoria; and
- (d) Edith Creek in Tasmania.

7. After products are processed at a facility, the products are scheduled to be collected and transported to one of Murray Goulburn's main distribution centres. This is arranged by personnel at the facility in liaison with the distribution centres, who agree on a schedule for the finished products to be collected, transported and delivered. Murray Goulburn's main distribution centres are located at:

- (a) Laverton North (Integrated Logistics Centre (ILC)); and

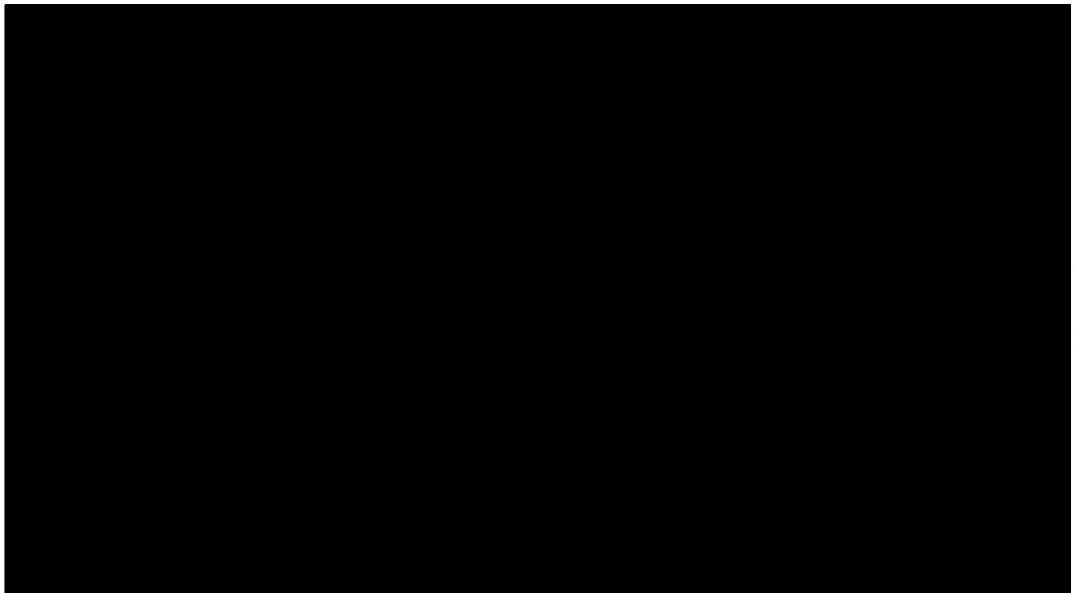


(b) The Port of Melbourne (Global Distribution Centre (**GDC**) and Global Frozen Distribution Centre (**GFDC**)).

8. Murray Goulburn's products are stored at the ILC, GDC and GFDC until they are picked up as part of an order for a customer. Once an order is made, the products are transported from the distribution centres to a customer's location or the customer's own distribution centre, either by truck or train (for domestic transport) or by ship (for international transport).
9. The transportation chain described above is the process that is undertaken for the vast majority of Murray Goulburn's products. However, there are instances where Murray Goulburn supplies its finished products on a different basis. Those instances include the transportation of products from:
- (a) processing facilities direct to customers without using the ILC, GDC or GFDC;
 - (b) processing facilities to other Murray Goulburn processing facilities; and
 - (c) processing facilities to processing facilities operated by another dairy producer.

The transportation of products described in (b) and (c) above relates to ingredient products that are to be incorporated into other dairy products.

10. In the 2013FY, Murray Goulburn transported 812,543 metric tonnes of product to its distribution centres and customers. **[CONFIDENTIAL: This volume can be summarised as follows:**

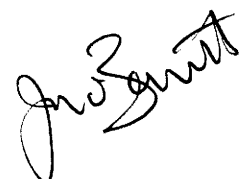


11.



3 Murray Goulburn logistics department

12. There are approximately 150 personnel in Murray Goulburn's logistics department. There are 5 managers who report to me as Head of Logistics. Those managers have the following roles:
- (a) Warehousing Operations Manager, who is responsible for, among other things, overseeing the storage of finished products at the ILC, GDC and GFDC. In warehousing operations, there are approximately 100 personnel, including approximately 60 operators at the ILC and approximately 15 operators at the GDC;
 - (b) Group Supply Manager, who is responsible for, among other things, production planning. This involves planning the production of all finished products across all processing facilities to ensure that there is sufficient product availability to meet customer demand. The group supply manager is also responsible for monitoring the amount of inventory Murray Goulburn carries. There are approximately 10 personnel within the group supply portfolio;
 - (c) Milk Supply Optimisation Manager, who is responsible for forecasting milk intake and implementing the allocation of milk to processing facilities based on milk solid product groups;
 - (d) Manager of Export Administration and Logistics, who is responsible for, among other things, ensuring export orders are fulfilled. This involves the procurement of shipping, ensuring there are available containers to transport finished products and ensuring that all required documentation is in order for exports. There are approximately 15 personnel in the export administration and logistics portfolio;
 - (e) Customer Service Manager; and
 - (f) Transport Manager.



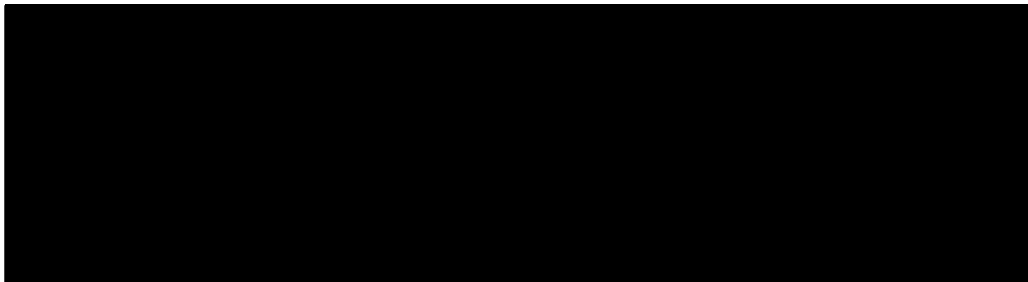
4 Transportation of finished products

13. Murray Goulburn outsources the transportation of finished products to third party freight companies.



14. Murray Goulburn contracts freight companies on the basis of best practice, using a 'request for proposal' process. Murray Goulburn goes to market with a 'business requirements' document, defining the freight services it requires. Freight companies then respond, and are subject to an objective evaluation process.

15.



Now produced and shown to me and marked confidential annexure **JWB1** is a table setting out contract terms for each of the freight companies.

16. Murray Goulburn only pays the freight companies for the trips that they perform. Therefore, there is no obligation on Murray Goulburn to ensure that there is sufficient product and orders to complete a particular number of trips. This

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arrangement works in favour of Murray Goulburn as the volume of product that leaves the distribution centres is dependent on demand from customers, something over which Murray Goulburn does not have control. The freight companies are obliged to ensure that there are always trucks available to deliver Murray Goulburn's products when required.

17. Since Murray Goulburn's transportation is provided by third parties, any efficiencies that can be gained in this area will be in the area of reduced prices from the freight companies:

(a)

[REDACTED]

However,

Murray Goulburn tenders to the market for competitive rates and contracts with freight companies. If Murray Goulburn has more products to transport, there will be more trips to perform and Murray Goulburn will be able to negotiate better rates during the 'request for proposal' process. It is difficult to definitively calculate the costs savings generated by an increase in volume of product, as cost savings ultimately will depend on the negotiation process.

[REDACTED]

- (b) Some freight companies set prices partially based on the volume optimisation of a truck. Increased optimisation may occur where trucks are able to pick up WCB and Murray Goulburn products in proximity to each other. In this way, if Murray Goulburn is better able to optimise a truck's capacity, it will likely benefit from better pricing rates.

5 Transportation from processing facilities direct to customers

18. Murray Goulburn does provide for particular products to be delivered directly to customers. For example, 70% of cheese orders from Cobram are delivered directly to customers. This is predominantly full container loads of bulk cheese.

[REDACTED]

John Sant

6 Transportation from processing facilities to distribution centres

19. **[CONFIDENTIAL]**: The transportation of finished products from processing facilities to distribution centres is done by:

20.

21.

22.

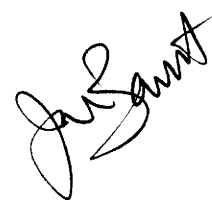
23.

24. Now produced and shown to me and marked confidential annexure **JWB2** is a table showing the main products transported from each processing facility to distribution centres and the associated costs.

7 Distribution Centres

7.1 Integrated Logistics Centre (ILC)

25. The ILC is located at Laverton North in Victoria. Murray Goulburn currently owns the ILC. The ILC is Murray Goulburn's largest distribution centre and is the supply point for all finished products sold domestically, both bulk goods and consumer products.
26. The ILC has both refrigerated and ambient storage space. Warehousing capacity is usually measured by 'pallet space'. The total capacity of the ILC is [REDACTED] pallet spaces. In the 2013FY, [REDACTED] tonnes of product was moved through the ILC. The rate at which products are moved through the ILC varies seasonally. During peak season,



when Murray Goulburn is producing a higher volume of product, product tends to be moved through the ILC at correspondingly higher rate.

27. Inbound finished products are stored in the ILC in the following way:
- (a) The driver of the truck carrying the finished products comes onsite to the ILC. The driver is then directed via radio to either park the truck or to drive the truck to a warehouse door.
 - (b) Once a truck has arrived at a warehouse door, products are unloaded from the truck with a forklift.
 - (c) The products are then moved into the warehouse for storage.
28. Outbound finished products are moved out of storage from the ILC in the following way:
- (a) The driver of an empty truck comes onsite to the ILC. The driver is then directed to a designated loading area.
 - (b) Finished products are loaded into the truck via forklift.
 - (c) The driver closes the truck, travels over a weigh bridge to confirm that the truck does not exceed its weight limit, and drives the finished product to its end destination.

7.2 Global Distribution Centre (GDC)

29. The GDC is located at the Port of Melbourne in West Melbourne, Victoria. Murray Goulburn owns the GDC but leases the land from the Port of Melbourne.

[REDACTED]

The GDC stores mainly bulk ingredient products that are to be exported, in particular bulk powders. [REDACTED]

[REDACTED]

30. The GDC only has ambient storage space. [REDACTED]
- [REDACTED]



31. The process of moving finished products in and out of storage at the GDC is the same as described per above for the ILC.

7.3 Global Frozen Distribution Centre (GFDC)

32. The GFDC is located next to the GDC in the Port of Melbourne. The GFDC is leased by Murray Goulburn from DP World. This lease is then sub leased by Murray Goulburn to Montague Cold Storage, who provide services for storage and loading. The GFDC stores all frozen products that are to be exported. These products mainly consist of frozen cheese, butter and cream cheese.
33. The total capacity of the GFDC is approximately 17,000 pallet spaces, of which Murray Goulburn is currently entitled to use [REDACTED] pallet spaces.

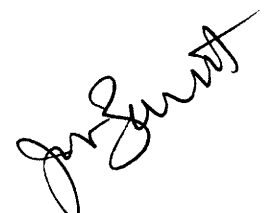
[REDACTED] In the 2013FY, 38,000-tonnes of product was moved through the GFDC.

7.4 Additional storage and distribution facilities

34. In addition to the ILC, GDC and GFDC, Murray Goulburn utilises additional storage facilities from time to time. Murray Goulburn engages third parties to provide the additional storage facilities. These storage facilities are provided by:
- (a) Kyabram Cold Storage Pty Ltd (**Kyabram**);
 - (b) Oxford Cold Storage (**Oxford**); and
 - (c) P Pullar & Co Pty Ltd (**Pullar**).

These facilities are utilised for storage when there is an overflow of one particular product. For example, Oxford stores overflow from the GFDC and cheeses are occasionally stored at Kyabram and Pullar to mature when Cobram is out of capacity.

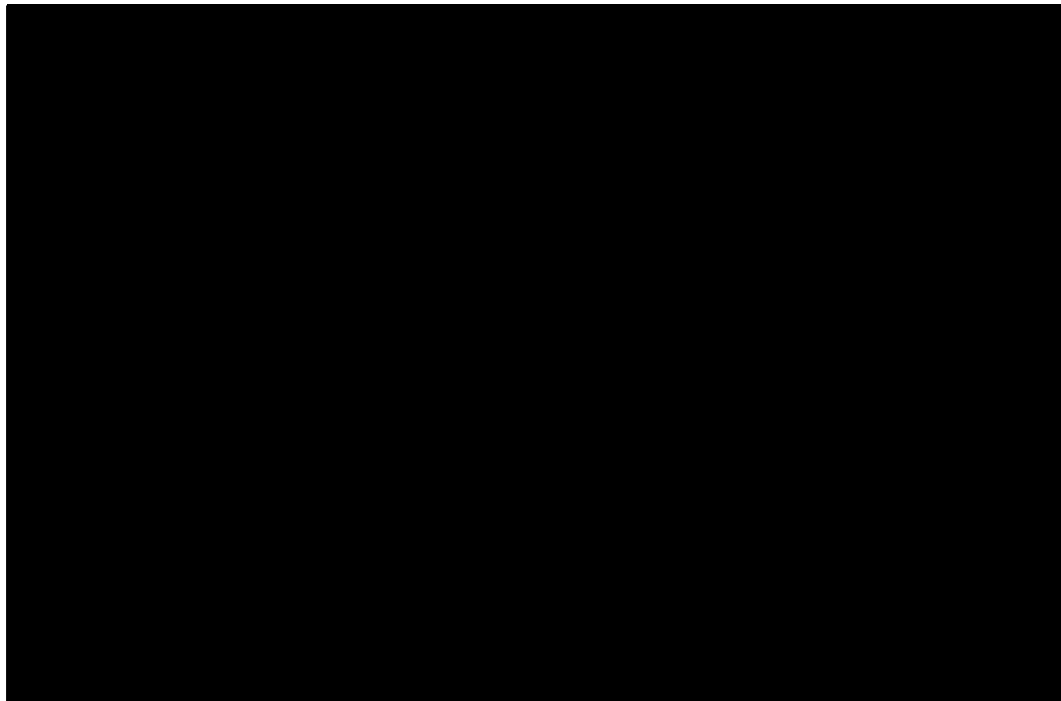
35. Murray Goulburn also utilises storage facilities (both chilled and ambient) in states outside Victoria, particularly to hold and deliver product to food service customers in Queensland and New South Wales.



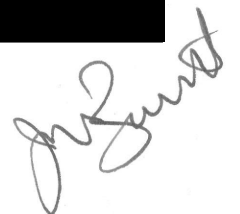
36. Murray Goulburn incurs approximately [REDACTED].

8 Capacity of Distribution Warehousing

37. **[CONFIDENTIAL:** Below is a chart that identifies the capacity of Murray Goulburn's warehouses to store bulk, UHT, chilled and frozen products:



38. Below is a chart that identifies the capacity of the external storage utilised by Murray Goulburn:



39. Murray Goulburn has capacity for further storage. In addition to the excess capacities outlined above, Murray Goulburn is able to increase capacity, for example, by increasing the through put capability of each distribution centre. This would involve, in basic terms, increasing the speed of output by fulfilling more orders in a facility within the same time frame. This could be assisted by increased automation in the distribution centres. Furthermore, the GDC currently operates five days a week, while the ILC operates five and a half days a week. Both these distribution centres operate 24 hours a day while they are open. In this sense, there is a significant degree of latent capacity available at the GDC and the ILC. Both the GDC and the ILC are able to operate all week, given that Murray Goulburn has an adaptable shift structure [REDACTED] in place that would allow the extended operation of the distribution centres.
40. The costs of warehousing can be broken up into two components: fixed and variable. If Murray Goulburn optimises its latent capacity through the extended operation of its distribution centres and the movement of more product through its distribution centres, this will lead to increased scale efficiency. In other words, Murray Goulburn will be able to achieve better recovery of its fixed costs through the reduction of costs of storage per unit of product.

9 Transportation from distribution centres to customers

41. Finished products are stored in the distribution centres until they are picked up for a customer's order. When an order is made, Murray Goulburn organises for the delivery to be made the following day or the day after if the product is being transported interstate.
42. The transportation of finished products are done either by train or truck for domestic transport or by ship for international transport. There are no geographical limitations on where Murray Goulburn is able to transport finished products, either domestically or internationally, so long as the shelf life of the products is managed. However, Murray Goulburn does not transport many products with a short shelf life, save for yoghurts, which have shelf life of approximately 21 days. Now produced and shown to me and marked confidential annexure **JWB3** is a table showing Murray Goulburn's top five customers by volume of product for the 2013FY.



9.1 Domestic transportation

43. Murray Goulburn uses the freight companies (described in paragraph 12 above) to transport products by truck to customers in all states except for Western Australia.
44. Murray Goulburn has the ability to use rail to transport its products to customers in Western Australia and some parts of Queensland. Rail transport is only a viable transport option for long distances due to the costs involved. Murray Goulburn currently uses SCT's trains to transport products to Western Australia. Once finished products have arrived at the depot, the products are loaded onto trucks and taken to the customer. Now produced and shown to me and marked confidential annexure **JWB4** is a table showing Murray Goulburn's distribution of finished products by state.

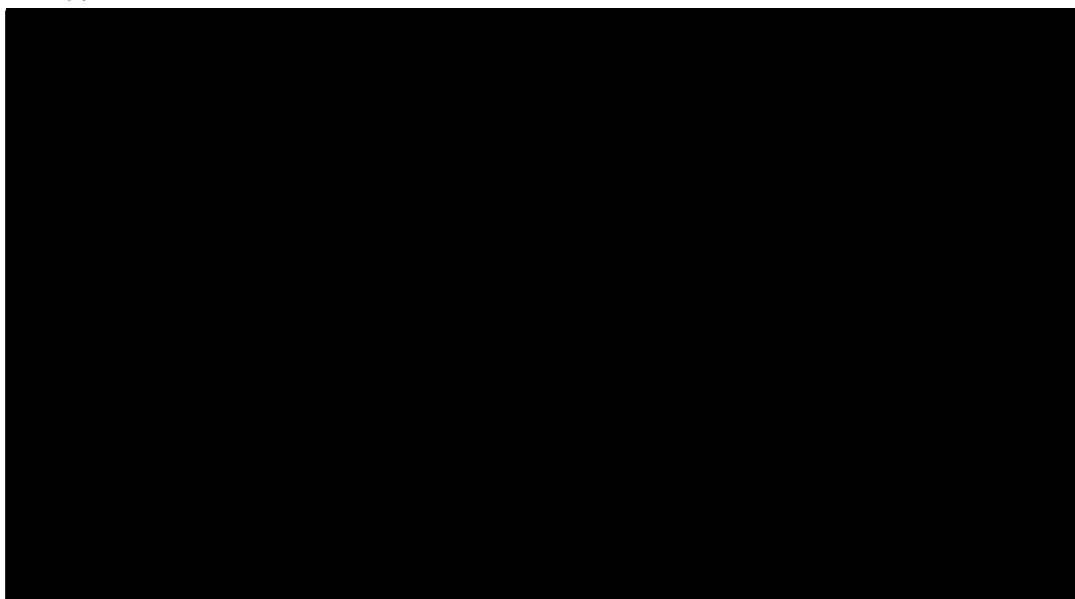
9.2 International transportation

45. Murray Goulburn ships products internationally from the ILC, GDC and GFDC.
46. Murray Goulburn does not formally contract with shipping companies to have its finished products shipped overseas. Rather, its enters into rates agreements for six month periods, after which Murray Goulburn is free to negotiate new agreements with the same or different companies. **[CONFIDENTIAL: Murray Goulburn's top ten shipping lines for the 2013FY by container number were:**



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47. In exceptional circumstances, Murray Goulburn transports products by air freight. This is an exceptional activity and is not a significant part of Murray Goulburn's operations. Murray Goulburn does not currently, and does not plan to, use air freight more commonly.
48. Asian destinations account for approximately 73% of sales of export orders by container number. Now produced and shown to me and marked confidential annexure **JWB5** is a table showing the top ten countries to which Murray Goulburn ships its products by container number.
49. The largest product group shipped overseas is milk powders. **[CONFIDENTIAL:** In the 2013 FY, the following volumes of product (by product category) were shipped overseas:



50. In addition to shipping from the distribution centres, Murray Goulburn also ships its bulk cheese exports directly from storage facilities at the manufacturing facilities in Cobram and Rochester. Shipping containers are sent directly to Cobram and loaded directly at the site. The shipping containers are then sent directly to the ships for loading.
51. The process of exporting a customer's order involves the following steps:
- (a) a customer's order will be processed through Murray Goulburn's ERP system;
 - (b) any export documentation required to ensure the order can be legally exported will be completed by Murray Goulburn personnel. This

Handwritten signature of Murray Goulburn.

documentation includes certificates of analysis, letters of credit and health certificates, among others;

- (c) a booking will be made on a ship and shipping containers will be ordered from shipping companies;
- (d) the shipping containers will be delivered to the distribution centre for loading;
- (e) The loaded shipping containers are delivered to the ship prior to the cut-off time for the ship.

Steps (b) to (e) above are undertaken by the export administration team.

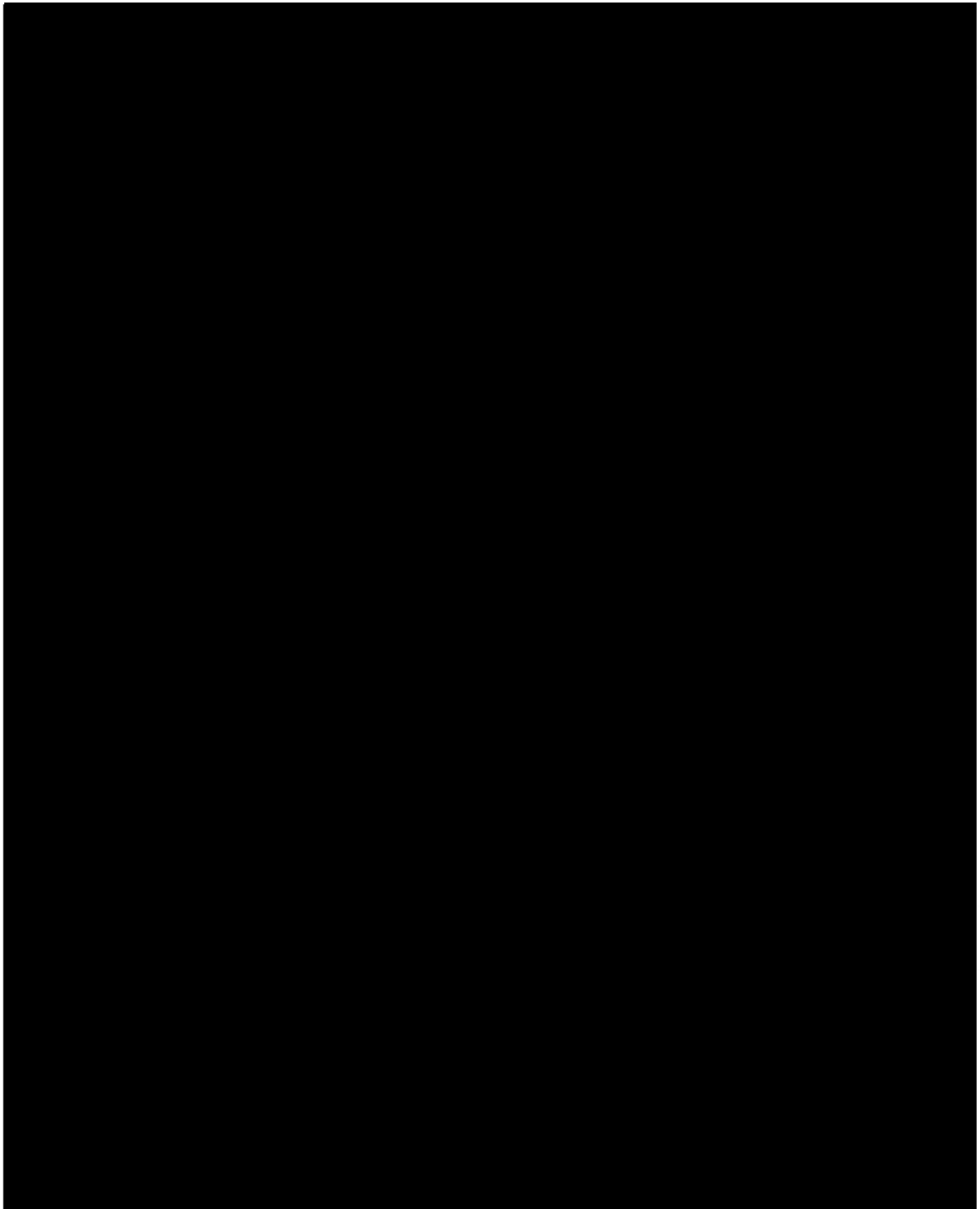
10 Efficiencies in transport

52. A number of factors may influence the efficiency of transporting products:

- (a) The product itself. Some products are more efficient to transport due to their packing ability and their density. For example, transporting UHT milk tends to be more efficient because it can be stacked on to a pallet very easily. As such, it is easier to have a truck fully loaded with UHT milk. Milk powders, due to their density, are also efficient products to transport. On the other hand, yoghurts and similarly packaged products are less efficient to transport due to stacking height issues (it is not possible to double stack pallets of yoghurt). Yoghurt is also a low density product. This means it is more difficult to optimise the space in a truck when transporting yoghurt.
- (b) Composition of the load. Mixed orders are less efficient to transport. This is because it is more difficult to load the truck fully. Under-loading a truck is inefficient because Murray Goulburn pays a fixed rate for truck loads.
- (c) Allocation of products to trucks. Murray Goulburn currently manually organises which products will be allocated to freight companies for delivery to customers. A sub-optimal allocation can affect efficiencies. If products that do not stack well together are allocated into the same truckload, this will lead to the inefficient haulage of product.



11 Transportation and warehousing costs



12 Barriers to entry

55. I consider that barriers to entry for new dairy companies in the area of logistics are low. This is because:

Inzant

- (a) anyone is able to access domestic transport and warehousing services and there are no shortages in the supply of these services. While Murray Goulburn currently owns the ILC and the GDC, it is not necessary for new entrants to build or own their own distribution centre, as these services can be contracted easily;
- (b) the freight vehicles and warehousing facilities used in the transportation and storage of finished products are reasonably generic. A new dairy company does not need access to any specialised equipment. The only requirements for vehicles and warehouses is that they be chilled or ambient as required; and
- (c) economies of scale are not required to transport or store finished products. In other words, new dairy companies do not need a certain amount of volume before they are able to seek transport or warehousing services.

56. In the area of exports, companies wishing to export their products must be licensed by the Department of Agriculture, Fisheries and Forestry and all premises must be registered for export. This process requires compliance with all the relevant regulations and standards which would be understood by anyone seriously entering the export business. There is also an amount of knowledge required to ensure that export documentation (such as certificates of analysis, letters of credit and health certificates) have been completed correctly. Based on my experience in this area, this is unlikely to present a meaningful barrier to entry for any new dairy company seeking to enter the market.

13 Synergies from proposed Murray Goulburn merger with WCB

57. I have been involved in the following restructures:


- (a) The restructuring of the logistics network following the formation of Bonland Dairies in 2003-5, which resulted in the consolidation of warehousing operations from five warehouses around the country into a single distribution centre based in Melbourne. The consolidation process involved exiting leased warehouses and shifting all products into a new facility.
- (b) The transition of Carlton United Brewery from a state based logistics network to a national logistic network. This required the merging and

restructure of transport and warehousing operations into a national structure.

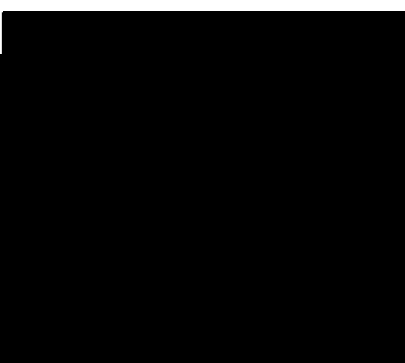
- 58. If I was involved in a post-merger integration with WCB, I would generally look to consolidate WCB's transport and warehousing operations with Murray Goulburn's transport and warehousing operations. I would build a network map, assess what the merged entity requires, identify areas of overlap and see whether there are any gaps in operations.

- 59. Based on my experience in logistics, and using the process of integration I just described, I would expect to see the following types of synergies in the area of transport and logistics of finished goods:

(a) **Reduced transportation costs.** 

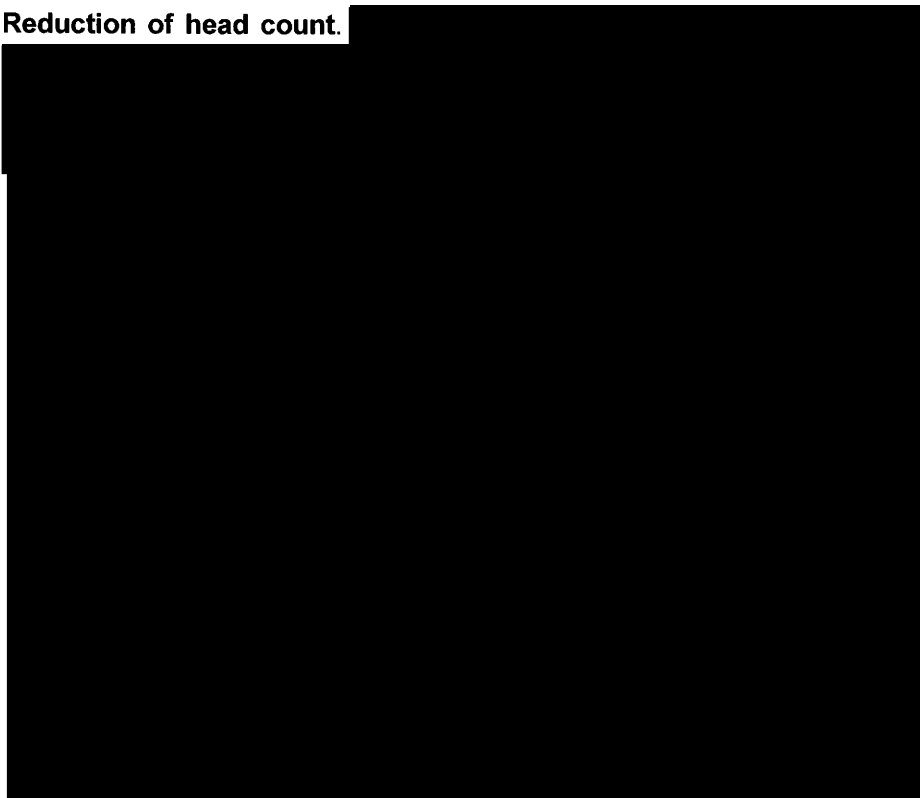
(b) **Reduced warehousing costs.** 

(c) **Increased efficiency in transportation of products.** 

(d) **Increased use of efficient technology.** 



(e) **Reduction of head count.**



60. I have been informed, by David Noonan, CFO of Murray Goulburn, that he has estimated that the likely synergies to be obtained in the area of transport and logistics departments as being between [REDACTED]. Based on my experience, this estimate of synergies is reasonable.

14 Synergies from proposed merger between Bega Cheese (Bega) and WCB merger

61. I understand that Bega has:

- (a) a distribution centre in Bega NSW;
- (b) third party operations around Strathmerton and in Cobram; and
- (c) facilities in Tatura and Coburg.

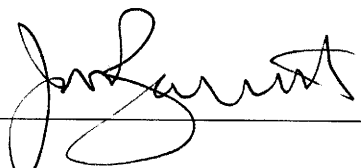
62. I expect Bega would look to absorb extra volume through its existing management structures and facilities, similar to what Murray Goulburn would do. As a result, there would likely be some synergies. However, as Bega's operations are smaller than Murray Goulburn's, any synergies would likely be correspondingly smaller. In addition, due to lack of geographical overlap, costs of consolidating warehousing functions may be offset by increased transport costs.

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15 Synergies from proposed merger between Saputo Inc (Saputo) and WCB merger

63. Saputo currently has no presence in Australia, and therefore will unlikely achieve any synergies in relation to transport or logistics.

SIGNED by John Barnett



on 28 November 2013