Submission: To the ACCC on Behalf the Wannon Branch of the UDV

Date: 27 February, 2017

Subject: Improving the Efficiency of Milk Haulage in South West Victoria.

At this time when every avenue to reduce dairy production costs must be fully explored, I respectively request the ACCC to consider the need for a detailed review of inefficiencies in the transport of milk from dairy farm to dairy factory and between dairy factories. The area proposed for review is South West Victoria and South East South Australia.

The cost of transporting milk is a significant cost. For example, at the Koroit factory of Murray Goulburn there are almost as many employed in transport as there are employed on the factory floor in the processing of dairy product. Similar numbers apply at all other large dairy companies in the region.

However, the cost of transporting milk from farm to factory and storing the milk on site at the factory is generally borne by the milk supplier, the dairy farmer. It is one of the largest costs borne by the dairy farmer. It ranges from $25,000 to $28,000 per million litres of milk produced. This is comparable with other large costs including the cost of fertilizer and the cost of engaging contractors on farms. However, unlike the cost of fertilizer and the cost of contractors, the milk haulage and storage cost is not one that we farmers can control or work to reduce because the milk haulage and storage system is owned and managed by whatever dairy company it is that we supply.

Furthermore, as the cost is not paid by the dairy company that owns and operates the milk haulage and storage system, but by the milk supplier through an automatic deduction from the supplier's milk payment by the company, and because the deduction is more or less the same for all suppliers no matter where they are located in relation to the factory they supply, certain economic inefficiencies arise. These include:

- The tendency for there to be less cost pressure imposed on the dairy companies operating the milk haulage and storage system than there would otherwise be if they were paying all the cost themselves.
- A consequent tendency for those operators not to explore the application of cost saving technology in the haulage and storage of milk with the same vigor they might have if they were shouldering the cost themselves
- A tendency for the milk haulage and storage system in a milk producing area like South West Victoria to become highly duplicated both in management and operational terms. For example, there are at least five separate dairy companies involved in transporting milk in South West Victoria. This means that haulage costs are greater than they could otherwise be for dairy farmers and dairy companies as well as for government and the environment, particularly in areas where the heavy use of milk tankers damages local road infrastructure.

- A tendency for road infrastructure in South West Victoria to be more costly to maintain than in other regions due to peak milk haulage periods in the region coinciding with high rainfall periods. Local Government funds the repair of local road infrastructure in the region through lifting rates and other charges that dairy farmers, dairy companies and other road users in the community are compulsorily required to pay

- A tendency for costs associated with the management of road safety risk to rise.

- A tendency for the inclusion of milk haulage and "volume" charge deductions in the farm gate milk pricing contracts to unduly complicate and make the milk pricing system less transparent.

- A tendency for the current arrangement to mean that the cost of transporting milk from remote areas is cross-subsidized by farmers closer to factories. This may be something dairy farmers and companies agree to continue with, but the cross subsidy should still be transparent.

- A tendency for anomalies to arise in milk testing and grading and in the measurement of milk volumes.

The highly duplicated and costly nature of the current milk haulage and storage arrangements is readily acknowledged by most dairy company managers in South West Victoria and in other regions. Some attempts have been made in other regions to rationalize the arrangements and reduce costs through "milk swapping" between companies and a sharing of milk pick up arrangements, although the benefits of these practices have been limited and are constrained by the different milk haulage protocols adhered to by the different dairy companies. Other proposals currently under consideration include the widespread introduction of Higher Productivity Vehicles to transport milk and the contracting out of milk transport operations to companies with transport expertise.

There is an urgent need to find a long term, sustainable, solution which will generate greater efficiencies in milk haulage in South West Victoria and produce significant cost savings for dairy producers on farm and in the processing sector while reducing the impact of milk haulage on roads and the environment.

This need is supported by the Wannon Branch of the UDV and by the statewide UDV body for implementation in South West Victoria. For more information you are welcome to call Craig Dettling, the President of the Wannon Branch, on 03 55784293 or 0429772206. The need for a review of the current milk haulage arrangements is also supported by local government in the region.

I request that the ACCC give serious consideration to this matter .

Dr Greg Walsh, Dairy Farmer and Regional Economist on behalf the Wannon Branch of the UDV.

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