I would like to start by commenting on the recent article in the weekly times regarding the surge in dairy imports to Australia due to the continuing decline in Australian production as farmers respond to financial pressures following the late season clawbacks by MG and Fonterra. This article clearly highlights that even after its performance here, Fonterra is benefiting from the situation by filling the space in the market with NZ product. This seems to be a disincentive to genuinely foster sustainable returns for farmers here when they indirectly profit from extra market access as production slumps here.

As a general comment, I am confused to the lack of attention by government and media to the fact that Fonterra stands to benefit from access to the Chinese market's demand for safe milk products when they had a 43% stake and active involvement in San Lu during the food safety crisis that has largely driven Chinese consumer's demand for product from other countries. This seems to be very anti-competitive when other companies that have had good food safety records have no real access advantage. This may not be directly relevant to Australia but Fonterra was allowed to continue trading with no consequences in this country and when we tried to clarify the details of the San Lu crisis at the 2009 meeting we were shut down and told that it was irrelevant to Fonterra's Australian operation. This, when they had lost 290 million with their China debacle.

Now if I can respond to some points in Fonterra's feedback response to the issues paper. I will go through my concerns in the order that the subjects occur in their paper.

On page 2 under milk pricing, Fonterra states it doesn't agree with banning step downs as this would lead to lower opening prices and step ups. -------There is no use in paying water, fodder and other input prices that are related to a high opening price if there is going to be a very late clawback. It just seems a mechanism for the company to not "wear" any downside to their market projections.

Under the heading of global markets, Fonterra observes that global prices hit a 10 year low last season.--------------Indeed the effects of dairy deregulation overseas and falling prices had been the main topic of cluster meetings since mid-2014 but the only thing a supplier can plan with is the quoted continuing price at the end of each meeting. Fonterra made comment a few times about prices bottoming out long before they did so that raises questions about their market awareness.

They also comment on Asian market access outlooks for Fonterra which relates to my opening points about San Lu.

On page 4 Fonterra states that they have exceeded matching MGs final milk price in 5 seasons out of seven.------- This is true but only by a cent or two /kg ms for a lot of those years. When you realise that 100,000kgs of milk solids at one cent is a thousand dollars this is just semantics. Last year was a larger margin but you would hope so after MGs performance.

On page 8, they mention their fixed based milk price option but they can't justify their performance by the difficulty of forecasting 12 months ahead in dairy prices, and then expect farmers to lock in a large portion of production when farmers are juggling predictions of water and fodder availability and price and the ever see sawing el Nino / la Nina weather pattern. This is once again anticompetitive and just removing more risk for them.

On page nine, Fonterra comments on Bonlac supply company being consulted in connection with farmer contracts. I would like the ACCC to take a look at the power imbalance in that situation. I don't think you will find many wins for Victoria in those dealings.

On page 10 under-price forecasting, cluster meetings are mentioned-----. As stated above there is always much discussion at these meetings on global issues but all suppliers can do is take home the ongoing commitment to milk price as stated that day. If the cluster meetings had been warned of a big step down in early '16 then the consequences of exposure to autumn pasture start-up costs and continuing levels of stocking rates could have been avoided and saved massive amounts of money across northern Victoria. Fonterra's reluctance to react to what they knew was true about Murray Goulburn was needlessly late. This is a repeat of their failure to rapidly respond to the San Lu situation. This will be a familiar pattern with the NZ government who was disappointed to their critically late responses to the china crisis. We have followed Fonterra's performance right back to when they were NZCDC and earlier when they were transitioning from the dairy board. The whole way through when it has mattered, Fonterra manages reactively and exacerbates market situations but never seems to incur any consequences and the farmer pays every time.

Finally I would like to voice my deep concerns about any possibility of Fonterra acquiring any controlling influence in Murray Goulburn via shares or any other means. Their performance with smaller competitors in NZ like Open Country Dairy Co-op based in Waharoa does not inspire any confidence of a good outcome for farmers in Victoria. They already have enough clout and as I stated in my opening remarks there is a window of opportunity for increased milk products from NZ if the Victorian industry shrinks further. This seems like a bet both ways kind of situation. We were disturbed to see reported in the media that Heather Stacey who was the former general manager of milk supply for Fonterra Australia was involved in the MG share float preparations. As queen of the "every farm is different" approach to obfuscating Fonterra's milk price in relation to its competitors, it does not bode well for her to be a key player in a major company reorganisation like MGs recent share float. It is interesting that MGs transparency to suppliers since the float mimics years of Fonterra's tactics.

97% of Dairy products produced in NZ are exported. Fonterra must be constantly scrutinized to the levels of NZ product entering the Australian packaging chain Bonlac with Mainland Cheese is a classic example of this – packed in Australia from NZ Product while the fire damaged Stanhope Cheese Factory was woefully late in beginning repairs.

Transparency – When Fonterra's Riverina Fresh Suppliers were given their opening price at the beginning of this season – they were sworn to secrecy as to what they had received. Matt Watt and Simone Jolliffe both confirmed on the ABC rural report that they could not divulge what it was because it was commercially sensitive. (That arm of Fonterra has since been sold to Blue River Investment Group)

$1.00 per litre. Both MG and Fonterra have the supermarket label milk contracts. They also both have branded label milk. At Fonterras July meeting in Echuca I asked Judith Swales if the boycott $1 p/litre milk had hurt the company and her reply was she couldn't deny that it hadn't however she stated that they had more than made up on the branded milk front. There has been a lot of talk about these products but it is the exposure to global markets that has been the major down fall of the claw back. However, it is not a good look milk being valued at less than bottled water and it clouds the perceived value of all other milk products in the supermarket dairy space. I feel that this can only have a downward pressure on the aggregated price paid to farmers. The domestic market is crucial to putting a floor on the minimum annual price paid.