ACCC Inquiry into the Australian dairy industry

SUBMISSION FROM

PORT CURTIS MILK SUPPLIERS CO-OPERATIVE ASSOCIATION LIMITED

10 DECEMBER 2016

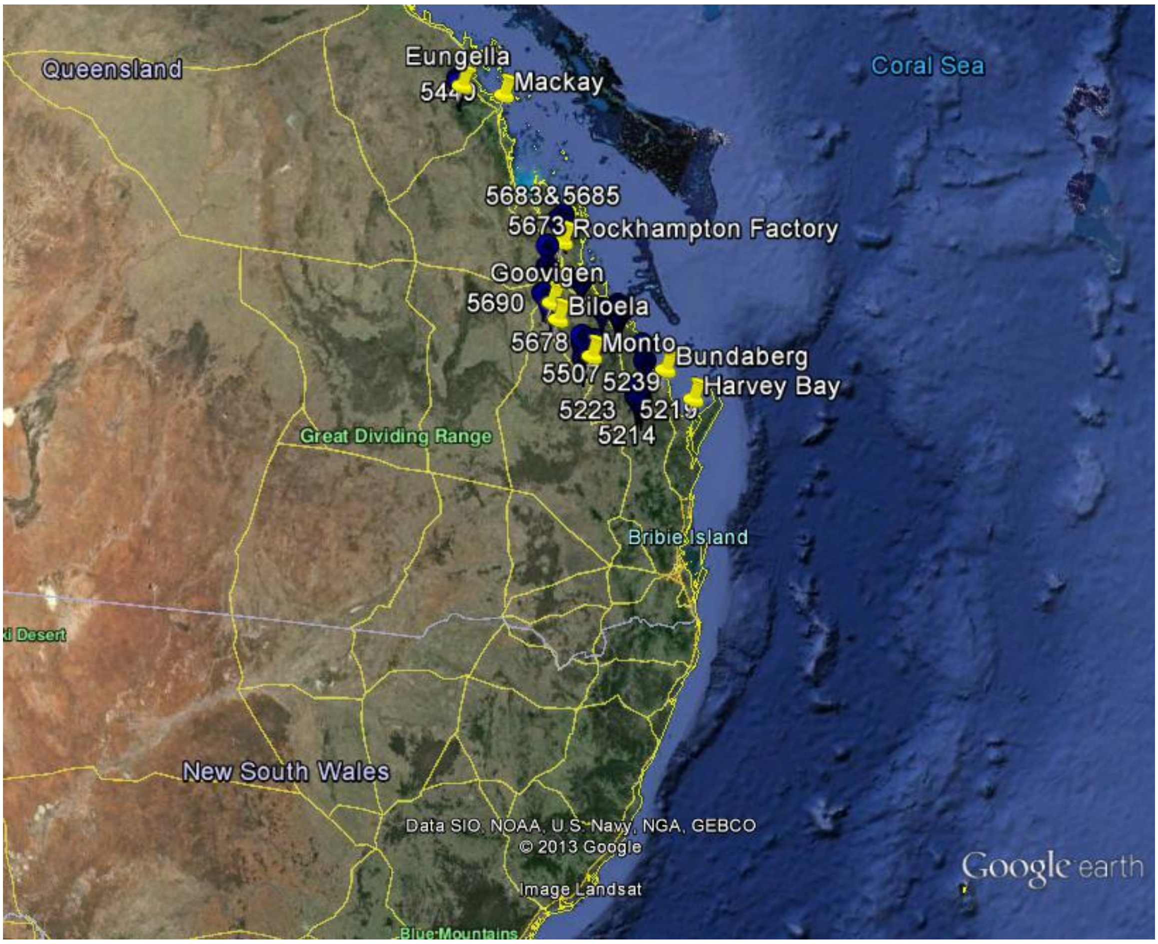
This page is left blank intentionally.

ACCC Inquiry into the Australian dairy industry

Contents

Background

The Port Curtis Milk Suppliers Co-operative Association Limited (PCMSCAL) is a group of 29 milk suppliers from Central Queensland. From Eungella in the north, to Gin Gin in the south, supplying milk under contract to Parmalat Limited.



The Queensland dairy industry has been in crisis since dollar a litre milk was introduced. We have been trying to get this message across to the Federal Government for some time now.

It is well documented that in the Northern region the market is failing due to the tactics employed by the major supermarkets and processors and the farm gate price paid to dairy farmers in Queensland has been less than the cost of production for the past four years when we are short of milk to meet market needs.

It is a major concern to Queensland suppliers that the Federal Department of Agriculture responded to a letter from one of our suppliers that "Since deregulation, Australia has developed a competitive and innovative dairy industry, which is outward looking and able to respond to the supply requirements of the domestic market and compete effectively on international markets".

If fresh milk was no longer produced in Queensland the ramifications for the state, from farmer, processor and consumer would be significant.

- Farmers have outlaid significant capital on buildings and infrastructure to produce milk to a standard required by the processors. The current investment thus far, level would amount to approximately $1.5B.
- Processing plants, transport companies will be shut down, employees losing jobs and communities suffering from the flow on effect. More than 3,000 Queensland jobs would be put at risk.
- The economic loss to Queensland would amount to some $250 million per year at farm gate and about $400M at factory gate and some $700M at retail value.
- Fresh milk will not be available in the western and far north of Queensland – UHT will be the only option. In some towns this scenario is already playing out. This scenario is already providing another advantage for major supermarkets stores over smaller independent retailers particularly in regional areas as major supermarkets use fresh milk as a loss leader at prices other cannot even get close to competing with.
- Consumers will be faced with paying more for fresh milk, which will have to be freighted in from NSW. Norfolk Island used to process their own milk. Now there are no dairy farms left. Milk is flown in from New Zealand and consumers are paying $7 a litre for fresh milk, $5 for UHT. Queensland may well have to source their milk from New Zealand.
- Ultimately Queensland consumers will be left with less choice, lower quality products and paying far more for it.

We see there is critical need to form a single Co-operative to enable fundamental change in the dairy industry that will see support for dairy farmers. Dairy farmers will no longer be 'price takers', and the co-operative will be in a position to sell milk to multiple entities at a nominated price.

The PCMSCAL Board has and will continue to lobby at a regional, state and national level for a single co-operative body to vest and market milk on behalf of Queensland and Northern NSW milk suppliers.

Issue 1 – Competition for milk

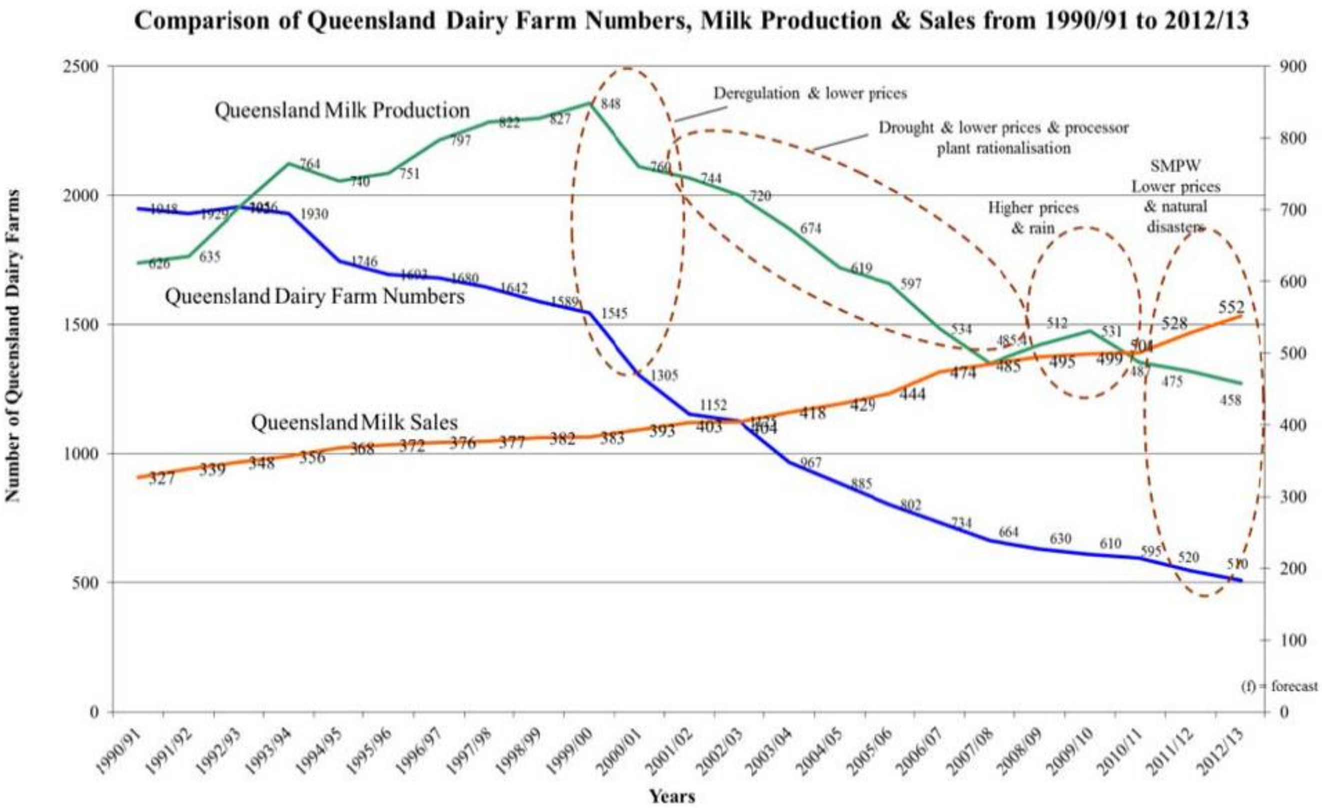
The ACCC would appreciate feedback on:

1. The level of competition between processors for the acquisition of milk, across regions
2. The ability of producers to switch between processors or other buyers.

There is no competition for fresh milk in the Central Queensland region. Parmalat is the only major supplier who contracts farmers with a tri-partite agreement between Parmalat, the Port Curtis Milk Suppliers Co-operative and the supplier.

The market is fresh milk only, and is processed locally in Rockhampton.

The real travesty for the Queensland industry is that Processors are freighting milk in from interstate and by the time it lands in Queensland is considerably dearer than the farm gate price our suppliers have been fighting for. The interstate milk is then taken out of the export market, so that the whole nation is then missing out on export income that could be made servicing those world needs.



3. **The ability of producers to switch between processors or other buyers.**

There are no other major processors in Central Queensland and as such there is no opportunity to switch between processors.

Suppliers are offered a financial incentive to sign a contract with the processor binding them to supply all milk produced on their farm to that processor. We find this to be a restriction of trade and many suppliers have no option but to sign the contract to get the extra c/l being under contract in order to survive in the industry just that bit longer.

Issue 2 – Contracting practices

The ACCC would appreciate feedback on:

1. The different types of supply contracts used across the supply chain and in certain regions
2. Concerns about anti-competitive conduct or unfair trading practices, including unfair contract terms.

Parmalat contracts farmers with a tri-partite agreement between Parmalat, the Port Curtis Milk Suppliers Co-operative and the supplier.

To date the Board have not received any information from Parmalat regarding pricing or contracts for 2017 as at 10th December 2016. It is next to impossible for suppliers to source loans when farm gate prices are not known for the coming year.

Collective bargaining has failed in Queensland.

Premium Milk Limited

Premium Milk Limited (Premium) is authorized by the Australian Consumer and Competition Commission (ACCC) to collectively bargain farm gate milk prices and milk quality standards with Parmalat Australia Ltd (formerly Pauls Ltd) on behalf of participating producers until 1 December 2015.

Parmalat and Premium entered into a Milk Supply Agreement to form a Milk Management Committee, comprising 3 representatives from Parmalat and 3 representatives from Premium.

The Milk Management Committee are required to meet not later than one month prior to the commencement of each supply period (usually a calendar year) and at such times as the members of the Committee agree, for the purposes of –

- Negotiating the prices to be paid by Parmalat to producers for milk,
- Determining relevant milk quality standards and
- Determining volumes of milk required from producers.

If the Milk Management Committee has not agreed on milk prices for a relevant supply period, there is provision in the Milk Supply Agreement for an independent expert to determine the matter.

The Port Curtis Milk Suppliers Co-operative Association Limited had an Independent Director and Observer attend the Premium meetings for 8 years to 2013.

Our representatives on the Premium Board during those 8 years tried meeting after meeting to fight for a better milk price but to no avail. Whatever Parmalat put on the table was been accepted - no consultation with other Premium Board members prior to Milk Management Committee meetings.

The representatives on the Milk Management Committee have failed their suppliers by not representing their suppliers and fighting for a better milk price.

In November 2013 Port Curtis resigned from the group.

The Board understands that Premium Milk Limited did not accept a proposed price drop for 2016- 2017 from Parmalat and have threatened to go to arbitration.

Issue 3 – Transparency and price signals

The ACCC would appreciate feedback on:

1. How farmgate milk prices are set and communicated to producers
2. The availability and use of meaningful global market information and price signals across the industry, including by dairy farmers.

As at 10 December 2016 the Port Curtis Board has received no communication from Parmalat with regard to contracts and pricing for 2017.

The 2017 Handbook outlining rules, penalties and pricing has not been negotiated.

We are at the behest of the Processor with regard to pricing.

The negotiation process

In November 2012, Parmalat met with the PCMSCAL Board and delivered the message that the average price to be paid for supply from the Port Curtis Milk Co-operative from 2013 would be 54c per litre (ex GST).

The average price paid to Port Curtis suppliers in 2011/2012 was 58.26c litre.[1] (ex GST).

The average price paid for milk in January 2013 was in fact 51.86 cents/litre (ex GST).

Total cash cost of production in Central Queensland was calculated to be 60.92c[2] per litre, and the total cash cost with provisions for education, retirement and contingencies at 64.22c per litre. At a farmgate price of 64.22 cents/litre the return on Assets would be 5%.

The actual average net farm income for Central Queensland suppliers was -2.5 cents per litre, and a Return on Equity (RoE) of -1.2%. [3]

In the Parmalat Interim Report on Operations at September 30, 2013 it is reported that Parmalat Australia reported an "**increase in profitability (from 5.6 to 7.3%), thanks mainly to a lower purchase price for raw milk**, a focused sales policy and the positive effect on overheads of +18.9%."[4]

[1] Figures supplied by Parmalat.

[2] Calculated by Graeme Busby, Independent Dairy Consultant

[3] Calculated by Graeme Busby, Independent Dairy Consultant

[4] Parmalat Interim Report on Operations at September 30, 2013 http://www.parmalat.net/attach/content/4264/Interim%20Report%20on%20Operations%20at%20September%2030,%202013.pdf

In comparison, a dairy farm in Central Queensland supplying milk to Parmalat has had a reduced income by 7%[5] on average, whilst input costs have continued to increase through floods and droughts over the past 12 months.

Milk demand has increased[6], production has decreased – simple supply and demand would suggest that the return for the product would increase. Port Curtis Milk Suppliers can attest that the price paid for milk has dropped by an average of 4.01 cents. It is a further insult to our suppliers to be offered an extra cent spread over the next three years if they commit to supplying all their milk to Parmalat for the next three years, knowing that they will be losing money on every litre of milk they produce. It needs to be noted that dairy farmers in Central Queensland currently have no alternative to supply milk to.

Queensland is a fresh milk state, the supermarkets dictate the price they will pay to the processor, the processor then dictates to the farmer what the farmgate price will be.

NO NEGOTIATION

A single co-operative body vesting and marketing milk on behalf of Queensland and Northern NSW milk suppliers will lead to fundamental change in the dairy industry. Producers will no longer be 'price takers', and the co-operative will be in a position to sell milk to multiple entities at a nominated price. Refer to Appendix 1 for our submission to the Farming Together Program to fund a feasibility study and cost benefit analysis for a single co-operative to market and vest milk in Queensland and Northern NSW.

Further, the concentration and abuse of market power, and the predatory tactics of the major supermarkets needs to be addressed by the Federal Government to ensure a fair and transparent freely functioning domestic market.

[5] Based on Parmalat supplied data

[6] Dairy Australia Milk Sales Statistics

Issue 4 – Domestic retail markets

The ACCC would appreciate feedback on:

1. The major supply channels for the domestic market, including major supermarkets and other retailers
2. The impact of $1 per litre milk on the industry. This includes information about the positive and negative impacts of private label product supply contracts.

a) Retail prices

The Australian grocery market is dominated by the two major supermarket chains, Coles and Woolworths. They have a combined market share in the total grocery market variously estimated at 55–80 per cent.

Their market share for drinking milk is somewhat lower, perhaps 50 per cent, reflecting the large numbers of milk bars and convenience stores which also sell milk. However the major chains still dominate the retail pricing of milk, as their 'deep pockets' would deter small local stores from starting a 'price war' for milk.

The major supermarket chains sell milk in two formats: 'generic' milk (also variously known as 'home brand', 'store brand' or 'private label' which usually carries the name of the supermarket selling it and 'branded' milk which usually carries the name of the processor.

Taking the common two–litre container of standard full cream milk in a major suburban supermarket, a typical price is around $1.75 per litre for a branded product and $1.25 per litre for a generic. Just over half of the milk sold in Australia is now generic

The labels on branded milk (and other branded products) tend to be more colourful and there is pervasive advertising, designed to create the impression that the branded milk is a superior product. Under questioning by the Committee, the processors and retailers, somewhat reluctantly, conceded that the branded and generic (full cream) milk were in substance the same product:

Prior to the repeal of section 49 of the Trade Practices Act 1974, corporations were prohibited from discriminating between buyers of goods of like grade and quality in relation to the price of those goods if that discrimination was of such a degree or a recurring or systemic nature that it would have the effect or be likely to have the effect of substantially lessening competition in the market.9 Section 49 was repealed in 1995; the view at the time being that price discrimination would still be able to be regulated under other provisions of the Trade Practices Act 1974.

b) Wholesale prices

The supermarket chains buy milk from the processors. The prices paid by the supermarkets, and consequently the profits earned by the processors, are quite different for branded and generic milk but, as noted below, both processors and retailers were reluctant to provide much information about the difference.

Supermarkets typically have tenders to determine from which processors they will buy the generic milk. The contracts typically run for two to three years.

The large supermarket chains generally prefer a single processor for each state or region, or perhaps even a single national supplier. Combined with there being only two major supermarket chains, this preference encourages consolidation within the processing sector as only large processors can credibly bid for the contracts and without any such contract half the drinking milk market is effectively closed to a processor.

The highest price processors can secure is limited by the supermarkets' ability to source milk from the next closest source of supply. The lowest price the supermarkets can extract is the marginal cost of producing milk. Where the price settles between these limits will depend on the relative bargaining power of the processors and the supermarkets.

The outcome of the tendering process is that the wholesale price for generic milk may be 20-40 per cent lower than for branded milk, and processors are less able to pass on cost increases to the supermarkets for generic milk than for branded milk.

Processors prefer to concentrate on making their own branded products, on which they earn much higher profits, and would not bid for a generic contract if it meant reducing production of the branded product.

As the retail markets increasingly move towards sales of generic milk, however, they may not be able to sell their whole production run as branded product and the generic milk contracts will become ever more important to them.

A Parmalat representative[7] indicated to the PCMSCAL Board that the contracts they enter into for the $1 a litre milk have a sustainability clause in them that the price paid to farmers from the processor is a sustainable price. The Port Curtis Board beg to differ that the price our farmers are receiving is not sustainable (we are down to 29 suppliers from 50 in 2010). All we ask for is a fair price for fresh milk!

c) Farmgate prices

On 26 January 2011, Coles Australia Supermarkets dropped the price of their store brand fresh milk by up to 33 percent per litre to $1.00 per litre retail. As a result processors have seen the market share of their own brands drop, along with their profitability and subsequently dairy farmers saw their income reduced by almost 20% and remained suppressed since that time.

Supermarkets can reduce the retail milk price by 33 percent to $1.00 in one day not because of adverse weather or over-supply or customer rejection, but because milk is identified as the number one driver of foot traffic through the supermarket and they can use fresh milk, as an everyday perishable dietary stable, as a sacrificial discount marketing agent. In addition though to seeking to attract more shoppers at the same time they are seeking to grow the market share and power of their own brand. This has been at the expense of proprietary brands, small retailers, processors and farmers profitability and ultimately less choice and higher costs for consumers.

Coles and Woolworths have been ruthless with the processors, forcing them to cut their prices, to switch to supplying house-brands, and so even cheaper products, and making it hard for their branded products to get shelf space or to compete on price. Worse still is the fact that Coles sets the price of all products on the shelf and they choose to discount their brand while leaving proprietary brands at the same price, giving their brand the ultimate unfair advantage, a predatory advantage. This same predatory impact has played out for small retailers and in particular in regional centres where the cost difference is even greater.

[7] Verbal Communication

The ACCC conducted industry-wide inquiries with dairy market participants including industry associations, milk processors, supermarkets and independent retailers to assess whether Coles is or has been in breach of the two predatory pricing provisions of the Competition and Consumer Act.

The act prohibits businesses that have substantial market power from taking advantage of that power for the purpose of eliminating or substantially damaging a competitor, preventing the entry of a person into a market and/or deterring or preventing a person from engaging in competitive conduct in a market.

"Price cutting, or underselling competitors, does not necessarily constitute predatory pricing. Businesses often legitimately reduce their prices, and this is good for consumers and for competition in markets," Mr Samuel said.

ACCC inquiries revealed evidence that Coles' purpose in reducing the price of its house brand milk was to increase its market share by taking sales from its supermarket competitors, including Woolworths. However specific complaints to the ACCC about the predatory nature of store brand discounting against proprietary brands has to date not been answered.

The move on milk prices was launched by Coles on Australia Day and, although welcomed by shoppers, was met with anger by dairy farmers fearful for the future of their industry and profits and some politicians, especially those representing farmers and rural Australia.

"As to the relationship between dairy farmers and milk processors, it is the case that some processors pay some farmers a lower farm gate price for milk sold as supermarket house brand milk.

"However on the evidence we've gathered over the last six months it seems most milk processors pay the same farm gate price to dairy farmers irrespective of whether it is intended to be sold as branded or house brand milk," Mr Samuel said.

It is now plainly clear, as requested by the QDO in 2011, that this investigation should have been ongoing as the impacts have continued and accumulated over the last five years.

Dairy Farmers unhappy with ACCC milk ruling[8]

ABC NEWS - Laura Hegarty

Posted Mon 25 Jul 2011, 1:30pm AEST

The Queensland Dairyfarmers' Organisation (QDO) says the consumer watchdog has failed to realise the long-term impacts of Coles reducing milk prices.

The Australian Competition and Consumer Commission (ACCC) found the supermarket chain has borne the cost of reducing the price of its own milk brand and shoppers have benefited. QDO president Brian Tessmann says the ACCC's decision is short-sighted and has not taken into account the flow-on effects of the price war.

"At farm gate, a lot of the impacts are yet to flow through down the track if damage is done to the dairy industry," he said. "Milk, in places such as Queensland, has to be more and more brought in from southern states, the impact of that which will obviously drive up prices in the shops that will be bad for consumers. "We think the conclusions they came to are short-sighted and really lack supportive evidence and simply wrong.

"I think the ACCC has simply sat there with their eyes shut and their fingers in their ears and pretended nothing was wrong when there obviously is."

With producer driven increases in branded milk sales* (see below) the bottom line for processors has increased, but the suppliers are still being slugged a farm gate price drop – appalling.

In May 2016, farmers started a “buy branded milk” campaign to encourage consumers to supported branded milk rather then $1/litre milk in support of farmers.

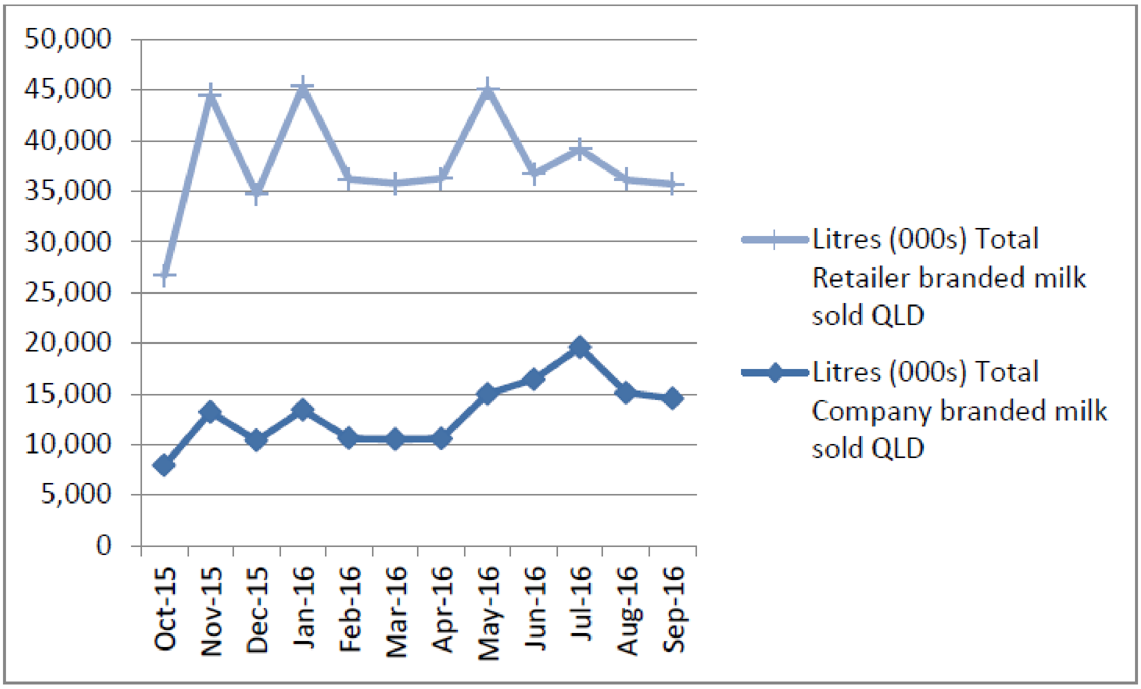
Dairy Australia figures below support the fact that consumers will pay more for milk to help struggling farmers.

The disappointing fact is that the processor is planning to drop the price paid to the farmer anyway, even though their branded sales have increased!

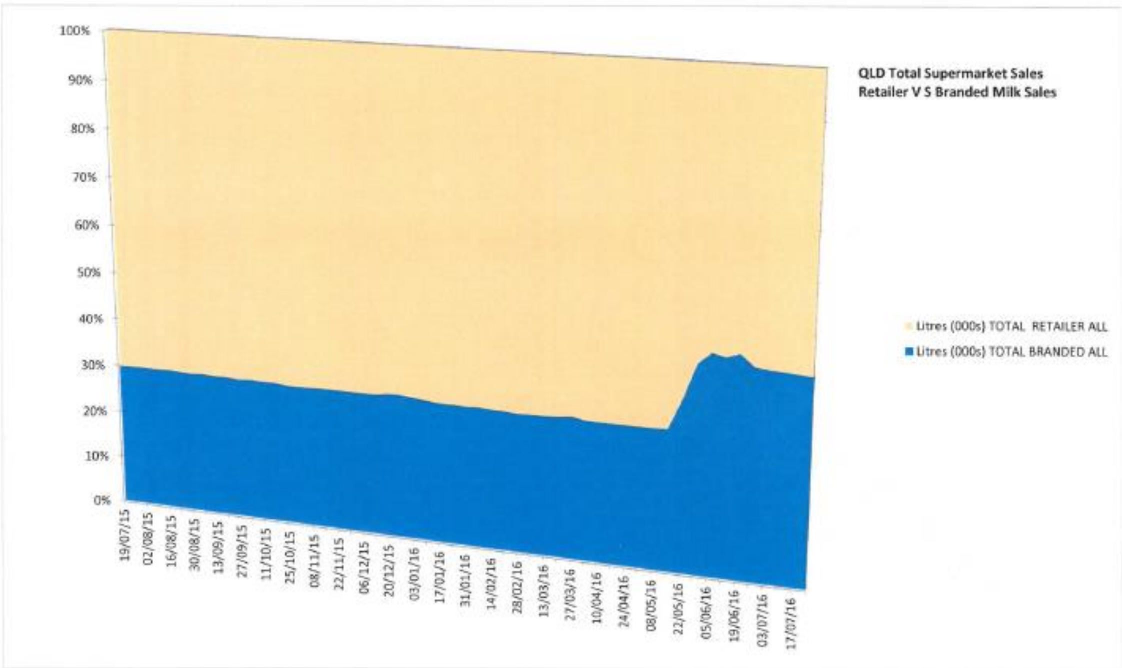
[8] Dairy farmers unhappy with ACCC milk ruling - ABC News (Australian Broadcasting Corporation)

http://www.abc.net.au/news/2011-07-25/dairy-farmers-unhappy-with-accc-milk-ruling/2809272[2/03/2014 9:26:24 AM]

QLD Milk Sales – Retailer branded Vs Company branded



***Data provided by Dairy Australia.**



A clear pattern was established that consumers were prepared to pay more for branded milk sales to support struggling farmers.

Representatives of the Port Curtis Board met with Hon. Barnaby Joyce in March 2014 to voice our concerns about the future of the Queensland Milk Industry.

An outcome of that meeting was that we had a meeting with Coles and they agreed to sell a local fresh milk branded label for us in Central Queensland.

Parmalat verbally agreed to pack a local label for the Co-op to sell through Coles, however 6 months down the track senior management reneged on their decision.

Our suppliers could have had the opportunity to supply a local product that would allow them to receive a premium for their milk and as such a higher farm gate price. Again, we were powerless to proceed.

Issue 5 – Global markets

Our milk is used for local fresh milk consumption.

Issue 6 – Production costs and profitability

The ACCC would appreciate feedback on:

3. The key factors influencing the profitability of dairy farms, including costs of production.

When providing feedback, you may wish to comment on:

- Alternative income streams, including income from the sale of livestock. This includes information about:
    - the ability to switch between income earned from dairy and other sources
    - any barriers to supply channels for the sale of livestock.
- Any significant issues concerning the supply of inputs
- The level of competition between producers, including the factors that influence processor decisions regarding which farms they acquire milk from.

Dairy cow numbers through the saleyards have increased over the past few years, a result of increased beef prices and lower dairy returns.

The high saleyard prices for cows has been a saving grace for Central Queensland dairy producers.

Stats supplied by MLA - Dairy sale numbers to abattoirs

State	Victoria
SalePrefix	DA

Sum of Head	Column Labels			
Row Labels	0-400	400-520	520+	Grand Total
2013	5,006	19,773	29,179	53,958
2014	4,409	17,134	34,780	56,323
2015	7,182	25,310	49,970	82,462
2016	7,428	20,075	35,666	63,169
1	566	1,824	2,802	5,192
2	733	2,556	4,859	8,148
3	1,120	2,835	5,564	9,519
4	1,001	2,726	4,814	8,541
5	1,456	3,620	7,110	12,186
6	1,512	4,002	6,594	12,108
7	1,040	2,512	3,923	7,475
Grand Total	24025	82292	149595	255912

Graeme Busby, an Independent Consultant was engaged by the Board to calculate the cost of production for milk suppliers in Central Queensland and his calculations are detailed below:

Estimated Returns and Production Costs for Central Queensland Dairy Farms

Table 1. Shows the 2015-16 annual farm production in 200,000 litre increments.

Annual Production per Farm	Number of Farms in the Group
<400 000 litres	11
400 001 to 600 000	7
600 001 to 800 000	3
800 001 to 1 000 000	3
1 000 001 to 1 200 000	2
1 200 001 to 1 400 000	1
1 400 001 to 1 600 000	0
1 600 001 to 1 800 000	3
Total farms	30

Analysis of this data is shown in Table 2. The top 8 farms in production produced 52.5 percent of Central Queensland milk in 2015-16.

The annual production was 20 053 346 litres from 30 farms giving a farm average of 668 445 litres in 2015-16. The production systems used in Central Queensland are a) Grazing and Grain and 2) Partial Mixed Ration (PMR).

Table 2. Top 8 Farms Annual Production.

Farms	Annual Production
1	971 818
2	995 971
3	1 096 588
4	1 150382
5	1 214 674
6	1 670 060
7	1 684 499
8	1 751 224
Total for the 8 farms	10 535 216

The amount paid to suppliers per month is shown in Table 3. This amounts to $0.65 cents per litre or 59.5 cents per litre ex GST.

Table 3. Income per month paid to the CQ suppliers group in 2015-16.

Month	$ per Month
July 15	$1 157 516
August	$1 164 578
September	$1 170 351
October	$1 188 514
November	$1 116 638
December	$1 075 844
January 2016	$1 038 431
February	$1 037 172
March	$1 094 590
April	$1 015 702
May	$1 024 466
June	$1 019 939
Total for 2015-16	$13 103 74

Two scenarios are shown to indicate production costs on the two operating systems ie grazing and grain and the PMR system.

Table 4. Assumed Asset and Liability Structure.

	650 000 litre farm (Grazing farm)	1 200 000 litre PMR farm
Land and buildings	$916 500	$1 800 000
Stock	$240 500	$408 000
Plant	$104 000	$228 000
Other (Inventories etc)	$143 000	$132 000
Total	$1 404 000	$2 568 000
Average cows	130	200
PPC (litres)	5 000	6 000
Investment per cow (Approx)	$10 800	$ 12 840
Depreciation allowance	$10 400	$22 800
Assumed interest paid	$20 358	$ 37 236

- Loan details – All in one account – interest only.

Assumed Returns and Expenses (Milk and Dairy Cattle Only)- 2015-16 – All information ex GST.

Production	**Grazing and Grain (650 000 L)**		**PMR (1.2 million litres)**	
	c/L	**Total $**	**c/L**	Total $
Farm Receipts (Cash)				
Milk	59.5	386 750	59.5	714 000
Cattle sales	4.6	29 900	4.7	56 400
Other	1.0	6 500	1.2	14 400
Total Farm Receipts	65.1	423 150	65.4	784 800
Cash Costs				
Purchased feed	23.0	149 500	24.2	290 400
Fertiliser	3.2	20 800	3.0	36 000
Fuel	1.3	8 450	1.6	19 200
Seed and ag chemicals	1.0	6 500	1.3	15 600
Irrigation	1.0	6 500	1.5	18 000
Hay and silage making	1.4	9 100	1.8	21 600
R and M	2.0	13 000	2.2	26 400
Other feed costs	0.1	650	0.1	1 200
Feed Related Costs	33.0	214 500	35.7	428 400
Animal Health	1.5	9 750	1.7	20 400
Herd Improvement	0.8	5 200	0.5	6 000
Herd Costs	2.3	14 950	2.2	26 400
Dairy Electricity	1.1	7 150	1.1	13 200
Dairy Chemicals	1.1	7 150	1.1	13 200
Shed Costs	2.2	14 300	2.2	26 400
Other Variables				
Milk Levies	0.352	2 288	0.352	4 224
Stock selling costs etc	0.3	1 950	0.3	3 600
Other variable costs	0.652	4 238	0.652	7 824
Total variable costs	38.2	247 988	40.8	489 024
Administration	2.3	14 950	1.9	22 800
Wages (paid)	3.9	25 350	6.3	75 600
Interest	3.1	20 150	3.1	37 200
Owners labour	6.6	42 900	5.7	68 400
Admin/wages/interest/cost	15.8	103 350	17.0	204 000
Total cash cost of production	**54.1**	351 338	57.8	693 024
Receipts less costs	11.0	71 500	7.65	91 800
Non cash cost				
Depreciation	1.6	10 400	1.9	22 800

- This table may contain small rounding errors.
- The above calculation results in an operating profit margin (OPM/Cow) range of $530 to $625 per cow and an RoA (Return on Asset) range of 4.1% to 5.6%.

Note that it is an accepted fact that production costs in Central Queensland are 3-5c/litre higher than in South East Queensland.

Appendix One – Funding Sought through Farming Together Program.

Draft Terms of Reference for Preparation of a Feasibility Study and Business Plan for a Single Co-operative to market and vest milk in Queensland and Northern NSW.

BACKGROUND

The Queensland State Government, through the Queensland Agriculture Strategy 'A 2040 vision to double the value of production', and Dairy Australia's 'Northern Australia Dairy Industry Strategic Plan 2010 – 2015' outline the targets to double Queensland's food and fibre production by 2040, and enhance the adaptive capability of the dairy supply chain to improve farm margins and growth opportunities.

There are less than 430 dairy farms left in Queensland (down from 648 in 2009/101), and it is predicted that there will be a shortfall of more than 140 million litres of milk that will have to be freighted in from other states. [9]

While regional milk production has continued to decline, the regional fresh milk market has continued to grow slightly above population growth during the 2012/13 year. Packaged milk sales increased by 3.38% from 531 million litres in 2011/12 to an estimated 549 million litres for the 2012/13. This represents a shortage of 91.5 million litres of Queensland produced milk to meet the Queensland drinking milk market demand in the 2012/13 year. [10]

The real travesty for the Queensland industry is that Processors are now freighting milk in from interstate and by the time it lands in Queensland is considerably dearer than the farm gate price our suppliers have been fighting for. The interstate milk is then taken out of the export market, so that the whole nation is then missing out on export income that could be made servicing world demand.

GOAL

The goal of this project is to develop a Business Plan incorporating a Feasibility Study into the formation of a single co-operative to market and vest milk on behalf of suppliers in Queensland and Northern NSW.

SPECIFIC OBJECTIVES

This Project involves the completion of a feasibility study into the formation of single co-operative to market and vest milk and production of a Business Plan based on the results of the feasibility study.

[9] Dairy Australia

[10] Dairy Australia

DETAILED TERMS OF REFERENCE (TOR)

Prepare detailed documents including:

1. **Feasibility Study** with recommendations outlining the options for setting up a single co-operative to market and vest fresh milk on behalf of suppliers in QLD and Northern NSW;

The Feasibility Study will include:
i. A detailed literature review of single co-operatives used to market agricultural products in Australia.
ii. Details of co-operative models that would suit the milk industry.
iii. Determine likelihood of suppliers joining the single co-operative, the number of members required, the volumes of milk required.
iv. Determine likelihood of Processors sourcing milk through a single co-operative or sourcing suppliers directly.
v. The processes by which a new co-operative can be formed including but not limited to best practice model for structure, legal entity approvals required, stakeholder consultation and logistics.

2. **Benefit Cost Analysis** on the implementation of the recommendations of the feasibility study including different Co-operative models. Variables include but not limited to differing milk volumes, cost differences between sites, lease versus purchase of tankers (assuming contract haulage is not available), as well as the possibility of purchasing a mixture of new and second hand plant and equipment.

3. **Business Plan** including workplan, timeline, assumptions and constraints, Disclosure Statement, relevant Government Policy, Legislation and Rules.

The Business Plan will:
i. Detail the process to form the co-operative based on recommendations from the Feasibility Study.
ii. Analyse and compare different options (basic SWOT with Stakeholder Committee). Determine likelihood of raising funds from an acceptable source,
iii. Identify distribution options and possible marketing options, logistics of vesting milk.
iv. In conjunction with Stakeholder input, develop detailed list of required plant and equipment (if required) including refrigerated trucks. Compare options for new and second hand plant equipment and trucks. Identify potential contractors (recommended by current operators) able to commission plant and equipment.
v. Prepare detailed financing plan (showing revenues, costs, potential sources of debt and equity financing) for a three year period.
vi. Market development strategies required based on enterprise capacity and production. Include any development proposals for alternative market options, key market assumptions for production, price and product specification. Also include any identified risks and management strategies.