

Big picture focus for 2014 State election

The UDV continues its work developing a comprehensive strategy for next year's state election. In conjunction with a VFF platform, the UDV is highlighting the importance of dairy to Victoria's economy and putting together priority areas to support the growth of the industry.

Increasing farm profitability is a key driver to industry success. For our election strategy this involves a comprehensive approach ensuring Government commits to funding for Research, Development and Extension to enable efficient systems pre-and-post farmgate. Government support to increase trade access and improve our global competitiveness is also needed to grow the industry and improve profitability.

We need skilled and experienced farmers to increase dairy farm productivity and profitability. With a skills shortage in both agricultural production and agribusiness in Australia, we need the government to help rectify this issue through funding to boost the growth that will enable a doubling of production by 2050 that is so often quoted. Victoria accounted for 86% of the value of Australia's dairy exports. We are asking



for more recognition of Victorian dairy, one of Victoria's largest export commodities, for specific in-market support through the Victorian Government Business Offices in Kuala Lumpur, Jakarta and in Melbourne to help Victorian dairy gain a foothold in South East Asian markets.

Access to reliable and functional infrastructure is also vital to a successful dairy industry. We must be proactive to ensure Government prioritises dairy, Victoria's largest rural industry, to ensure it can continue to function and grow. This includes road and bridge upgrades to

support a rationalised milk transportation system, a safe and secure water supply that can support competing needs such as a growing population, competing industry usage and a vibrant dairy industry, electricity supply that is reliable and prioritised, and a regional telecommunication system which can support business needs.

The UDV intends to deliver detailed dairy industry data into specific packages of information developed for each of the electorates where dairy farming occurs so that our politicians and would-be politicians understand the value dairy to our economy.

2014 UDV Annual Meeting and Conference

The UDV will hold its Annual Meeting & Conference for 2014 in the AFL Members Dining Room at the MCG on Wednesday 26th March & Thursday 27th March 2014.

Business of the UDV Conference will include

- Elections for UDV President and Commodity Council Representatives for Regions 2,4,6,8 & 10
- Discussion on key Conference topics of milk price structures, the relevance & future of farmer organisations, new farmer finance and the upcoming State election.

All resolutions to debate at the 2014 UDV Conference and Office bearer nominations should be submitted to the office of Graeme Ford, Chief Executive Office of the VFF by no later than close of business (5pm) on Friday February 14th 2014.

Nomination forms are available by request and will be available on the website early in the New Year.

Please contact the UDV office on 1300 882 833 if you require any further information.

End of Year Dates to Note

The offices of the UDV and the VFF will be closed from Tuesday December 24th 2013 at 2pm, and will be re-open at 9am on Thursday January 2nd 2014.

Members of the UDV Policy Council and the staff of the UDV wish you and your families a very Merry Christmas and a safe and prosperous New Year.



Bovine Johne's Management Review

A review of the Bovine Johne's Disease (BJD) Test and Control Program (TCP3) is about to begin.

This comprehensive review will analyse the effectiveness of current strategies available for on-farm management, looking at drivers and impediments to participation, and an analysis of 'value for money' at herd and state level. The study will develop a range of strategies for managing BJD detailing specifications, strengths and weaknesses, and economic analysis. Recommendations for on-farm management strategies for BJD in infected dairy herds in Victoria will be detailed, with a plan of implementation as well as recommendations for Research, Development and Extension projects and activities to enhance BJD management in Victoria.

A vaccination program is one potential outcome from the review; this could mean a compulsory involvement of all dairy herds.

The UDV has been supportive of having a funded program to assist farmers control BJD. It is widely known however



that there are a number of issues with the current program leaving participating farmers frustrated. Issues raised have included the unreliability of the ELISA test and the perceived lack of progress once on the program. The voluntary nature of the program has been described to disadvantage participating herds, for herds with a no BJD status have free access to markets although their status is unknown.

The UDV will be holding regional meetings to involve as many people in the review as interested. If you have been involved with the Test and Control Program we welcome your feedback. You can contact the UDV office on 1300 882 833 or email UDV Policy and Project officer, Yaelle Caspi at ycaspi@vff.org.au.

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Cheeses, What an Idea

Roads in a US city will soon smell like cheese under plans to keep surfaces ice-free for winter traffic.

Milwaukee, a city known for its cheese production, will become the first major urban area to cover its streets with a cheese brine solution.

The liquid, a by-product of cheese making, would be mixed with rock salt.

The cheese brine is expected to work better than traditional de-icing agents because it has a lower freezing point.

It is also considered an efficient "pre-wetting" agent, helping ensure the salt doesn't bounce off the road and go to waste.



Size Does Matter A Globally Competitive Australian Owned Manufacturing Sector is the Key

The dairy industry has been at the centre of significant scrutiny in recent months with the three way bidding war for control of Warrnambool Cheese and Butter (WCB). At the time of writing it is unclear how this situation will evolve.

The UDV has been active through this period promoting the voice of farmers. Essentially there are two reasons for this.

Firstly, this is not just an issue for shareholders. As Dr Jon Hauser from Xcheque told a meeting of 300 farmers at Warrnambool, farmers provide an estimated 90 per cent of the total industry investment in the milk production supply chain. That is an investment the UDV has represented through this process.

Secondly, the WCB assets are a significant part of the total industry production and therefore offer the successful purchaser an important opportunity to increase scale and improve efficiency. These opportunities are limited here in Australia.

The Australian dairy industry is worth \$13 billion to the economy and directly employs 43,000 people across rural and regional Australia. The UDV sees this takeover as critical to the future of the industry because it is one of the last three remaining Australian owned dairy manufacturers with a co-operative heritage, working in farmers' best interests.

The situation with WCB is unique in a number of ways:

1. three companies are bidding for the company
2. the three bids are of equivalent value
3. two of the bidding companies are Australian.

More commonly there is only one (often foreign) bidder leading the charge for an Australian company, or if there are multiple bidders, one of the bids is dominant.



UDV strongly supports the principle of Australian owned and operated manufacturing where dairy farmers own the companies and share in the profits along the supply chain.

Half of the dairy industry manufacturing assets are already controlled by some of the biggest international companies (Fonterra, Parmalat & Lion). UDV does point to the lack of growth of these companies in our market. Where is the investment in plant, products and people they promised? How has their involvement in our industry improved the situation for dairy farmers?

The ownership of WCB is not one of domestic competition. It is about our ability to compete on world markets for the **long term**. Half of Victoria's milk is exported as manufactured product. The price realised for this product sets the base for all Australian milk production.

The dairy industry is one of the few remaining which profitably value-ads locally. This profitability is underpinned by the ability of our export manufacturers to compete on the global dairy market.

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If the dairy industry is to deliver on the Government's own rhetoric around growth, based on supplying food for the growing Asian market, we must be able to consolidate the remaining Australian owned manufacturers. The existing fragmented, inefficient and sub-scale manufacturing sector is not delivering the efficiencies required for the industry to thrive.

Increasingly there has been industry discussion about the formation of a significant Australian owned dairy processor to deliver the long term environment dairy farmers need to be profitable.

The question, raised in last month's Hotline, is how important is it for the industry to create a globally competitive Australian owned manufacturing sector.

The easy thing to do is to dismiss the notion.

The dairy industry would benefit from an Australian company with the scale, the will and financial capacity, combined with the expertise, to generate improved revenue for farmers and shareholders. What is needed is a company that can invest heavily in the future, and a company that sees an opportunity to materially improve Australia's long term competitiveness in the rapidly growing global food market.

Again it is worth emphasising that two of the current bids are from Australian owned entities.

This is not an issue about domestic competition. Western Victorian dairy farmers can sell their milk to any one of six or seven different companies. The price offered to farmers by all processors, including Fonterra, Parmalat, Lion and many small artisan processors, is based around that paid by Murray Goulburn (MG). The presence of Saputo is not essential in this circumstance.

The UDV sees this as the last meaningful opportunity for the Australian processing sector to develop the scale and efficiency required to compete internationally. Our biggest export processor, MG, is not in the biggest 20 dairy companies in the world.

Central to UDV concerns is the fact that at a time when WCB shareholders are considering offers, the WCB board has advised shareholders not to consider the MG offer because of the uncertainty created by the length of time it will take MG to move through the Australian domestic competition regulatory system.

It is not correct to say that all companies are treated equally through this process if one of the Australian bids cannot be considered by shareholders. In this instance the Australian regulatory system is not just hampering one company in their quest to take over another. It is the view of the UDV that the long term viability of the Australian dairy industry is impacted here.

Australia's largest export manufacturer, a co-operative, owned and operated with the sole purpose of maximising returns to farmers from the export market, must be allowed to compete on equal terms with a foreign company in a bid to improve the dairy value chain efficiency for the benefit of farmers and the whole economy.

The government has announced a Competition Review. It is important and UDV will be involved. However, the timing of the review and subsequent implementation of the outcomes will be well after the WCB ownership is settled.

Our own regulatory framework is putting a handbrake on an Australian farmer owned co-operative that wants to take on the global food challenge on behalf of Australia.

Last Hotline asked how important is it to keep control of our manufacturing sector? Because farmers contribute 90 per cent of the total industry investment in the milk supply chain, maintaining control is very important.

How important is it for the industry to create a globally competitive Australian owned manufacturing sector? No matter the outcome of the WCB ownership that remains the bigger question.

WCB Bidding Timeline

- September 12** Bega Cheese makes an offer of 1.2 Bega Cheese shares plus \$2 cash for each Warrnambool share
- September 26** WCB board advises shareholders to reject the Bega's offer
- October 8** Saputo offers \$7 cash per share
- October 8** WCB board unanimously recommend Saputo's offer
- October 11** Bega Cheese submits supplementary bidder's statement
- October 14** WCB board issues statement stating that Bega's offer is neither fair nor reasonable
- October 16** WCB board unanimously reject Bega's offer
- October 18** Murray Goulburn offers \$7.50 cash per share
- October 18** WCB board advises shareholders to take no action on MG offer
- October 25** Saputo's second bid of \$8 cash per share
- October 25** WCB board unanimously recommend Saputo's offer
- October 29** Lion purchases 9.9 per cent stake in WCB
- October 31** Bega Cheese receives clearance by the Australian Competition and Consumer Commission (ACCC)
- November 1** Fonterra announces it has bought a 6 per cent stake in Bega Cheese
- November 12** Saputo receives Federal Government permission to bid for WCB
- November 13** Murray Goulburn increases its bid to \$9 per share
- November 13** WCB board advises shareholders to take no action on MG offer
- November 14** Bega Cheese increases its bid to 1.5 Bega shares and \$2 cash for each Warrnambool share
- November 14** WCB board advises shareholders to take no action on Bega's offer
- November 15** WCB requests a trading halt while it negotiates revised offer from Saputo
- November 15** Saputo matches the highest cash bid at \$9 cash per share and removes conditions
- November 15** WCB board recommends Saputo's offer
- November 18** WCB board sends letter to all shareholders recommending Saputo's offer
- November 25** Saputo increases offer to \$9.20 if more than 50 per cent of WCB shareholders accept the offer
- November 25** WCB board recommend improved and simplified Saputo offer
- November 27** Murray Goulburn lodge complaint with the Takeover Panel regarding Saputo's revised offer
- November 28** Murray Goulburn increases its bid to \$9.50 per share
- November 28** Bega Cheese entered an appearance to the Takeovers Panel in respect of Murray Goulburn's complaint



Comparing Milk Prices of the World

A question often asked in the Victorian dairy industry is how well the local milk price compares with our export competitors. The comparison will tell us something about the efficiency and effectiveness of our industry. It also tells us what milk price to expect if we intend to retain or grow our share of international markets. The conversion of international milk prices is a tricky business and the subject of much academic debate. The chart and data table shown here (Figure 1 & Table 1) provides the results of calculations by local dairy consultancy firm, Xcheque. This analysis takes account of differences in the seasonality of supply, currency, milk composition, and measurement units.

The Victorian milk price average is based on analysis of the DPI Farm Monitor data as well as the actual price models for various processors. It is representative of farms with 200 – 350 cows and a supply curve that matches the regional average. Typically this is close to the average price for the Western District. Because of differences in seasonality of supply, Northern Victorian farms generally receive a little more than the average, Gippsland a little less.

Comparison prices have been provided for Fonterra New Zealand and the United States. The calculation for Fonterra is based on the "Farmgate Milk Price". This excludes dividend payments associated with their factory shares. The US Class IV milk price is set by government regulation. This is based on the US market price for skim milk powder and butter. These products have the closest alignment of price with international markets and are the major US dairy exports. For reference the US "All Milk" price has also been provided. This is a calculated average for all US dairy products. Unlike the US and NZ, there is not a central reference for milk price in Europe. US prices are however a reasonable guide to where European milk prices will trade.

The data shows that in the past 6 years Oceania has closed the gap on northern hemisphere milk prices. This is a direct result of the reduction, and now removal, of European export subsidies for dairy commodities. Xcheque's calculation of this effect is shown in Figure 2. Apart from a brief return to subsidy during the Global Financial Crisis, the effect has been small or non-existent since 07/08.

This analysis shows a very close alignment of milk price between Victoria and New Zealand. Generally NZ will do better when international commodity prices are high and Victoria will do better when they are low. This is because of the buffering effect of our domestic market. Despite the improvement of recent years, Oceania still comes up short of the US Class IV milk price. In part this is attributable to the restrictions on imports to the US, Europe and elsewhere. The US and Europe do however have additional advantages in scale and a relatively flat milk supply. This gives their ingredient factories an operating cost efficiency that can only be matched by the very large scale of New Zealand's milk powder driers.

Xcheque's analysis of local and International market data suggests that



Figure 1: Estimated annual milk price for Victoria and our export competitors. The Victorian milk price line is also a rough proxy for the whole milk powder price shown on the right hand axis.

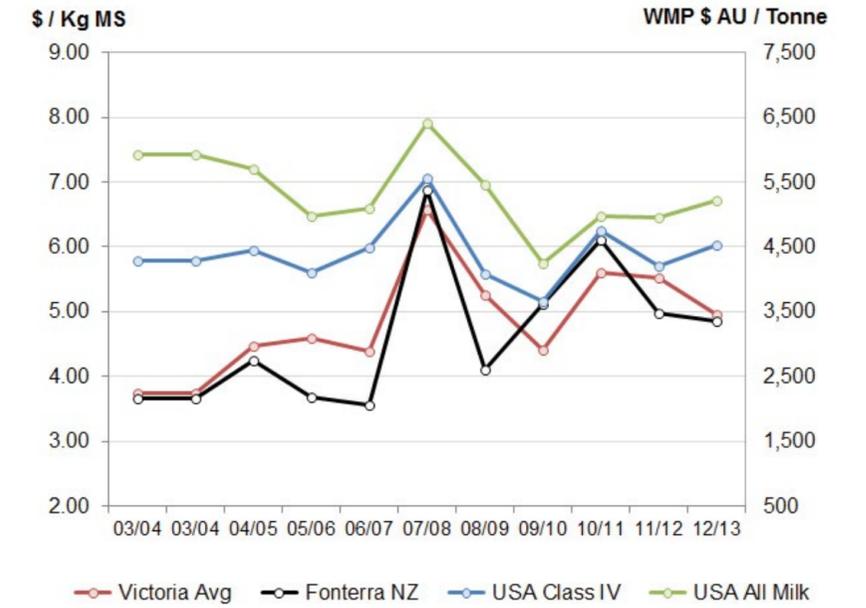


Table 1: Estimated milk prices for the past 6 years

\$ / Kg MS	07/08	08/09	09/10	10/11	11/12	12/13	Average
Fonterra NZ	6.87	4.10	5.11	6.10	4.97	4.86	5.34
Vic Average	6.57	5.26	4.41	5.61	5.51	4.95	5.39
USA Class IV	7.07	5.58	5.15	6.25	5.70	6.02	5.96
USA All Milk	7.92	6.95	5.75	6.47	6.45	6.71	6.71

Figure 2: Estimated impact of European export subsidies on Oceania milk price.

