

Bernhard Lubitz, Leongatha dairy farmer

The question is why the Australian dairy Industry has gone down the path of pushing its farmers into flattening their milk supply curve when there is no real need to and has this now gone too far? And has it been at the expense of on farm operating costs that are no longer competitive with New Zealand. This is a situation that farmers and the industry need to address because I don't believe the processors will have the ability, or the will to fund these higher on farm operating costs with higher milk prices, putting the Australian industry at great risk.

Is pricing clarity the real problem as the UDV and ADF are indicating and is it enough to improve farmer returns? Does the MG milk payment structure truly reflect the product mix it presents to the market? The same question can and should be asked of Fonterra.

How much milk achieved outside the traditional seasonal calving pattern does MG need from its farmers (the most profitable and low risk farming system it now seems according to industry consensus from a farm perspective is seasonal) to meet the requirements of its fresh market needs? How much of MG milk is truly in the daily fresh milk market. And once this is met, seasonal pricing can be applied to send the correct market signals.

I am trying to understand the need to chase shoulder milk if you are not truly in the flat milk supply world. Can you have a foot in both camps? Can MG be in both camps but be pushing supply into the flat supply curve with such large disparity in pricing amongst its suppliers, considering that this truly fresh milk volume and market is such a small proportion of MG and Fonterra total product mix?

MG, with its milk pricing, seems to be turning itself, by stealth, into a flat milk supply company like Parmalat, when there is no real need to. Its product mix is too wide and is still mainly various value added commodity products.

Both MG and Fonterra have nowhere to move when it comes to growing their respective businesses within the current state of the Australian industry. It's a Mexican stand off and their futures are limited along with their farmers so it's time to look at options.

Is this pricing modal leading to a declining or at best stable southern total milk pool, can any change be possible without a whole of industry response, now that Canberra is paying attention?

My view is that MG new plants have no chance of going ahead without a growing Australian milk pool or a rationalization of the processing sector. At this point in time it seems to be fracturing even more into smaller and smaller players doing nothing for processor efficiency. Our processors are not world class and lack scale. Competition for local milk supply is destroying our international competitiveness with no thought about the farming systems, their resilience and profitability, and how they relate to the strategy.

I think MG is critical to the future of the Australian dairy industry, with the ADF and some of the other industry bodies also confirming this. The Australian dairy industry cannot afford to let MG get smaller or the Australian milk pool to shrink. For the good of the Australian dairy industry both need to grow. The next question for the whole of the Australian dairy industry is how do we make this happen.

This is a whole of industry issue. This industry has been at cross roads for the last 10 years and very little has changed. It is time to decide in which direction this industry is headed. We have to

decide if we want to be a world-class industry that can compete with the rest of the world or be also-rans.

This is something our Kiwi friends are very good at. They know where they want to be and know how to get there, with government in the loop. Read the Horizon 20-20 report, a good document. Right now we are in the bottom left corner of the strengths and weaknesses axis, exactly where the document said we would be if our leaders did nothing and we kept going as we were.

It's now crunch time for this industry. MG and Fonterra Australia have to merge for the good of both New Zealand and Australian farmers and their respective industries. Both are, after all, co-ops. The question for the whole of the Australian industry and Australian government is what will it take and how do we convince Fonterra to let go of its Australian business so it can merge with MG for the good of both nations and industries. This has to happen. That is the challenge for the ADF and the Australian industry as a whole.

Do we want to shape the future of our industry or will we allow our competitors do it for us. Are we mature enough as farmers and as an industry to have the conversation and engage with New Zealand as a whole? It's going to be a tough conversation but, in reality, much more important than any free trade deal we are likely to negotiate. Can we put our prejudices and biases to one side long enough to have the debate or do we hide behind the mask of the government that will never allow it to happen? If we are to have this debate, we should be discussing this at the next UDV conference. If, after this discussion, we decide that there is no need for a large Australian owned co-op to act as the foundation of this industry long term, so be it. At least we have had the discussion and are informed