

IN THE AUSTRALIAN COMPETITION TRIBUNAL

**MURRAY GOULBURN CO-OPERATIVE CO LIMITED**

**RE: PROPOSED ACQUISITION OF WARRNAMBOOL CHEESE AND BUTTER FACTORY  
HOLDINGS LIMITED**

**Certificate identifying annexure**

This is the annexure marked **KM6** now produced and shown to Keith Mentiplay at the time of signing his statement on 29 November 2013.

Annexure KM6  
Extract of Dairy 2013 Situation and Outlook report

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**Dairy 2013  
Situation and Outlook**



## Executive Summary

### The industry in 2013: challenging convictions

- The 2012/13 season has proved a difficult one for many dairy farmers, as falling farmgate prices, higher input costs and unfavourable seasonal conditions combine to challenge the profitability of farm businesses. While many farmers realise the opportunities offered in growing international dairy markets, short-term oscillations in returns and profitability have strained finances and are challenging confidence.
- Variable seasonal conditions in south-eastern Australia, combined with reduced farmgate margins, means there has been little incentive to expand production.
- In northern 'drinking milk' regions there was once again flooding affecting southern Queensland and northern New South Wales, although not as extensive as in previous seasons. Production has declined in both QLD and NSW, while improved farmgate prices in Western Australia have not been enough to lift production above last year.
- Cashflow challenges were brought sharply into focus as many farm businesses struggled to manage milk-to-feed price ratios and variable weather reduced homegrown fodder yields. In some cases falling land prices and higher debt loadings pushed businesses beyond prearranged credit limits and into relying on extended payment terms from suppliers.
- Confidence as measured in this year's National Dairy Farmer Survey (NDFS) has taken a significant step backwards. Challenging production conditions, rising input costs and a persistent focus on the supermarket milk price war have undermined confidence—particularly in northern milk production regions. Significant variation remains in confidence around the nation as farmers adjust to milk pricing and market dynamics.
- The Australian dollar has stabilised between 100-105 US cents, but there is still significant potential for rapid currency fluctuations due to the precarious economic circumstances in the USA and Europe.
- In exporting regions, opening price announcements for the 2013/14 season are being developed in a context of elevated global dairy prices, favourable demand and challenging production conditions. While prices for some commodities have hit fresh highs, concern is mounting around the market's ability to bear such rapid increases in commodity prices without cannibalizing long-term demand.
- The outlook for indicative southern farmgate milk prices, based on current commodity price and exchange rate expectations is for an opening price

around \$5.00/kgMS, up from an average opening price around \$4.30/kgMS in 2012. This implies a potential full-year average price around \$5.50/kgMS, up from \$4.90 to \$5.10/kgMS in 2012/13.

- The sharp increase in commodity prices during calendar Q1 2013 suggests there is upside potential to a \$5.00/kgMS opening price depending on processor carryover benefits and value-added sales late in the 2012/13 season.
- Farmgate pricing expectations are indicative given the range of pricing options available to farmers, variations in seasonal pricing, incentives, manufacturer conversion costs and contract arrangements.
- The two major supermarkets have announced new sourcing strategies intended to increase farmgate price transparency and improve public relations associated with milk price discounting. Long-term contracts between Coles and east coast cooperatives and a direct sourcing trial for Woolworths suggest a changing landscape for suppliers.
- Nevertheless in drinking milk focused regions, the balancing act between fresh supply and demand continues as processors adjust their intake requirements and pricing to meet the demands of a highly competitive retail marketplace. While the long-term contracts in place are positive, those falling outside of new agreements harbour some concern around how the situation will develop.

### World market

- Despite challenging economic conditions in the US and EU economies continuing over the past 12 months, demand has remained steady. The focus of growth continues to be China, South-East Asia, and parts of the Middle East, supported by more prosperous economic conditions.
- Dairy commodity markets have flipped from supply driven softening to a rising market driven by supply constraints from the major export producers. This began in September 2012 as drought conditions in the US significantly cut production expectations. Commodity prices accelerated to new peaks following drought declarations in New Zealand during early 2013.
- Prior to the NZ drought, buyers approached increased market prices by reducing purchase volumes and running down stocks in anticipation of declining prices. However, reduced availability post-NZ drought has sent buyers scrambling, driving up prices, but also increasing substitution risk at a time when vegetable fat and protein prices are fairly stable (and thus attractive).