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Limited**



Victorian Milk Prices

Pre Deregulation

- Market milk 48 cents per litre
- Manufacture milk 21 cents per litre
- Average milk price 23 cents per litre



Victorian Milk Prices

Post Deregulation

- Single price for all milk produced
- Significant increase in world commodity prices coupled with our low Australian dollar has more than outweighed the deregulation impact
- Victorian Co-operatives are predicting a final payout as high as 27 cents per litre for the current year



NSW Milk Prices

Pre Deregulation

- Market milk 48 cents per litre
- Manufacture milk 24 cents per litre
- Average price for 50/50 farmer 36 cents per litre



NSW Milk Prices

Expectation

- Market milk 37 cents per litre
- Manufacture milk 24 cents per litre
- Average price for 50/50 farmer 30.5 cents per litre



NSW Milk Prices

Reality - October 2000

- Market milk 31 cents per litre
- Manufacture milk 24 cents per litre
- Average price for 50/50 farmer 27.5 cents per litre

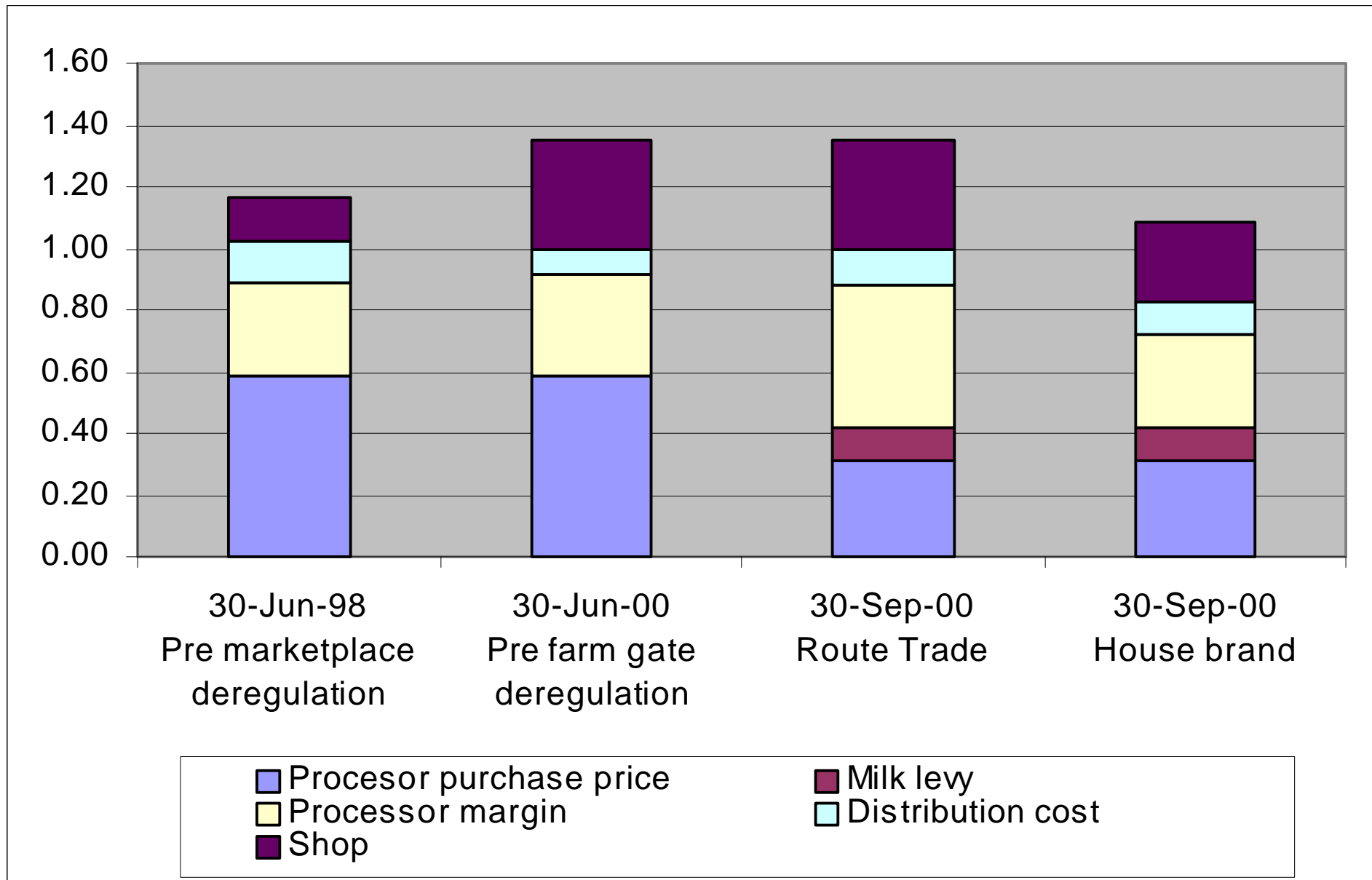


Why has the NSW price fallen below expectation?

- Difference in product mix between Dairy Farmers Co-operative and National Foods Limited
- Fierce competition for Woolworths' business has reduced processor profitability



Where has the money gone?



Impact of deregulation on NSW farmers

- Most NSW farmers are now operating at below cost of production

Pre Deregulation profit and loss Typical NSW farm - 974,000 litres		
	\$	Cents per litre
Total income	392,833	40.34
Feed related costs	105,108	10.79
Herd costs	27,247	2.80
Shed costs	11,790	1.21
Other variable costs	30,623	3.14
Total variable costs	174,768	17.94
Fixed costs	144,923	14.88
Dairy operating costs	319,692	32.83
EBIT	73,142	7.51
Finance costs	33,584	3.45
Total costs	353,276	36.27
Net profit	39,558	4.06



Impact of deregulation on NSW farmers

- Most NSW farmers are now operating at below cost of production

Post Deregulation profit and loss Typical NSW farm - 974,000 litres		
	\$	Cents per litre
Total income	307,661	31.59
Feed related costs	105,108	10.79
Herd costs	27,247	2.80
Shed costs	11,790	1.21
Other variable costs	7,426	0.76
Total variable costs	151,571	15.56
Fixed costs	144,923	14.88
Dairy operating costs	296,494	30.44
EBIT	11,166	1.15
Finance costs	33,584	3.45
Total costs	330,078	33.89
Net profit/(loss)	(22,418)	(2.30)



- Most NSW farmers are now operating at below cost of production
- While some farmers are closing down, so far there is no mass exodus occurring
- Why:
 - Adjustment package will help
 - No obvious farming alternative
 - Skills not easily transferable
 - Land not easy to liquidate
- General feeling is that farmers will tighten their belts at least in the short term
- While farmers will close down production will not decline to any great extent and therefore there will be no pressure on processors to lift price



Future directions

Key performance indicators 1998/99			
	All NSW average	Top 25%	Target
Return on assets	4.3%	6.93%	>7.5%
Debt as a % of income	81%	100%	<100%
Turnover <i>(gross income as a % of assets)</i>	21%	23%	>25%
Litres per hectare	10,939	10,988	>15,000
Litres per labour unit	359,441	468,731	>500,000



Conclusion

- Overall, the Australian dairy industry will continue to increase production
- However, deregulation has had a massive impact on the profitability of NSW and QLD dairy farmers
- NSW farmers seem to be better prepared than QLD farmers
- To be successful, farmers will need to focus on maximising feed and labour utilisation
- Not only small producers will choose to cease dairying
- Further rationalisation of the processing sector is inevitable

