

THE STANDARD On The Land



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ON THE MONEY

Newcomer tops dairy prices

By **STEVE HYNES**

A NEW entrant to the south-west dairy market has topped the region's milk prices, offering about four cents per litre more than any of the big processors.

The Australian Dairy Farmers Co-operative (ADFC), which has entered the region in a supply deal with Colac-based Bulla Dairy Foods, is offering a flat price of \$6.53 per kilogram milk solids (kgms), with a guarantee to stay above milk volume leader Murray Goulburn should its price reach that level during the season.

Murray Goulburn's opening price of \$6/kgms leads the big three processors in the region.

ADFC has quickly established its presence in the region, signing up 120 million litres of supply following a series of meetings with farmers early in June.

Also well ahead of the big processors is the Dairy Farmers Milk Co-operative (DFMC), which is the parent company of ADFC.

DFMC supplies milk to Lion and has about 18 suppliers in the south-west supplying about 60 million litres of milk. It is offering three payment options ranging from \$6.14 to \$6.40/kgms. Lion has about 20 direct suppliers in the region and is offering the same deals.

The options include a variable pricing model with a guaranteed safety net, a one-year fixed price offer and a three-year fixed price offer which can apply to up

to 50 per cent of a supplier's total volume.

The variable price model opens at \$6.35/kgms and guarantees a premium above key competitors.

The one-year fixed price deal gives suppliers \$6.40/kgms, while the three-year fixed price deal locks in at \$6.14/kgms for up to 50 per cent of a supplier's total production.

The three-year scheme has been designed to allay supplier concerns about market volatility. Lion's agricultural procurement director Murray Jeffrey said it was aimed at giving farmers the confidence to invest.

"Managing farm gate price volatility is a major concern for our suppliers and not knowing prices from year to year makes it very hard to invest and secure capital in an ever-changing environment," Mr Jeffrey said.

"Lion's three-year fixed pricing program will deliver a huge benefit to suppliers to mitigate world commodity risk and enhance decision making, knowing that 50 per cent of their volume has a fixed price."

Lion operates a cheese processing plant at Simpson and has a 10 per cent stake in Warrnambool Cheese and Butter, which supplies it with cheese.

United Dairy Power will open at \$6.30/kgms as it moves into its first season under foreign ownership. Company founder and sole owner Tony Esposito sold the company to a Chinese

investor earlier this year. Murray Goulburn's opening price of \$6/kgms tops the key processors in the region, with the company anticipating a full-year price of \$6.15 to \$6.30/kgms.

Bega Cheese also opened at \$6/kgms and has not forecast a closing price.

Bega is also offering additional cash incentives to suppliers who meet specific sustainability standards as well as for supply loyalty.

Warrnambool Cheese and Butter opened at \$5.86 and anticipates a full season payment above \$6.20/kgms. The Allansford company is also offering extra cash for farmers who agree to increase their production.

Fonterra opened on the lowest price of \$5.80/kgms and forecasts a closing range of \$6.10 to \$6.30/kgms. Its pricing structure has been simplified to make it easier for suppliers to work out the best payment option for their farm.

Processors have been careful to point out that closing price predictions are subject to movements in trading conditions. Commodity prices on global markets have declined since February. High supply volumes from competing export zones are likely to constrain returns, while the volatility of the Australian dollar continues to be a concern — in the past fortnight predictions from economists have ranged from a rise to parity with the US dollar to a fall to about 86 cents this year.

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Australian Dairy Farmers Co-operative

\$6.53/kgms flat price
with guaranteed premium over market volume leader

Dairy Farmers Milk Co-operative and Lion

Variable: **\$6.35/kgms** opening price, forecast closing range \$6.14 to \$6.40/kgms

One-year fixed: **\$6.40/kgms**

Three-year fixed: **\$6.14/kgms** for 50 per cent of supply

United Dairy Power

\$6.30/kgms opening price

Murray Goulburn

\$6/kgms opening price
Forecast closing range \$6.15 to \$6.30/kgms

Bega Cheese

\$6/kgms opening price
No closing price forecast

Warrnambool Cheese and Butter

\$5.86/kgms opening price
Forecast closing price above \$6.20/kgms

Fonterra

\$5.80/kgms opening price
Forecast closing range \$6.10 to \$6.30/kgms

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