

SATURDAY

A PERFECT STORM

Rising costs, unpredictable demand and a volatile global economy push Victorian dairy farmers to the brink

IN the end, the unravelling of Victoria's dairy industry was as unpredictable as the weather.

A perfect storm of operational costs, a commodity price slump, a shifting exchange rate and looming doubts over demand swirled around our farmers like a wild and contracted cold front.

The Giliam family farm in Dumbalk, in South Gippsland dairy heartland, is one of scores pushed to the brink.

Jan and wife Annie arrived as Dutch migrants 26 years ago. Such was their enthusiasm, they started milking

AARON LANGMAID

on the very same day they stepped off the plane. "We bought the property without having seen it," Mr Giliam said. "We just knew this was where we wanted to be."

Together they have raised their four sons and two daughters, with George returning from the mines in Western Australia last year with his wife, Jaimee, and sons Max, 2, and Heath, nine months.

George now gets up with his dad every morning around 4am.

It's often cold and wet but rewarding in ways that could never compare with any profit margin.

"I came back to the farm because I wanted to bring up my

son exactly the same way I was," George said. "We love it here."

But he knows it's a lifestyle he can no longer take for granted.

Two months after Australia's largest milk processor, Murray Goulburn, gave assurances it would maintain prices paid to producers, it pulled the rug out from under them.

The company that had floated on the Australian Securities Exchange last year had failed to heed the gloomy forecast. It almost halved its full-year earnings and slashed the price it paid at the farm gate. Along with its nearest competitor, New Zealand processor Fonterra, struggling farmers were now expected to pay

money back. MG's end-of-financial-year profit was revised from almost \$86 million to just \$39 million.

Producers who had forecast healthy returns will see their profit margin cut by more than three-quarters. Such is the ugly spiral, the Australian Securities and Investments Commission has launched an investigation and shareholders are considering a class action. Angry farmers who met on Wednesday in the state's southwest have called for an independent inquiry and flagged a levy — an increase of 50c per litre in the supermarket — as one strategy to help farmers recoup their losses.

As the industry woes quickly became a political vice, MG managing director Gary Helou resigned, copping the bulk of the blame. Three other board members were shown the door.

Critics say Mr Helou's vision for the co-op, started by farmers for farmers 60 years ago, was too bold. Milk may have been a soft commodity, but he recognised the value of branded products that could be pushed into Asia at a premium. The demand for milk powder in China was a golden ticket for an industry otherwise bound by the unpredictability of the global market.

For a while, farmers hit pay dirt.

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Picture: JASON EDWARDS



SWIRL OF ISSUES

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But, despite securing a lucrative contract with Coles and throwing the company open to shareholders on the ASX, critics raised concerns as MG held farm gate prices at \$6 even as the commodity market started to slide.

Critics said it was an overly ambitious approach. Left to balance the books, farmers across Victoria this week phoned the banks.

Plans for loan extensions and credit lines were laid out before the same country eyes that by June should have been focused on healthy cash profits.

Buoyed by the continued reassurances from Murray Goulburn, the Giliams expanded their property by more than 40 per cent.

It should be an example of the kind of success that can be achieved by hard work and passion for an industry they love.

Jan said they had lost faith in the ability of processors to forecast the market and ensure the financial stability of operators.

They'll tough it out, but Jan said all of a sudden the future looked very uncertain.

The family had to budget an additional \$120,000 to feed their 400 head of cattle after unseasonably dry conditions.

They had factored in the cost but when MG announced its farm gate price was no longer sustainable, the Giliam family were just one of scores across Victoria forced to re-crunch the numbers.

They still can't be sure exactly how much they will have to return to the processor.

"On the back of a bad season, this is a double whammy," Mr Giliam said. "Murray Goulburn had made us feel reasonably confident.

"We bought the last 120 acres because we saw an opportunity. But what has happened is like nothing we have ever experienced before."

The Giliams said Gary Helou had a lot to answer for — but acknowledged he had shown some vision in taking a punt.

It just didn't pay off.

"We were sitting on an island as the rest of the markets around the world were already struggling," Mr Giliam said. "Helou had the right formula in place and had managed to sail around the instability but in the end he put the Australian dairy industry on a pedestal that other processors had to follow just to stay viable. They may not have seen this coming ... maybe they should have."

United Dairyfarmers of Victoria spokesman Adam Jenkins agreed



that while the market plunge was hard to predict, Australia's big processors should have had an inkling.

"To miss the budget by \$200 million, rightly or wrongly, there has been some mismanagement and the ramifications will go on for years," he said.

"Farmers' cashflows are already stretched and then they wake up one morning to be told they have to pay back money ...

"It's like an employee on \$100k going into work and getting told he's only getting paid half that.

"These guys have families to support, mortgages and bills to pay. It is a terrible position to be in."

Further, Mr Jenkins said, the

sudden downturn would only deter young farmers starting out or those seeking to get into the industry.

"They would have to be questioning whether they continue and that's the last thing Australia wants to see happen," he said.

He said processors and governments needed to show foresight to ensure the longevity of dairy farms — and consumers could also play a part.

"If a carton of milk is a dollar at the supermarket and a bottle of water is \$4 — something is very wrong," he said.

The proposed levy on milk, which would increase costs by about 50c a litre, was just one strategy tabled since the industry

slump. But some farmers feel the entire cost of production must be passed on if producers are to find their way out of the financial blackhole.

Across Australia there are almost 6000 dairy farmers producing 9.7 billion litres of milk in what is a \$13 billion industry.

Victorian dairy farms have been credited among the best in the world, contributing to the nation's \$2.8 billion export trade.

But Australian Dairy Farmers president Simone Jolliffe said slashing milk prices had exposed producers like never before.

"The major processors are the only ones with the answers," she said. "That there would be such a

price shock and now the clawback by farmers ... there will be many who just won't be able to recover.

"As an industry we are calling for processors to take responsibility and get on to these farms and provide the support suppliers need.

"There will be farmers who have to make difficult decisions in a short time frame and it is extremely disappointing they have been put in that position."

She said Dairy Australia had rushed forward its support campaign, Tactics for Tight Times — an initiative offering one-on-one support and workshops to help producers make more informed decisions and manage risk.

But Ms Jolliffe warned the



SOURS OUR DAIRY



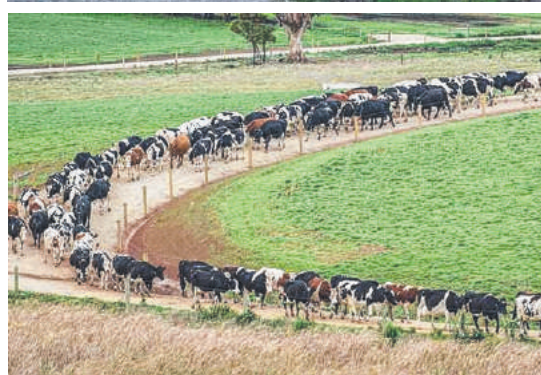
HOW OUR DAIRY FARMERS HIT ROCK BOTTOM

■ Unseasonably warm spring, hot summer and dry autumn lead to demand for feed for stock. Farmers are forced to pay hundreds of thousands of dollars for fodder.

■ The commodity price for milk drops globally as dairy production increases across Europe and Russia bans imports.

■ Demand for powdered milk products out of China weakens.

■ Budget forecasts from Australia's biggest milk processor are slashed, resulting in lower prices at the farm gate.



repercussions were far wider than just family-run businesses.

Entire communities were reliant on successful dairies, she said.

Vets, feed suppliers, mechanics, even scientists and country solicitors all pinned their livelihoods at farm gates across the nation.

"It runs so much deeper," she said.

"We still believe, long term, the Australian dairy industry will stay strong but the impact of what has gone on will be felt for many years to come."

Clockwise from top: George Giliam tends to dairy work on the dairy; with son Max (right); and dad Jan (below). Pictures: JASON EDWARDS

THAT the unfolding crisis would become a political football was inevitable.

No sooner had Agriculture Minister Barnaby Joyce used a letter to the union to urge farmers to lodge their concerns with the Australian Competition and Consumer Commission, Opposition members jostled for position in front of the cameras. Federal Labor agriculture

spokesman Joel Fitzgibbon and Victorian Agriculture Minister Jaala Pulford fired the first shots.

"Always keen to illegitimately claim credit when commodities prices are rising, Barnaby Joyce's silence is deafening whenever and wherever they are falling," Mr Fitzgibbon said. "The Deputy Prime Minister fiddles while the dairy industry suffers. It's an insult to hardworking dairy families."

Wannon MP Dan Tehan urged state and federal governments to act on recommendations made by a dairy industry taskforce, which is expected to hand down its findings within weeks.

"It's up to all levels of government to make sure dairy farmers have a more balanced relationship with processors under a collective bargaining agreement," Mr Tehan said.

But whatever the outcome, farmer Damian Murphy said he hoped lessons would be learned.

"Right now we have to focus on making sure our people are OK physically and mentally," Mr Murphy said. "After that, we need to make sure people are making sound business decisions. Whatever happens from here, we must learn from our mistakes."

aaron.langmaid@news.com.au

