



15 November 2016

## **MG Chairman Philip Tracy's opening remarks at Senate Inquiry into the dairy industry**

Good morning Chair / Madam Deputy Chair, Committee members and observers.

I am attending the hearing today in my capacity as Chairman of the Murray Goulburn Board and am joined by our Interim-Chief Executive Officer, David Mallinson.

Thank you for inviting us to appear today to discuss the challenges and opportunities facing the Australian dairy industry, and also for the opportunity to provide a submission.

As Australia's largest dairy food company and a co-operative that is 100% farmer controlled we recognise the significant responsibility and position we hold in the Australian dairy industry.

In FY16, approximately 96.5 percent of the milk pool was paid to suppliers in milk payments and supplier shareholders received approximately two-thirds of dividends paid.

We continue to work to restore confidence in the Co-operative after the reduction in our farmgate milk price announced in April this year which had a significant impact on suppliers.

We had to respond immediately and transparently to evolving circumstances including;

- falling international demand for adult milk powders; and
- volatility in exchange rates and commodity prices

In responding we had two options. We could have sought to reduce the price by the full amount required which would have seen an average price paid to suppliers in May/June of less than 10 cents per litre.

Instead we chose what we believe was a much fairer option – the introduction of the milk supply support package. This provided an advance to support farmers' immediate cash flows. It sought to spread the impact of the FY16 milk pricing shortfall across three years.

At the commencement of FY17, with the combination of continuing weak market conditions and feedback from our suppliers, it became clear that the MSSP was not operating as it was originally intended.

Following an internal review and receiving an opinion from independent expert, Grant Samuel we have now adjusted the MSSP arrangements.

MG has announced that there will be no further recoupment of the MSSP during FY2017 and we have extended the recoupment period to halve the annual impact on suppliers.

We have also announced a review of our milk price payment mechanism.

Currently MG pays 90-92 percent of the forecast final farmgate milk price at the beginning of the season. The review will determine whether this approach remains fit for purpose amid ongoing volatility in commodity markets.

We also support working closely with other industry bodies to ensure milk price transparency and the proposed introduction of an Australian commodity milk price index.

MG has also implemented material operational improvements and cost reduction initiatives led by Interim CEO David Mallinson.

We firmly believe that, taken together, all of these actions will deliver a competitive farmgate milk price for suppliers and improve performance in the medium term.

We know the events of this year have had a significant impact on our suppliers and we're committed to restoring their faith in us.

On behalf of the Board and management we look forward to working with the Committee to improve opportunities for the industry going forward.

Thank you.