ECONOMICS AND INDUSTRY STANDING COMMITTEE

SUSTAINABILITY OF THE DAIRY INDUSTRY IN WESTERN AUSTRALIA

TRANSCRIPT OF EVIDENCE TAKEN
AT BUNBURY
ON FRIDAY, 19 SEPTEMBER 2003

SESSION 4

Members

Mr A.D. McRae (Chairman)
Mr J.H.D. Day (Deputy Chairman)
Mr J.J.M. Bowler
Mr B.K. Masters
Mr M.P. Murray

Co-opted Members

Mr P.D. Omodei
Mr A.J. Dean

TOGNELA, MR DAVID JOHN
Dairy Farmer,
examined:

The DEPUTY CHAIRMAN (Mr J.H.D. Day): Welcome to the Economics and Industry Standing Committee hearing about the dairy industry. The chairman, Tony McRae is unwell, so we have his apology.

This is a properly constituted meeting of the Economics and Industry Standing Committee. The committee hearing is a proceeding of Parliament and warrants the same respect that proceedings in the House itself demand. It operates under parliamentary privilege and you have the protection of the Parliamentary Privileges Act. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as contempt of Parliament, unless this is a confidential meeting, which I understand you requested.

Mr David Tognela: No; I requested the meeting but confidentiality does not bother me. There must have been a misunderstanding.

The DEPUTY CHAIRMAN: Are you happy for this session to be held in public?

Mr David Tognela: Sure.

The DEPUTY CHAIRMAN: If you are concerned about the confidential nature of your evidence it can be requested that we take it in closed session. The hearing will be recorded by Hansard and when a transcript is available you will be sent a copy and asked to make any corrections. Have you completed the "Details of Witness" form?

Mr David Tognela: Yes.

The DEPUTY CHAIRMAN: Do you understand the notes attached to?

Mr David Tognela: Yes.

The DEPUTY CHAIRMAN: Did you receive and read an information for witnesses briefing sheet regarding giving evidence before parliamentary committees?

Mr David Tognela: Yes. My interest in appearing before this committee comes from being a dairy farmer. I reside in Brunswick Junction. My submission is based on the displacement of employees within the industry.

The DEPUTY CHAIRMAN: Thank you for your brief submission. Are you happy for that to be part of the transcript of your evidence?

Mr David Tognela: Yes.

The DEPUTY CHAIRMAN: Do you wish to add anything to your comments or to modify anything you said?

Mr David Tognela: I do not have any amendments. As you said, it is a brief statement. I am happy to provide any other information later either in the form of correspondence or verbally.

The DEPUTY CHAIRMAN: How long have you been a dairy farmer?

Mr David Tognela: I have been involved in the dairy industry pretty much all my life, but full-time since 1983, after I left school. We farmed in Waroona at that stage. We have managed and run three different dairy operations in the State since then, two in Brunswick and one in Waroona.

The DEPUTY CHAIRMAN: Do you wish to comment on how you see the dairy industry at the moment and the changes that have occurred in the past few years?

Mr David Tognela: I became very involved in the agro-political side of the industry in 1997. Prior to that I was a strong member of the Western Australian Farmers Federation and attended zone meetings. At that point, I thought it relevant to become very involved in industry changes that could occur towards 2000 regarding the possibility of deregulation. I was the branch secretary of the Farmers Federation in 1997. I then rose to the position of president of the Brunswick branch of the Farmers Federation. I was the junior member of the Farmers Federation state executive for a very short time in about 2000.

Before deregulation I believed that the only way we could survive, if we were to survive, was to grow our businesses because of the volumes that would be required. Obviously, exposure to milk would lower the price. I bought the adjoining property to mine and lowered my equity to debt ratio, which was about 60 per cent equity and 40 per cent debt to do that.

The DEPUTY CHAIRMAN: Do you mean you lowered the debt to equity?

Mr David Tognela: That is correct. I bought the adjoining property, at which time I thought I needed to consider developing a decent human resource model to manage all the extra work that I had taken on. I also thought that I should not hedge myself totally towards milk but that I should use the dairy operation as a cross-subsidy vehicle to get into beef cattle. At that time, the cattle industry was experiencing one of its usual cyclical states. About every eight to 10 years there are highs and lows in the beef cattle industry. In 1997, I leased farms in Donnybrook and the Ferguson Valley and started to develop a cattle enterprise so that I was not totally reliant on milk sales. I progressed with that. I guess that if I knew that the dairy industry was going to take the path it did, I probably would not have expanded the milk business the way I did.

Mr B.K. MASTERS: Was that because you were a quota holder at that time with guaranteed income and that sort of thing?

Mr David Tognela: No, not so much that. I am 36 years old now. I am just starting to get a bit settled now. When I first walked in I was a little nervous in front of all the members of the committee. If I stumble a bit, please excuse me. I had no faith in the possibility that we would keep our milk quotas and I could not really afford to have any trust.

The DEPUTY CHAIRMAN: Could you see that deregulation was coming?

Mr David Tognela: Not so much that, John, I could not afford to be wrong. I bought my first property when I got married 10 years ago. Most of the land I own I have bought. When I left the family partnership, I was left 220 acres, 100 cows, 1 100 litres of milk quota and $80 000 debt. I left school when I was 15 and left the partnership when I was 28. We were paid a wage and had about $60 or $70 a week to live on. We had to buy our own car and everything else. I bought my first block of land through a nine-year vendor finance loan, which I paid out only last week. I already had that one under my belt. I bought the neighbour's place for $480 000 and I had to borrow another $100 000 to buy the cows and the laneways established in 1998. That was how I intended to hedge myself against deregulation. I thought that if I could milk a couple of hundred cows I should be able to survive because we were looking at a price for the milk of around 33c to 35c a litre. If I could produce 3 500 litres a day, that would give me about $1 200 a day, which I should be able to manage it.

The DEPUTY CHAIRMAN: Are you saying that you thought deregulation might well occur and therefore you needed to be prepared for it?
[11.50 am]

Mr David Tognela: I am saying that if I had owned a 200-acre farm with 100 cows after 2000, I would be out of business. There is no way in the world I could have sustained the operation I had. To answer your question - yes. I could not afford to take a risk either way. When the federal package came in and the cattle market started to turn and was looking quite good - I did not have much capital, so I was rearing calves - I used the federal package money to put a deposit on another property in Waroona. Since 1997 I have put most of my interest into growing the cattle operation. My milk interest is now only 30 per cent of my income. In 1997, 100 per cent of my operation was from milk sales. I have just leased a big property in Burekup of 1 200 acres and I am looking to expand more. I am always short of capital; my borrowings are at their maximum, but most of the money goes into cattle, not into milk. That is what I had to do to survive. My interest bill is $12 000 a month but I am still reducing debt. Most of the proceeds to do that come from the cattle operation. Pre-deregulation, I knew that if I were to expand the milk operation, I could not do it on my own.

I keep fairly active, I am out there, so I knew I needed to employ people and that the Farmers Federation had a good industrial relations wing. I employed a consultant and did a lot of work with him. We developed a human resource model designed for the dairy industry. He is a professional consultant, based in Bunbury. He was born on a farm so he has an agricultural background, although he did not need that because we needed to use his consultative background to build the model. We built a really good model that worked well that could make our industry inviting and could bring people onto our property. We could source them from other industries. We spent a lot of time on the model and then we recruited and it worked really well. The model I developed was used as a pilot model at workshops throughout the industry. It was even included in a national magazine. It was developed with fatigue in mind. The biggest problem in the dairy industry is sourcing employment and keeping people. The industry will grow but the farmers will not be able to do it. The farmers will have to take positions as managers and overseers of their operation. They will need to source employees to be able to milk all the cows that apparently they will have to milk in the next 10 years when they double the size of this industry to survive. My model worked really well. However, at the end of the day, the very first statement I have always made when anyone has spoken to me about developing an HR model for their farm is that they should get their accounting right first. Once they have their accounting worked out, then they should build their model. Every model will be different. I wanted my men to work three days straight and then have a day off. They have to work an 11-hour day. I wanted them to work a five-day week and to have the full entitlements and privileges that everyone else in the work force has.

The DEPUTY CHAIRMAN: How many people do you employ now?

Mr David Tognela: I now have one trainee. I had three full-timers under my model.

The DEPUTY CHAIRMAN: When was that until?

Mr David Tognela: Until this year.

The DEPUTY CHAIRMAN: Why do you have only one now?

Mr David Tognela: I cannot afford it. I cannot pay them. We have had a sliding scale on the price of milk since 2000. Nationals cut our milk contracts back by 40 per cent. The money is not there to pay them. I cannot keep them.

The DEPUTY CHAIRMAN: It seems that you expanded quite substantially. You took a few risks and got as prepared as you could for changes in the overall market structure.

Mr David Tognela: Yes.

The DEPUTY CHAIRMAN: From what you say, that seemed to work well for quite some time. How is it working at the moment, overall?

Mr David Tognela: I use contractors and casuals. My model even had a traineeship built into it. I could take in a trainee who could do certificates 2 and 3 in agriculture. I had a registered training officer on the farm and he would come and do the RTO work with them. Now I have a second-year trainee on a 12-month contract because I cannot promise him any more than 12 months work.

The DEPUTY CHAIRMAN: Do you use other assistants on a short-term casual basis?

Mr David Tognela: I have six casuals on call. When we start to fall behind, I call them in. I give them as much work as I can to catch up, and then tell them we cannot continue to keep them in the system.

The DEPUTY CHAIRMAN: Do you have a profitable operation at the moment?

Mr David Tognela: Yes, but because of diversification, not because of milk.

Mr A.J. DEAN: Are you saying that even with the 70 per cent income from beef, you cannot afford to carry on with your HR model?

Mr David Tognela: For some time, I used the beef operation to subsidise my milk operation. However, I have virtually reached the point at which I do not want to draw profits out of beef to put into milk. As I said initially, in 1997 there was a crash in the beef market. We are forecasting another crash in two to three years. The trends are indicating that the beef market is starting to go that way. The Australian dollar is increasing. There have been a few hiccups with export. The Yanks are gearing up. We will go into that crash. I am not going to drain all my profits out of beef to prop up another commodity when I know that beef will have a downward curve in three years. I want to stiffen up beef so that when we hit that curve, we can ride it out for three or four years.

Mr B.K. MASTERS: Are you actually losing money on the dairy side?

Mr David Tognela: Yes, for sure.

Mr P.D. OMODEI: What should the committee do? What options are available to improve the viability or sustainability of the dairy industry? You have been in the industry all your life and seen how it has changed lately. It has not been ideal. We are faced with a scenario that requires some sensible recommendations. What are your views?

Mr David Tognela: The HR side of the dairy industry is the most important part of the whole industry. A difficult part of farming has always been recruiting the right people. It can be done. Other industries have achieved it. That must be well noted, but I cannot see how you people can do anything about it.

Mr M.P. MURRAY: Are you saying that, to keep going, you need skilled people who are up to date with technology?

Mr David Tognela: The dairy farmers have to train them. My model was a perfect start to providing some strength into the HR side of the dairy industry so that people from outside the dairy industry could say that they wanted to make a career of working in the industry. Even my first advertisements for staff were professionally written. The advertisements in the paper read like "Dairy farm job, Busselton, ring such and such". Who will want to be involved in the industry?

Mr B.K. MASTERS: Are you saying that your HR model will work if the dairy industry is seen to be profitable?

Mr David Tognela: Exactly.

Mr B.K. MASTERS: How do we make the industry profitable? What recommendations do we make to government?

Mr David Tognela: This is probably the second part of my answer and I will end with a final summary. I have always reckoned that a farmer who is producing 3 000 litres of milk a day should employ one employee as well as the farmer. If someone is producing 6 000 litres, he needs two guys; if he is producing 12 000 he needs four guys as well as himself. I am talking about full-timers outside casuals and relief workers. For every 3 000 litres, the farmer needs one full-time employee.

Based on 30c a litre of milk - some of us are saying 25c a litre and some are saying 28c - the price of the calf and a culled cow, we are looking at 30c a litre inflow. Raw milk commodity is one part of the inflow but there is also a calf and a culled cow. If an operation is producing 3 000 litres a day at 30c a litre, it is making $900 a day. A labour person will cost $150 a day. If the farmer cannot budget for $150 a day, including superannuation, workers compensation and everything else that is involved, he is out of the ballpark. The farmer must draw his wage at $150 and the employee's wage of $150. If the farm is producing 3 000 litres a day, it will be using five kilograms of grain per cow for 150 cows. At 35c a kilo, that is $262 a day. We are spending $262 a day on introduced fodder and $300 on wages. That takes costs up to about $562. On a daily basis, using my place as an example, I have budgeted power at $32 a day, fertiliser at $41 a day, the rate component for the dairy farm at $22 a day, repairs and maintenance at $40 a day, irrigation spread out through the whole year at $41 a day, depreciation on capital and equipment at $41 a day, fuel at $22 a day and insurance $10 a day. Based on the notes I did when I was waiting to come in, all those costs have almost chewed up my $900 a day. If we think about it an addition 5c a litre for 3 000 litres is another $150 a day. I am saying that a viable price to produce milk for 365 days a year must be about 35c a litre. That will give us the extra employee.

Mr P.D. OMODEI: You have not factored any debt servicing into that.

Mr David Tognela: I know. I am just giving you a broad idea. Whichever way it goes - and this is what I should have started with - the word dairy farmer is the wrong word. They are not dairy farmers, they are investors. The dairy farmer today is a different bloke from what he was 30 years ago. If a dairy farmer's commodity took the hit it took 30 years ago, as it did in 1972 and in the mid 1950s in the butter fat wars, the farmer could not do anything else with his equity. Everybody else in the industry was short of funds. They could not buy his land; he had to stay in farming. That is what he did, and rode out the cycle. The difference with the dairy farmer today is that he is an investor with a huge amount of equity in his land. He will turn around and say that he is not getting a decent return for his equity and he is doing all the work because he cannot get anyone. We cannot blame people for not wanting to do that work. He will exit. He will transfer his equity and, given the value of the Perth metropolitan properties now, it would not take much for someone in Perth to sell a couple of houses and buy a farm in Harvey or Brunswick. Perth metropolitan property values will underpin south west rural property values.

[12.05 pm]

The DEPUTY CHAIRMAN: Are you saying that some new people might enter the dairy industry?

Mr David Tognela: No, just buy the land.

The DEPUTY CHAIRMAN: And do what with it?

Mr David Tognela: As a secure investment. They are looking at a passive investment; they can invest their money and it is not at high risk. They might be lifestylers. They might be people who want a decent agricultural return. People from the wheatbelt will get good cheques this year. The biggest problem they are finding in the wheatbelt now is rainfall. They know there is secure rainfall down our way, so they will start thinking, "Okay; let's get some money out of here and put it in the south west."

The DEPUTY CHAIRMAN: What would they use the land for? Unless they are looking only at capital growth, they would want some return on the land. What are you suggesting it would be used for?

Mr David Tognela: They will use it for cattle, sheep, lot feeding, transit for livestock for export and grain feeding lambs. Trucking companies and a lot of commercial investors will want to acquire land for tax purposes. There will also be lifestylers.

The DEPUTY CHAIRMAN: Returning to your suggestion about trying to increase the farm gate price of milk to 35c a litre or so, it seems that some operators are able to operate quite profitably and produce milk for as low as 22c a litre. Given that some people can operate at that cost level, how is it possible to have a valid argument to try to increase the price? Secondly, if there were a valid argument to increase the farm gate price, how do you think that should be achieved?

Mr David Tognela: In answer to the first part, I do not think they are profitably producing milk at that price. I have just rattled off these figures and they have been fairly conservative. As Paul said, there are things that I have missed out. I honestly think that the advice they are giving you is misleading.

The DEPUTY CHAIRMAN: I understand that some newer entries to the industry are pretty big operators. They seem to have quite large herds and so on.

Mr B.K. MASTERS: They are not irrigation farmers either.

Mr David Tognela: Whichever way it goes, I cannot see them producing the milk for the price they are telling you they are producing it for.

The DEPUTY CHAIRMAN: They cannot go on forever losing money, which is what you are suggesting.

Mr David Tognela: That is right. I really cannot see them producing the milk for the price they are saying they are producing it for. I would be very interested to see how they are producing it at that price. If you are talking about the industry as a whole, what has happened is that we have gone from a regulated industry to a deregulated industry and what we always said would be the issue was the way we manage this. Looking back at it now, I say that we have done it the wrong way. The prices that you are talking for litreage, you could probably do it for that price seasonally and on grass.

Mr P.D. OMODEI: That is drying the cows off.

Mr David Tognela: However, the processors will not let you do it that way. The processors will not let you go to seasonal. The only thing the processors are worried about are the short-term profits they will get. The short-sightedness they have from year to year - not the long term - is their summer milk. They will make us produce milk 365 days of the year. Once that idea stops, it will risk their summer-autumn production. That takes us back to 1992 when all this really started. When the industry started to segregate milk and go down the path it did, they were short of milk. In 1988-89 Harvey Fresh offered extra money and stole the market milk share off the big processors. All of a sudden, there was a shortage of summer milk because the surplus milk had been taken up. They offered a big premium and people did not need quotas to produce milk then. A lot of these big herds started cropping up, a lot of huge debt structures were established and a lot of people started producing only surplus milk. Prior to that, you would not milk cows without a whole milk quota. People were lured into the industry of manufacturing milk only on the basis that they would get a premium out of summer production. The processors will always get anybody to produce milk for them through spring for the prices you have cited. However, the guys who are talking about 30c to 35c a litre are propping up the industry in the summer period.

The DEPUTY CHAIRMAN: To conclude, how do you think the price should be increased if that were to occur?

Mr David Tognela: Personally, I believe in the philosophy of privatisation and deregulation, but I cannot see it working in the Western Australian dairy industry. As I have said, I have grown in the cattle market and I have done well in it because it is a fully deregulated market. We can trade in and out of it however we like, and those of us who can do it cheaper and better prosper and those who cannot leave. To be honest, even though it is against my belief, I cannot see this industry surviving unless we have some mechanism or ability to get the premium that we had prior to deregulation out of the fresh milk that is consumed in Perth.

The DEPUTY CHAIRMAN: Can you suggest how that should be achieved?

Mr David Tognela: No, I cannot. If I genuinely could, I would. I will not use the word “re-regulated”.

The DEPUTY CHAIRMAN: Is that not the effect of what you are saying?

Mr David Tognela: It is.

Mr P.D. OMODEI: If you have a pool, you will have to re-regulate.

Mr David Tognela: There are a lot of ideas. Let us say that there were 310 dairy farmers left and 400 000 litres of milk was drunk a day. That would be 1 200 litres each at a premium. If the manufacturing sector is that profitable and the guys you are talking about can produce milk for 22c a litre, what is stopping them? People extract a slight premium out of what is consumed in the city. The only money there has ever been in milk has been what has been drunk. You milk it today, it is put in a bottle and it is drunk tomorrow and everyone has their money. As far as all these ideas about export and competing against the Americans and the Europeans in the open world market are concerned, we are competing against ourselves; we are competing against Victorians and New Zealanders. They are producing milk seasonally and off grass. We do not have a hope in hell of doing it here. That is my answer. I have sort of stumbled and fumbled around a bit. If I sat with you for a couple of hours, I could probably bring more light to it. I will probably walk out of the room and think, “Gee, I wish I had told you about this or other issues.” You take me for how you see me.

The DEPUTY CHAIRMAN: You have given a very comprehensive and frank presentation of your activities.

Mr A.J. DEAN: If you think of other things, you can put them in a submission.

Mr B.K. MASTERS: Or get in contact with us again. If you walk out and kick yourself, jot down a note for us.

Mr David Tognela: Okay.

Mr M.P. MURRAY: It has been excellent.

Mr David Tognela: Thank you very much.