

# **ECONOMICS AND INDUSTRY STANDING COMMITTEE**

## **SUSTAINABILITY OF THE DAIRY INDUSTRY IN WESTERN AUSTRALIA**

**TRANSCRIPT OF EVIDENCE TAKEN  
AT PERTH  
ON FRIDAY, 17 OCTOBER 2003**

### **SESSION 2**

#### **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**

**BRAND, MR ADRIAN RALPH**  
**Dairy Farmer,**  
**examined:**

**BRAND, MRS EVELYN ANNE**  
**Farmer,**  
**examined:**

**The CHAIRMAN:** Good morning and welcome. Thank you very much indeed for taking the time and making the effort to contribute to this inquiry on the sustainability of the dairy industry in Western Australia. I know you have heard them, but I need to read out the protocol statement so that you have a clear understanding of it. This is a formally 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, while you are here presenting evidence, you have the protection of the Parliamentary Privileges Act. Although you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as a contempt of Parliament. If you are concerned about the confidential nature of the evidence, you can request that it be taken in closed session.

I depart from there to say that the Principal Research Officer has informed me that you have no opposition to Mr Knott staying in the public gallery.

**The Witnesses:** No.

**The CHAIRMAN:** In that case, that makes this an open hearing. If other people come in, it will continue to be an open hearing until you ask for it to not continue. The Hansard staff, who are the people on your left, will record the hearing. When the transcript is complete, it will be made available to you to identify any corrections that need to be made. Have you completed the "Details of Witness" form and did you understand the notes attached to it?

[9.50 am]

**The WITNESSES:** Yes.

**The CHAIRMAN:** Did you receive and read an "Information for Witnesses" briefing sheet regarding giving evidence before parliamentary committees?

**The WITNESSES:** Yes.

**The CHAIRMAN:** We have a submission from you, and we thank you for taking the time to prepare that. Can you speak to that very briefly to begin the process of discussion we will engage in?

**Mrs Brand:** Thank you. Adrian and I have discussed the form of our presentation today. I admit at the outset that I am not a technical person. Adrian is very conversant with the technical side. I will briefly, as you have requested, get to the issues of our submission. Essentially, by agreement, Adrian and I have reflected in our submission that we have a vision for the future. We have closed the door of the past. As we said in our submission, we are very grateful for the public contribution of the restructure package because it has enabled us, to a degree, to open the door to deliver our vision. We did a very detailed business plan and we were very grateful to get that \$21 000 in funding. We have reviewed our business plan as we have progressed and used it in submissions for grant applications. It is a valuable tool. In opening this new door, we are finding that what we call the third jump is quite challenging. Our first jump was made with the help of the restructure package, which was used to buy more land gradually, astute breeding programs and by increasing our herd and work force. In the interim, we have met with, as have all our colleagues in the dairy

industry, a decline in price and a considerable decline in the amount of milk required by our manufacturers. The third jump is a real challenge. We support the Challenge Dairy Co-operative initiative, and we are very much travelling closely with that. Pre-deregulation, we joined a group of concerned dairy farmers to try to get a vision up and running. Sadly, that was not embraced by many in the sector and we lost many of our leaders. We are now at the third step in our growth. We made the point in our submission that one of the factors we have run into is the cost to us and the lack of resource provided for us by way of energy supply. When we ran into this, we talked to our neighbours. We are fairly rugged individuals, but we are fairly well integrated in our neighbourhood. We were quite surprised that we were not lonely in that issue. We decided to have a meeting at our house and 10 farmers came along. That was at the beginning of the regional assistance program. We all wanted to grow but also wanted to know where we could get the help. That failed. We express our gratitude to our local member that we were encouraged with our vision to progress.

**The CHAIRMAN:** Is that Mr Masters?

**Mrs Brand:** Yes. We were also encouraged by our then shire president and CEO. We made some fairly regional connections to progress it and ended up at the door of the South West Development Commission. Our submission has a central theme of what was discovered by the South West Development Commission. The submission reinforces that it told us that we were not lonely; we were not the only people on its doorstep. It was not only a subregional problem; we were becoming aware that the lack of energy resource to enhance our vision of expansion was a regional problem far beyond our catchment. The South West Development Commission resourced some funding for an independent technical assessment. It was only a sample. The Western Power people came to the table with us. By this time people in the Peel catchment area had gone to the South West Development Commission with parallel problems. Having got the funding through the initiative of the South West Development Commission, we all sat around the table and agreed to progress the independent assessment. I have that here today. This has been a three-year journey. It was started in late 2000. Since then, we have met the South West Development Commission and the stakeholders and we have reached the consensus that it is not a public document. I can provide it to people but the combined agreement is that it is not something that we can pass around. We do not want the media to take the document and make presumptions about its use. I also have a letter from Western Power commenting on the document. With your indulgence, Mr Chairman, I would like to read a couple of paragraphs of the comments.

**Mr B.K. MASTERS:** Before you do, I explain to the committee my understanding of what you found out, which is that the cost of three-phase power to some of the dairy farms, which is essential for rotary or upgraded milking, can be as much as \$180 000 per farm.

**Mrs Brand:** Our initial quote was given in 2001. I have it here should you wish to take a copy. Having respect for Western Power, it was an indicative cost. It was something that was to be firmed up. The quote for our farm was \$138 000.

**The CHAIRMAN:** Do you have three-phase power running along the roadside?

**Mr Brand:** No.

**Mr J.J.M. BOWLER:** How far?

**Mr Brand:** About 2.4 or 2.5 kilometres.

**Mr J.J.M. BOWLER:** Was that going to cost you \$138 000?

**Mrs Brand:** That was the initial quote. We have received other quotes since.

**Mr B.K. MASTERS:** Have they gone up or down?

**Mr Brand:** They have been in our favour.

**Mrs Brand:** We are on the journey of a final quote. We had not received it yesterday, so we contacted Western Power and it faxed us a draft copy. It emphasises that it is a draft as it has not gone through the entire process internally. That is here if you wish to see it.

**The CHAIRMAN:** What does it say now?

**Mrs Brand:** It has brought the price down to -

**Mr Brand:** \$61 200.

**The CHAIRMAN:** That is a substantial discount.

**Mr J.J.M. BOWLER:** Is that from Western Power or a private company?

**Mr Brand:** That is Western Power. We have only ever dealt with Western Power.

**Mr J.J.M. BOWLER:** You will find that private providers can do it even cheaper again.

**Mrs Brand:** Can they?

**Mr J.J.M. BOWLER:** However, Western Power will not let you.

**Mr B.K. MASTERS:** I do not think they are allowed to.

**Mr J.J.M. BOWLER:** That is the trouble. The mining industry -

**The CHAIRMAN:** Mr Bowler is the member for Eyre, where the Western Power network does not operate.

**Mr J.J.M. BOWLER:** The experience in the mining industry, which can bring in private contractors, is that private contractors are invariably a lot cheaper than Western Power. As Mr Masters said, in some areas Western Power has the sole right to operate. However, it is amazing how it sharpens its pencil the second and third time around.

**Mr Brand:** We are on our third time.

**The CHAIRMAN:** Is the power infrastructure a critical issue in terms of your business plan?

**Mrs Brand:** Yes.

**The CHAIRMAN:** Was that request for a quote done in isolation or in concert with a number of other producers?

**Mrs Brand:** The original quote was done in combination with the people who came to our house.

**The CHAIRMAN:** Is that the 10 who were at the meeting?

[10.00 am]

**Mrs Brand:** Yes. Some of the dairy farmers have left since then because the journey is into its third year and their decisions have changed what they want to do.

**The CHAIRMAN:** That tender involves how many?

**Mrs Brand:** It is down to about six. A couple have progressed with rotary dairies in a compromised way, sadly.

**The CHAIRMAN:** Is that single-phase production?

**Mrs Brand:** Yes. It would be valuable for the committee to hear from Adrian about what we have to do on our farm to survive with the current energy resource.

**The CHAIRMAN:** That would be interesting.

**Mrs Brand:** Technically.

**The CHAIRMAN:** Before doing so, I wish to understand whether the request for three-phase power is by locality or by approaching Western Power one by one.

**Mrs Brand:** We have got to the one-by-one stage. We have commenced site works for our rotary dairy. On present returns, we cannot carry that huge headworks cost. We are looking at ways to do this. It would compromise the infrastructure of our dairy because the Western Power connections may not be achievable for us on present returns.

**The CHAIRMAN:** Mr Brand, do you wish to talk about that aspect?

**Mr Brand:** Under the current dairy, we are on what they call “rural phase”; that is, 480 volts. We must even have time clocks so certain pumps turn off so we do not go past the energy input.

**The CHAIRMAN:** The demand ceiling.

**Mr Brand:** Yes. Our demand goes past the Western Power input. That is where we are at this stage. A rotary dairy requires a helluva lot more energy than the 16 swing-over we operate at this stage.

**The CHAIRMAN:** A 16 swing-over is what?

**Mr Brand:** We have 16 cows on one side, we milk them and move them over to the other side. New cows move in. We milk them, and 16 move in.

**Mr B.K. MASTERS:** How many cows are you milking at the moment and what is your plan for your ultimate number?

**Mr Brand:** We are milking approximately 320 cows. Some are out for calving. We do not milk some of them. Our ultimate plan is to milk 500-plus cows.

**The CHAIRMAN:** Are you turning any heifers off?

**Mr Brand:** Absolutely not. In regard to turning off heifers, a lot of people have the opportunity to do so depending on the year and the percentage of heifers to bull calves. A normal herd turnover is around 20 per cent. If you milk 300 cows, you need about 60 new heifers every year. If milking 500, that is a 100. You have a chance of turnover. That is a natural attrition. It is an industry standard.

**Mr B.K. MASTERS:** Is that cows that are getting too old -

**Mr Brand:** They are getting too old, have paralysis, die, are not calving - one thing or another.

**The CHAIRMAN:** In your submission you were clear about no further regulation: “Do not go back to the regulated regime.” Is that fair comment? You were explicit about that.

**Mr Brand:** Yes. We came from the situation that when we started milking in our dairy in 1985 we were given a quota of 240 litres a day. We progressed and had 591 litres a day at deregulation. Somewhere at that stage our average price was about 25c per litre. Last year, we were averaging about 32c a litre for all our milk. We certainly have taken a journey going up, not going back down.

**The CHAIRMAN:** How have you done that - by producing higher butter fat content milk?

**Mr Brand:** Yes.

**The CHAIRMAN:** I want to explore two things with you on that aspect. It would appear to the committee from the submissions received and hearings held so far that your Victorian and New South Wales counterparts are being paid substantially more than you on an average gate price. Do you have a sense - I am interested to know whether you have networks to the rest of the Australian industry - of why the Western Australian farm gate price is so far below that on the eastern seaboard? Do you have inkling? Have you spoken to eastern state farmers on negotiating processes, or does research suggest why the difference exists?

**Mrs Brand:** My comment will be anecdotal. We went to Canada and America last year with producers from across the nation and we broached these topics. I observed that people involved in the eastern States industry, from the manufacturers level, were astute, and maybe - I say this with

respect - had greater ability and preparedness to negotiate and bargain than found here. The exchanges between the eastern States producers -

**The CHAIRMAN:** Is that producers and farmers?

**Mrs Brand:** Processors. There seemed to be processes in place for more conversation. Maybe they had more ability. It is only anecdotal evidence.

**Mr B.K. MASTERS:** Is this negotiation between farmer and processor or processor and retailer?

**Mrs Brand:** No. We were not involved with retailers. It is anecdotal evidence one hears in conversation travelling around. It is a perception only that some personnel in the eastern States from our manufacturing company had a degree of increased ability in those skills. With respect to the Western Australian farmers, we are a very, very small industry. With greatest respect to our industry, I feel there has been a degree of complacency that probably grew from a comfortable, regulated industry rather that did not require the development of negotiating and bargaining skills. We became involved in an attempt to negotiate and bargain on a contract recently with National Foods. We wrote and asked for the national supply manager to visit our farm. He was there almost immediately. We challenged him on the integrity of the contract. It was not really a contract. I understand that when supplying goods to somebody there should be a degree of bargaining power. He stripped us of our football boots - the whole lot.

**The CHAIRMAN:** Did he acknowledge that at the meeting?

**Mrs Brand:** He expressed a degree of empathy for us. I suggest that the Western Australian industry is not well organised. Some attempts were made to make it so. My view is that all those things should have been done at the point of deregulation.

**The CHAIRMAN:** The regulated guaranteed price that historically ensured that dairy farmers in Western Australia did okay also produced a degree of individualism that meant that when in a highly competitive, bruising negotiating environment, there was no cooperative effort to get a collective outcome - is that fair comment?

**Mrs Brand:** That is very fair. There were no tools -

**The CHAIRMAN:** There was no experience of it.

**Mrs Brand:** No.

**The CHAIRMAN:** Is there a willingness for it?

**Mrs Brand:** There certainly is with us. Some leadership came out in our subregion. As a result, we could not be blamed for that perception. After that, supply contracts were dropped dramatically. When we attempted bargaining, there appeared to be almost a degree of retribution.

**The CHAIRMAN:** There was a degree of punishment - I have heard that said before. We have a couple of minutes left and we will keep moving this hearing along this morning. Is there anything the committee should recommend to the Government to facilitate or provide assistance to the development of greater cooperative behaviour and, through that behaviour, economic outcomes on the production side, and perhaps bargaining outcomes from a unified position to the processors? Is there anything we should put to Government as a recommendation from this inquiry?

**Mrs Brand:** To substantiate and progress that aspect, you will need reasons for it. The price difference between the eastern States and here is one reason for our lagging behind. My anecdotal comments are that I do not think manufacturers are providing enough skilled people on the ground to come to the table.

[10.10 am]

I was really quite surprised by the gentleman who came from the east. He was a really good negotiator and I would have liked to have spent a couple of more hours with him.

**The CHAIRMAN:** To learn from him?

**Mrs Brand:** Yes, to learn from him, and to challenge him with our side. We are just one dairy farm. I would have liked to have seen a collective.

**Mr J.J.M. BOWLER:** Is it too late?

**Mrs Brand:** No, I do not think it is. As we have said in our submission, I do not think the manufacturers are the bad guys that some people see them to be. They are trying to survive as well in the chain.

**Mr J.J.M. BOWLER:** Who are the bad guys?

**Mrs Brand:** I feel there is a level of position that the supermarkets have positioned themselves into for their benefit. I would like to know where the money from the vendor went to when he dropped out; who copped his market share? I would like to know where the nearly three per cent of return from the now defunct Dairy Industry Authority went to. Who is collecting all this? I do not know. We are certainly not as producers.

**The CHAIRMAN:** It is probably fair to suggest that it is being split between retailer and processor.

**Mrs Brand:** Well, yes.

**The CHAIRMAN:** It has not been distributed across the chain. It is fair to assume that.

**Mrs Brand:** If you want a sustainable dairy industry in Western Australia - we are rubbing shoulders with our neighbours all the time - there will have to be something. The Brands taking their third step are finding it very, very difficult. We consider ourselves to be very efficient, but on present returns it is most challenging.

**The CHAIRMAN:** Mr and Mrs Brand, I say on behalf of this committee that your submission has given us cause for hope that there are farmers who will change the nature of dairying in Western Australia so that it is sustainable and ultimately, in the medium to longer term, it will become part of the growth industry of Western Australia. That is a fantastic vision and I thank you for your submission today.

**Mr B.K. MASTERS:** Can the document from Western Power be made available to our research staff to look at if you think it is relevant?

**The CHAIRMAN:** We will undertake to not make that a public document.

**Mr Brand:** The one we have here - the last one was faxed to us yesterday as a draft. It was for \$61 200.

**The CHAIRMAN:** As an aside, the energy regulator also reported to Parliament yesterday that the total requirement just to get the south west interconnected network to a safe operating level requires a \$48 million investment. You can see the kind of challenge that is on the energy supplier in this State. It had not budgeted for it; it has a huge retro fit that it must go back and pick up on. The demands are coming from all sides. If you have negotiated something like a 55 per cent reduction - off the top of my head - you are doing all right.

**Mrs Brand:** In conclusion, you should be aware that a new 132 kVA powerline ventured through our farm at no public benefit to us - a loss. We feel that the playing field has become rather unlevel.

**Mr B.K. MASTERS:** That reminds me that some dairy farmers went to Western Power and said that if it wanted to put a 132 kVA powerline through their properties they would like to negotiate so that Western Power gets the easement for free and the farmers get a deal on three-phase power. Western Power's response was, "Sorry, different section." The two arms of Western Power remain separate.

**Mr J.J.M. BOWLER:** That will change when we break it up.

**The CHAIRMAN:** It will.

**Mrs Brand:** Thank you for listening to us.

**The CHAIRMAN:** Thank you very much indeed for taking the time to see us today. We appreciate it very much.

**Proceedings suspended from 10.16 to 10.38 am**