

SADA UPDATE

Opening Prices and Supply Contracts

With most processors announcing their opening prices SADA has been reflecting on how it's being played out. It is always surprising how most processors who have different product mixes and different export to domestic ratios can still arrive at a figure which is close to the first opening figure. Bega, Warrnambool Cheese and Butter, Midfields all \$5.50, Fonterra \$5.30 & Murray Goulburn \$4.70m (more recently \$5.20). It is noteworthy that the closing price is more important than opening but a good indication to start.

There have been calls for an index – a commodity export price guideline to be created. We believe there is room for an independent index. SADA would be interested in what an independent view would look like, matching product mix against export and domestic sales. SADA understands it's not easy to do, but it would give an indication of why or how a processor who is going to produce mainly milk powder and export most of it, against a more value add processor.

In the past year SADA has worked in collaboration with Australian Dairy Farmers (ADF) and other State Dairy Farmer Organisations to develop a Code of Practice on Contractual Arrangements. Most of the companies have agreed that a voluntary code will help the industry. Such a code will be useful as it creates a benchmark that clearly defines what is acceptable. If there is a deviation from the code, there is no penalty or law that can penalise a perpetrator, however the industry can make critical comments using the code as the best practice standard. Equally it gives farmers the ability to compare their contracts to the code.

The decision as to which processor to go with will always be in the producer's hands. In making that decision consideration needs to be given on an individual farm's calving pattern, feed system and security of income.

Make sure you do your income estimations, compare them against other processors and check the terms of contracts.

If you have any concerns or would like clarification on contracts, feel free to contact John at the SADA office on 8293 2399.