

Jersey Australia Advocacy Paper

FARMING TOGETHER PROGRAM – CASE 02034 2018

SUMMARY PAPER FOR DISTRIBUTION

Jersey Australia commissioned two reports to be prepared looking at the value of components in milk pricing mechanisms used by the major processors.

October 2017 Report

The first report prepared in October 2017 used actual farm data from both Jersey and Holstein herds and compared actual prices received. From the data analysis it was difficult to conclude that Jersey milk is disadvantaged relative to Holstein milk on the basis of milk solids provided at the farm gate, however it is reasonable to conclude that Jersey profile milk on a solids basis is relatively cheaper to collect and more efficient to process in relation to yields and handling costs compared to other breeds who produce lower solids milk. The benefit of higher solids milk is not necessarily accounted for in the payment systems reviewed.

March 2018 Report

Milk pricing mechanisms in Southern Australia are unnecessarily complicated and do not always send the appropriate market signals. It is difficult for farmers work out exactly what their price is. There is no evidence at all to suggest that the current values of fat and protein used by processors represent actual market returns. Processors use pricing mechanisms for competitive reasons as opposed to sending market signals to value of individual components.

Discussions with a wide range of industry participants has confirmed that there is no real science applied to the value of individual components used in milk pricing mechanisms. The values of fat and protein do not actually reflect the market returns for individual components. Consumers are not buying components but finished products, such as cheese, that contain both fat and protein and therefore it is not relevant apply a value to either component.

Conclusion

Pricing mechanisms are only a means for paying milk and the breakup of components and other incentives does not necessarily relate to market conditions. They are often used for competitive reasons as opposed to providing farmers a transparent price that sends clear market signals.

Current pricing mechanisms do not necessarily disadvantage Jersey farmers but they are unfair to many farmers. They need to change if the if all farmers are to be treated fairly and be rewarded for producing premium milk with higher solids.

Recommendation

It is recommended that a much simpler pricing mechanism would benefit the dairy industry in Southern Australia. This report does not recommend that pricing mechanism should be designed to benefit one breed or another but it should be designed encourage premium quality milk and higher solids milk.

Proposed Pricing Mechanism:

- one price for milk solids, butterfat and protein
- an appropriate volume charge that penalises lower solids milk

The report raised a number of other pricing issues as well in regard to incentives and seasonality. These issues were outside the scope of this project but should be of concern to all farmers looking for more fairness in milk pricing.

Jersey Australia

Jersey Australia should join with other representative farmer groups and advocate for a simpler pricing mechanism that rewards higher milk solids regardless of breed. It is clear that the individual values placed on fat and protein by processors are artificial numbers and bear no resemblance to market returns for individual components and send the wrong signal to farmers.

