

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. The shapes are primarily triangles and polygons, creating a dynamic, layered effect. The central area is white, providing a clean space for the text.

Reflections on cooperatives in the Australian dairy industry

Kelvin Jackson

My background

- ▶ Dairy Farmer
- ▶ More than a decade of experience as a director
- ▶ Cooperative Leaders' Forum
 - ▶ Bonlac: 1999-2007
 - ▶ Dairy Australia: 2006-2015
 - ▶ Murray Goulburn: 2016-2018
- ▶ Committee for 20 years
- ▶ Chairman for 10 years

Regulation of the Australian Dairy Industry

Manufacturing milk

- Federal government
- Pooling of returns
 - Export
 - Domestic
- Underwriting

Drinking milk

- State government
- Regulated prices
- Control of distribution

Early 1980's

Deregulation of the Australian dairy industry

General economy

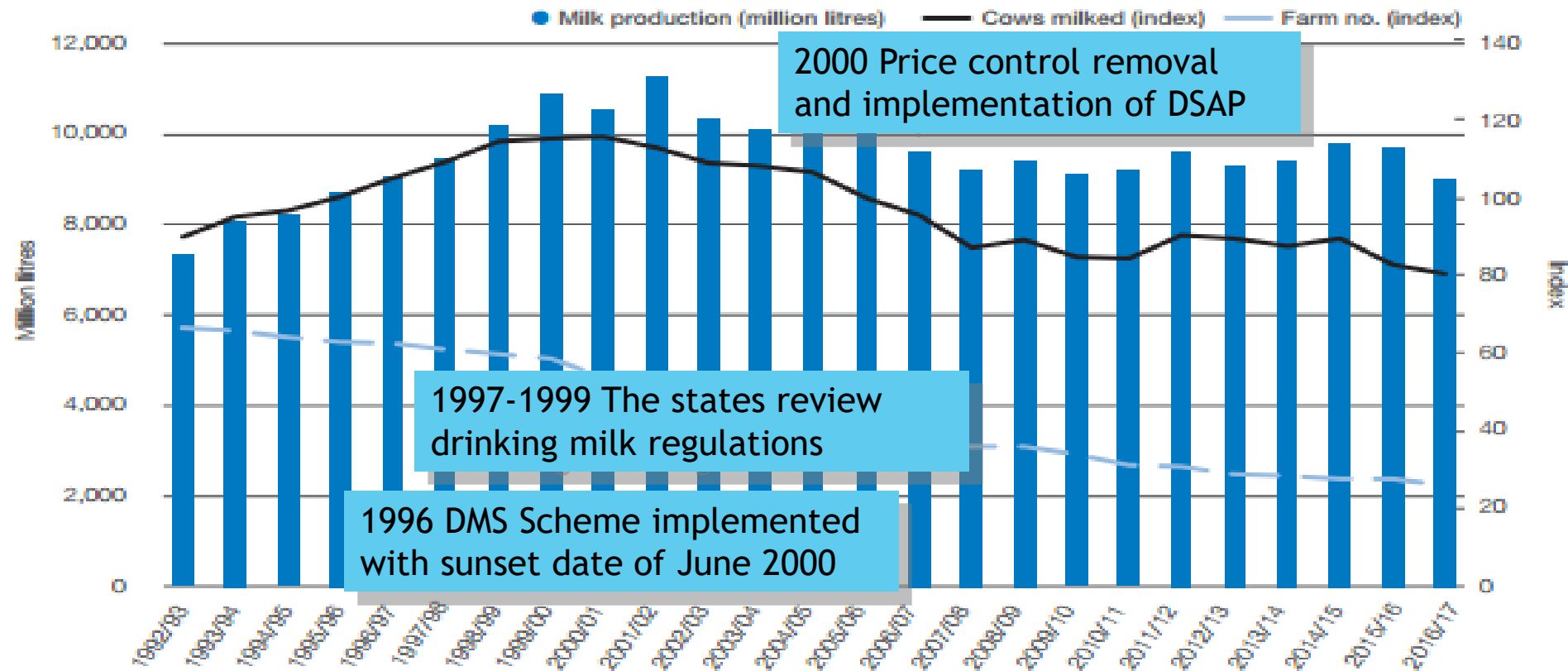
- NZ in the Australian market
 - ▶ Closer Economic Relations agreement
 - ▶ Free trade between Australia and NZ
- Federal government reform agenda
 - ▶ National Competition Policy
 - ▶ COAG agreement with States

Dairy specific

- End of manufacturing support in 2000
 - ▶ Pressure on regulated drinking milk prices
- Export-oriented industry pushed for total deregulation
 - ▶ Farmer-owned coops felt disadvantaged
 - ▶ Unfair advantage to uncompetitive production
 - ▶ Victorian farmers voted to end to their regulation

Deregulation of the Australian dairy industry

Figure 5 Australian milk production vs indices of farms and cows milked



AUD floats, economic reforms

WTO & National Competition Policy

Droughts, China & GFC

1983 CER agreement with NZ

1986 Kerin Plan implemented

Today's agenda

Organisation

- ▶ Bonlac
 - ▶ Challenges, then sold
- ▶ Warrnambool Cheese and Butter (WCB)
 - ▶ Challenges, just prior to ASX listing
- ▶ Tatura Milk
 - ▶ Challenges, then sold
- ▶ Murray Goulburn (MG)
 - ▶ Challenges, then sold (asset sale)

Common Themes

- ▶ Challenges are a certainty
 - ▶ How do you address these challenges?
- ▶ Governance is critical
- ▶ Awareness of personalities in Leadership Team
- ▶ Personal credibility is precious

Bonlac

Critical points in time

- ▶ New CEO 1996: Value Added Strategy
 - ▶ Bioscience, beverages, food service
- ▶ Value add, build new factories
 - ▶ Total 14 plants
 - ▶ Costs associated with brand development and new markets
- ▶ New management and leadership
 - ▶ Not much trust between farmers, management and board/leadership
 - ▶ Not much dairy experience either
- ▶ Considerable currency hedging loss
 - ▶ \$300m (€186m) against spot over 4yr
 - ▶ Lost \$96m (€60) in one year alone

Observations

- ▶ *Bonlac and MG were both processing around 3bn litres of milk*
- ▶ *Started from higher cost base*
 - ▶ 1998: -40c/kgMS (compared to MG)
 - ▶ 1999: -80c/kgMS
 - ▶ 2000: -80c/kgMS
- ▶ *Value added meant higher revenues*
 - ▶ *But also higher costs, from an already high base*
- ▶ *Major competitors only hedged 4m forward*

Murray Goulburn Cooperative (MG)

Critical points in time

- ▶ New CEO Oct 2011: Sweeping change
 - ▶ Listing, domestic retail, value add
- ▶ New management and leadership
 - ▶ Leadership not to be questioned
 - ▶ Limited dairy experience
- ▶ 2015 \$500m capital raising
 - ▶ Restricted ability to 'talk' to farmers
- ▶ Strong competition in Australian domestic retail market
 - ▶ Discounting to gain entry

Observations

- ▶ *Conservative culture for many years*
 - ▶ *Never suffered extreme losses*
 - ▶ *Also missed out on some acquisitions*
- ▶ *'Millennium Drought' 1997-2009*
 - ▶ *Annual rainfall 73mm below average*
 - ▶ *Capex on hold to support farmers*
- ▶ *Competitor processors retaliated*
 - ▶ *Reduced margins to gain share*

Murray Goulburn Cooperative (MG) ctd

Critical points in time

- ▶ April 2016: Trading halt announced
 - ▶ Large cut to farm gate milk price
 - ▶ Introduction of Milk Supply Support Package (MSSP)
- ▶ July 2016: Low opening milk price
 - ▶ Below cost of production
- ▶ Feb/Mar 2017: New CEO + Chairman
- ▶ May 2017: Closure 3 manufacturing sites, 'forgiveness' of MSSP
- ▶ June 2017: opening milk price 80c/kgMS below competition
- ▶ October 2017: MG AGM - sale announcement

Observations

- ▶ *Trading halt and 'step down' in milk price came as a surprise to farmers*
- ▶ *MSSP / 'clawback' of 'overpayments'*
 - ▶ *Hated by farmers*
- ▶ *Lost 1bn litres 12m (3.5bn→2.5bn)*
 - ▶ *Followed by another 600m litres in 6m*
- ▶ *Very clear 'new' board vs 'old' board*
- ▶ *Low opening price 'forced' farmers to leave*

WCB and Tatura Milk

WCB

- ▶ Planning to list the company
- ▶ 2007/2008 - impact of GFC on dairy markets
- ▶ ‘Information filtration’ - full picture of market returns not clear to board
 - ▶ Artificially optimistic view
- ▶ April 2009: Forced cut to farmgate milk price
 - ▶ Lost 300m litres. Old CEO out.
- ▶ Re-employed retired CEO
 - ▶ Personal credibility to build trust and get milk back

Tatura Milk

- ▶ Considerable volatility in international dairy markets
- ▶ June 2006: announcement of financial losses
 - ▶ Investments in processing plant
 - ▶ But mobile milk. Overhead recovery
- ▶ February 2007: Bega announces takeover bid. ‘Strategic alliance’ formed
- ▶ Tatura milk continues operating as a subsidiary of Bega

Learnings

- ▶ **Dealing with challenges**
 - ▶ i) Acknowledge there is a problem
 - ▶ ii) Outline the strategy to fix the problem
 - ▶ iii) Explain what the future will look like
- ▶ **Personal credibility is critical**
 - ▶ Without personal credibility you are nothing. Trust is critical, and fragile.
- ▶ **Farmers and processors work together as a team**
 - ▶ Understand implications of factory-level decisions on farm
- ▶ **Optimise governance with a balanced leadership team**
 - ▶ Board Chair and CEO need to balance each other with complimentary skills
 - ▶ Especially for risk profile, values, long term/short term perspective

Learnings: 8 Key Observations

- ▶ **Select the right CEO**
 - ▶ Board needs to get involved with selection considering values
- ▶ **Chair of board is totally independent**
 - ▶ The Board directs the CEO
- ▶ **Chair needs to create culture**
 - ▶ Question management
 - ▶ No wilful blindness
- ▶ **Directors understand accountability**
 - ▶ Community expectations
 - ▶ Trust, but verify
- ▶ **Director responsibility to understand business**
 - ▶ Talk to employees
 - ▶ Ensure information not being sanitised as it comes 'up the line'
- ▶ **Benchmarking!**
 - ▶ Product mix, currency, investments, markets, ROA, risk
- ▶ **Coop must maximise return to farmgate**
 - ▶ Value adding often adds cost, but does it add profit?
- ▶ **Farmer/shareholder support**
 - ▶ Trust is precious

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Thank you