



OPEN LETTER REGARDING TASMANIAN MILK PRICING

3 September 2009

National Foods flatly rejects recent claims that it is abusing market power, made in a press release today by a small group of dairy farmers in Tasmania who are currently negotiating for higher milk prices.

At National Foods, we appreciate these are difficult times in the industry and we are acutely aware of the impact current world dairy prices are having on farmers in Tasmania and elsewhere.

While National Foods cannot control global commodity prices, it is important to us that the farmers who supply our milk are treated fairly.

The price we are offering is, in fact, higher than any of the other major milk buyers in Tasmania and 10% - 20% higher than that being paid by our major competitor, depending on the supplier's milk intake pattern.

At National Foods, we pay a premium to reflect our need for a flat supply of milk year-round. In addition, our pricing structure includes a minimum price guarantee that ensures our price remains at least equal to but in most cases better than our competitor's, whether commodity prices rise or fall.

When the global commodity price of milk increased dramatically two years ago, the collective bargaining group we are dealing with now insisted then that we change our pricing structure to follow the global commodity price. We did this despite the fact that the domestic market did not move upwards to near the same extent.

For example, while the farm gate milk price rose by more than 50% between 2007 and 2009, the supermarket price for branded milk increased by around 10%. The supermarket price for private label milk rose even less and has since dropped again.

Of course, the commodity price has now slumped and the whole industry is affected.

The side of the equation often overlooked in the public debate is that we, as a viable business, have to produce and sell our product at a competitive price. Therefore, while we pay a premium, we cannot afford to offer farmers a price way out of proportion with our competitors who supply product in the same market that we do.

Another issue often not seen in the debate on milk pricing is that there has been substantial growth in milk supply in Tasmania, with too much milk now being produced at farm level in relation to both market requirements and processing capacity within the state.

National Foods actually pays two prices for milk to our suppliers. Price one is the contract price for milk we need to support our fresh milk business, and this price reflects the market value outlined above. Price two is a base price for milk that National Foods does not actually need, all of which goes into the international market for cheese. The value of this cheese is currently very low. We could choose not buy that milk but, wanting to support our farmers as they reduce milk production, we have offered a price that enables us to place that milk into the international market at no margin to National Foods.

We have had numerous meetings over recent weeks with individual farmers and with the group they established a number of years ago to bargain with us collectively.

I appreciate that individuals involved in that process will make representations to the media and other parties in advance of their position, however it is important that all of the facts are examined.

We remain hopeful that we will all be able to reach a mutual understanding with that group and navigate our way through the economic cycle together.

Ashley Waugh
Managing Director and CEO
National Foods Limited