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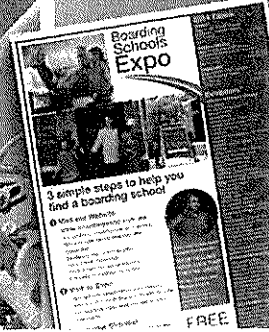
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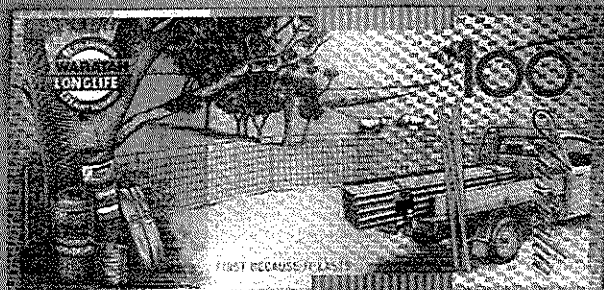
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MILK
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Coles, Woolworths in ACCC's spotlight

THE Australian Competition and Consumer Commission (ACCC) is examining the willingness of grocery suppliers to give evidence against the major retailers as a long-running investigation heads toward the courts.

The ACCC has been investigating allegations of misuse of market power and unconscionable conduct against Coles and Woolworths since 2012 and is close to finalising one part of the investigation.

The ACCC had written to suppliers asking them to decide by April 24 whether they would allow their evidence to be made public in court.

The watchdog has been using its powers under Section 155 of the Trade Practices Act to gather information from suppliers and retailers that can be used as evidence in court.

ACCC chairman Rod Sims said the commission recognised suppliers' concerns that certain evidence could damage their commercial relationships with Coles and Woolworths.

"We've been mindful of this issue and it will continue to influ-

ence how we proceed."

Mr Sims confirmed any evidence collected through the use of 155 notices could be used in court and rejected suggestions the ACCC would allow suppliers who had previously given evidence to "opt out".

Sources said many suppliers feared the consequences of giving evidence against major customers.

The investigation was launched in late 2012 when about 50 small and medium sized suppliers, on the promise of anonymity, agreed to air their grievances.

The key allegations included persistent demands for additional payments from suppliers above and beyond those negotiated in terms of trade and discrimination in favour of home-brand products.

The retailers have since tried to head off legal action by agreeing to a voluntary grocery industry code of conduct with the Australian Food and Grocery Council.

However, the implementation of the code has been delayed by a regulatory impact assessment and it is unlikely to be in place until the end of the year.

— SUE MITCHELL

Norco's plan to milk Chinese opportunity

By SHAN GOODWIN

THE first commercial shipments of fresh milk from NSW farms to China will leave the Northern Rivers next Monday in a breakthrough set to return strong value to the farmgate.

A total of 4500 litres of fresh full cream milk in one litre bottles will be flown out of Sydney and hit the shelves of Chinese supermarkets and corner stores within a week of leaving North Coast dairy farms.

More than 20 million litres will follow during the next 12 months.

Lismore-based dairy co-operative Norco, industry group Dairy Connect NSW and Sydney export consultants Peloris Global Sourcing (PGS) have developed a state-of-the-art commercially-viable cold chain pipeline featuring unprecedented quarantine clearance agreements with China to bring the delivery time within the shelf life of fresh Australian pasteurised milk.

Australia's liquid milk industry has long been eyeing off the Asian potential, but export efforts have been hampered by lengthy testing and quarantine processes, both at home and in China.

Dairy Connect's Mike Logan said it was unknown just how big the Chinese market for fresh NSW milk was but "all indications are the possibilities are mind-blowing and the question will quickly become: 'Are there enough aeroplanes to put milk in?'"

The introduction of "serious competition" would reset the negotiation table with the two big supermarkets in Australia which have pushed retail milk prices to an unsustainable \$1 a litre, he said.

"It has been a major industry strategy for some time to build new channels for sales of fresh milk," Mr Logan said.

"It is hard to negotiate a good deal when only two in town are buying – it effectively becomes one channel and we've had to accept whatever they offer."

"Now there is some serious competition which will underpin a negotiating position of power for NSW dairy producers and bring some value back to the farmgate."

The milk will sell in China for \$7 to \$9 a litre, against a backdrop of local milk retailing at \$3/l.

It will be aimed at the 18- to 34-year-

All indications are the possibilities are mind-blowing and the question will quickly become: "Are there enough aeroplanes to put milk in?"

— Mike Logan, Dairy Connect

old, well-educated, middle-class demographic, the population of which is about 400 million.

Chinese fresh milk production is estimated to account for only a third of demand, with UHT and ESL (extended shelf life) milk bridging the gap.

Norco chairman Greg McNamara said the shipment opened the doors for the business to access the burgeoning demand from Chinese consumers for Australian fresh milk products.

Owned by 298 members operating 175 dairy farms across northern NSW and South East Queensland, Norco is a 119-year-old business.

It has already been exporting ice

cream to Japan for 10 years, and is developing other opportunities throughout Asia.

At the end of March, the first batch of fresh milk, ice cream and yoghurt was shipped to the Philippines.

Mr McNamara said increasing Norco's presence in the export market was part of a strategy to ensure its business was not subject to the dominance of any one customer.

The China move comes on the eve of the commencement of the contract to supply and bottle Coles' house brand milk for its stores in northern NSW and Southern Queensland, which from July 1 will account for about 36 per cent of the co-operative's milk and 32pc of its ice cream business.

Mr McNamara is hoping the contract will also provide a foot in the door to include Norco products on the shelves of close to 50 additional Coles stores, lifting sales of higher-margin products.

The clear expectation of Norco management, he said, was that most of the profit generated from the Coles arrangement will be used to increase the base milk price to farmers.

Mr McNamara said Norco did not secure the Coles contract on price alone, rather "being an Australian-owned co-operative which shares its profits among its farmer owners was a key element".

Likewise, dealing direct with farmers was a major attraction for the Chinese customers, along with the nutritional traits, food safety and quality assurance.

As for NSW's dairy industry, next on the horizon was building manufacturing channels, Mr Logan said.

Milk powder plants are in the planning, with the Lower Hunter, Orange and Dubbo touted as possible sites.

Potential strong to expand dairy exports, says Norco

THE first shipment of Norco milk to China will not carry the co-operative's highly-recognisable Australian flag label but rather a more generic NSW milk branding (pictured).

Norco is conscious of the possibility of Chinese replication of what will be a premium product.

However, down the track it is hoped a version of the Norco label will be used, said chief executive officer Brett Kelly.

"Our strategy is to look at China as a long-term project, take it one step at a time, build on our reputation and carefully select the partners we sell through," he said.

"We are currently working with about 18 retailers in Shanghai and the feedback is the perception among our target market of Australia's clean, green farming image augurs well for future growth."

"Our information also is that this target market is savvy about recognising real brands and identifying copycatting, another good sign."

Mr Kelly said while the plan was to start conservatively, there was very good potential to expand into exporting the full range of Norco's fresh milk products and other dairy products.

— SHAN GOODWIN



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Clunes dairy in prime position

FOR third generation Norco supplier Warren Gallagher, expanding the business's presence in the export market makes all the sense in the world.

The Northern Rivers milk producer, based at Clunes, has hosted Asian visitors who were potential dairy customers on his farm and he knows the clean, green image the region's farms project is highly marketable.

Asia is a huge and potentially lucrative market, which NSW milk producers are in prime position to tap into, he said.

"Norco has had a successful presence in the ice cream export market for more than a decade, so why not build on that?" said Mr Gallagher (pictured with his children Caitlin, 9, and Reece, 10).

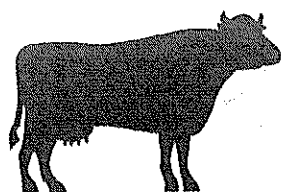
"Fresh milk to China is about expanding our markets, spreading our risk and creating more competition for our milk which can only be a good thing for the farmer."

With wife Megan, Mr Gallagher milks 180 cows, mostly Illawarras, to send 1.4 million litres to Norco annually.

He has 90 cows due to calve in May and says although it has been one of the dryer seasons he's seen, it was manageable.

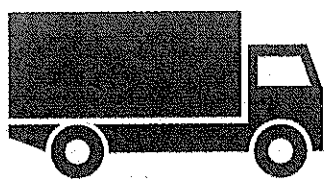
"(The poorer season) coincided with fewer cow numbers as part of the normal cycle and we seemed to receive just enough rain to get green shoots," he said.

— SHAN GOODWIN



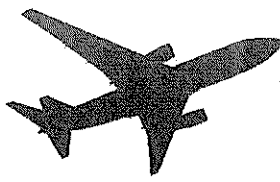
DAY 1

Milked on a northern NSW farm and taken to Norco's Lismore factory for processing. A sample is sent to Australian quality assurance labs for testing in Sydney.



DAY 2

4500 litres travel via Norco truck to Sydney.



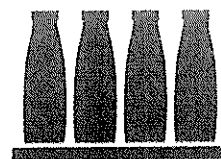
DAY 3

In the air to Shanghai, 12 hours in transit (10hr flight). Clears customs.



DAY 3-7

Chinese inspection quarantine testing completed. Australian testing forwarded to Chinese officials. Health certificate issued on clearance. Milk is distributed at the same time but not released to customers until health certificate is issued.



DAY 8

Hits the shelves with a shelf life of 13 days. Plans are for 20 million litres exported a year.

Unlocking trade links in the cold chain to Asia

PARALLEL food health and safety testing has been the key to the milestone establishment of a "pipeline" for fresh milk to be exported to China.

International export consulting company Peloris Global Sourcing (PGS), Australian-owned and based in Sydney, has been collaborating with Chinese officials for 12 months to build rigorous quality assurance protocols that could be officially

sanctioned by Chinese agencies.

Changes to existing Chinese import clearance procedures to accommodate the limited shelf life of fresh milk imports from Australia have been necessary.

Under the previous system, the export lead time would typically take between 14 and 21 days but because Australian and Chinese testing can now happen at the same time, that has been reduced to just one week.

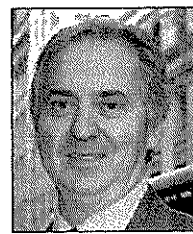
A trial shipment of close to 1000 litres of Norco milk went to China in March and PGS managing director Peter Verry said it was successful, even making the Shanghai television news.

Mr Verry said the cold chain pipeline incorporated stringent quality assurance controls which ensured the fresh milk met or exceeded China's food health and safety standards.

This meant the product was maintained at the optimal temperature at all times during transit and incorporated an innovative product security system that identified and tracked the location of individual units.

Dairy Connect NSW's Mike Logan (pictured) said while many had tried, never

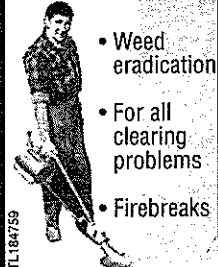
before had Australian businesses been able to work their way through the relentless Chinese testing regime in a time period that would work for the shelf life of fresh milk.



"Norco and PGS are dynamic companies and have made it happen," Mr Logan said.

— SHAN GOODWIN

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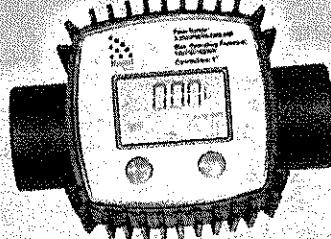
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