

# How farmgate milk prices are set in Australia

**Setting farmgate milk prices in Australia is no mean feat.**

**While it might be simple to say: Australian farmgate milk prices are based on the milkfat and protein content of the milk produced on farm, with different prices for each component.**

**There's a lot more than goes into it.**

Farmgate milk prices are heavily impacted by factors like freight costs, product mix, marketing strategies, manufacturing capacity utilisation and efficiencies, and exchange rate hedging policies.

Global competition also influences milk prices, as the Australia dairy is trade-dependent and operates in an open and international competitive market and countries are free to import and export milk.

Seventy-one per cent (or more than 6 billion litres) of Australia's total milk production is directly trade exposed to global commodity markets and exchange rates.

This means our products must compete with imports to Australia (particularly from NZ and US) and exports around the world.

Australian farmgate milk prices are made even more complicated because they differ throughout our dairy regions.

**In the Southern dairy regions of Victoria, South Australia, Tasmania and Southern NSW,** which represent about 80 per cent of raw milk produced in Australia, milk prices comprise two elements:

- an underlying Australian Commodity Milk Value which is directly influenced by world market prices of dairy commodities (milk powders, cheese and butterfat), and

- a Value-Capture portion or premium which is captured in added-value products and/or due to competition for milk at farmgate with domestically focused processors.

**In the Northern and WA regions, of NSW, Queensland and Western Australia,** where locally produced milk is predominantly used to service the fresh/drinking milk markets, are consistently higher than Southern Region farmgate milk prices.

**Why is the Commodity Milk Value important?**

The Commodity Milk Value (CMV) is an important forward price milk indicator that is based on a weighted basket of Oceania [spot prices of major commodities](#) – cheese, butter, SMP and WMP – converted to an Australian dollar-denominated value of milk.

It's important because in the Southern regions (where most of Australia's raw milk is produced) accounts for about 80 to 90 per cent of the average farmgate milk price.

The CMV calculation uses the industry's average annual product mix and conversion costs to estimate the corresponding milk value.

Learn more about the CMV on the [Milk Value Portal](#).

**Here are the statistics**

As of April 22, this year the spot Oceania CMV is \$7.30kgMS compared to \$6.57kgMS at the same time last year.

This is about **30 per cent or \$2 less** than the weighted average Australian Southern region farmgate milk price of \$9.40kgMS.

Over the 12 months to March 2024 spot prices of major commodities – including cheese, skim milk powder and whole milk powder have all dropped.

The most important of these to note is cheese, which has dropped by 29 per cent.

It's important because Australian dairy processors manufacture more than 400,000 tonnes of cheese annually.

This means – the largest utiliser of Australia's milk (cheese) – has dropped by US \$1800 per tonne, while the cost of production continues to rise.

## Frequently asked questions

AFPF has prepared the following frequently asked questions to further explain the Milk Value Portal, and influencers on farmgate milk price.

### What is the Milk Value Portal?

The Milk Value Portal is a well-established credible source of primary information that can help farmers understand how milk is valued in each 12-month production season, and the domestic and global market factors and on-farm parameters that can influence this.

It helps answer the question “What is the milk price?”, and “what influences the milk price?”.

Primary data is provided directly from the buyers of raw milk themselves, dairy processors, and aggregated by an independent third party, representing more than 90 per cent of the milk volumes across Australia, and eight of the nine production regions.

The portal is an initiative of the Australian Dairy Products Federation and delivers to Commitment five of the Australian Dairy Plan, which aims to: “restore trust and transparency between farmers and processors to strengthen industry confidence”.

### What influences farmgate milk prices?

The raw milk market is highly complex and rapidly evolving as it responds to domestic and global factors which all influence farmgate milk prices.

Currently, more than 80 per cent of Australia's milk is produced in the Southern manufacturing region. The milk prices paid by these manufacturers are highly influenced by global markets, with a small portion used in local fresh milk products.

In comparison, in the Northern and Western regions, where locally produced milk services the fresh drinking milk market, milk pricing has regard for the milk prices in the Southern milk pool, local supply and demand conditions, the cost of sourcing milk, and Southern milk price overtime.

Find out more detail on how farmgate prices are determined [here](#).

### How can I use the Farmgate Milk Value Tool?

The Farmgate Milk Value Tool (FMVT) is an interactive tool that allows users to get a regional comparison of average farmgate milk prices.

It's influenced by different farm parameters such as the size of the farm, seasonality of milk supply and milk components (butterfat and protein content), for the season and for each quarter, in cents per litre and dollar per kilogram milk solids.

On the Milk Value Portal a user can customise a farm situation nearest to their own situation and observe how milk is being valued – as a weighted average milk price and with high and low values – based on the minimum prices available for a milk supply agreement, for that example farm.

This includes selecting the farm size (in litres), one of eight production regions, seasonality of supply (flat, average, seasonal, split), butterfat and protein content (low, average, high), price (cents/litre and \$/kg milk solids), and the year (current and previous years), and seeing how changes to those farm parameters can affect potential farmgate milk prices over the season.

It also provides the user with reference points to assess relevant contracts that may be available to them. The FMVT features milk pricing data for the current and previous years.

This tool is also supported by domestic and global market insights that can influence milk price

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including commodity values and the Commodity Milk Value (an indicator of milk price); exchange rates and import competition.

Access the Farmgate Milk Value Tool [here](#).

### **How is the weighted average milk price and 'range of prices' calculated in the Farmgate Milk Value Tool?**

The full season weighted average milk price in the Farmgate Milk Value Tool (FMVT) is calculated based on the minimum monthly pay rates, incentives, and deductions contained in the terms of each applicable contract for each example farm, across a range of farm parameters (location, farm size, milk solid yields, seasonality of production).

For each example farm, the resulting calculated prices are then weighted, to calculate an average for the region based on the estimated milk collections by participating milk buyers or processors.

The 'range' of milk prices featured in the FMVT reflect the weighted average as well as the highest and lowest milk prices that would be paid based on the relevant processor contracts on the selected farm parameters.

To learn more, visit the Farmgate Milk Value Tool [here](#).

### **Can I compare prices offered by different processors?**

The Farmgate Milk Value Tool is not designed to be a click and compare. It will not show the individual prices available from processors, nor will it give you a specific milk price offer – those still need to come directly from your processor.

### **What is the difference between cents per litre and dollars per kilogram milk solids?**

All processors, regardless of the end use of the milk collected, pay for milk based on their fat and protein composition.

There are two common comparison measures used to simplify the benchmarking of the net milk prices achieved – dollars per kilogram milk solids (net income per the total kgs of fat and protein supplied) or cents per litre (net income per the total litres of milk supplied).

The two measures are obviously related based on the composition of milk.

As a guide and based on an average milk solid per litre of Australian milk of content of 7.60grams of milk solids (or 7.6 per cent: 4.15grams of fat or 4.15 per cent and 3.45grams of protein or 3.45 per cent), a way to convert a "cents per litre" price to "\$/kg of milk solids" price, is to divide the cents value by 0.076, or to convert the \$/kg milk solids to cents/ litre multiply by 0.076.

### **What are Milk Supply Agreements?**

Under the Australian Competition and Consumer Commission (ACCC) Dairy Code of Conduct, processors can only purchase milk under a Milk Supply Agreement (MSA) that complies with the Code.

Milk Supply Agreements between farmers and processors contain a series of terms and conditions that must be met to regulate their dealings with one another. Processors who want to purchase milk during the next financial year must publish their MSA on their website by 2pm June 1, of each year.

This includes outlining what the minimum opening price will be so that farmers can better plan for the season ahead.

You can find links to the dairy manufacturers MSA on the MVP [website](#).

The ACCC has published a series of guidance documents to help implement the requirements of the Dairy Code, including a new processor checklist.

### **When are opening milk prices announced?**

Under the ACCC Dairy Code of Conduct, minimum milk prices and Code-compliant Milk Supply Agreements (MSAs) must be published by 2pm June 1, each year.

Noting in 2024 June 1 falls on a Saturday, so the announcement will be made June 3).

Those opening announcements may be revised prior to the start of the season (July 1), as evident by the results seen due to the competition for milk.

### **What are step-ups?**

Step-ups are a milk payment increase, usually announced once the season is well underway and typically paid as a full season uplift in base milk pay rates. The number of step-ups announced is at the discretion of individual processors.

## Can you tell me more about butterfat and protein ratios?

Recently we have seen some comparison of prices of butterfat paid to farmers versus the price of butter on supermarket shelves. It's a bit of a challenging comparison.

Comparing a farmgate butterfat value with the price paid at the supermarket ignores manufacturing conversion, collection costs, the market uses of butterfat in this industry and retailer margins.

Australian dairy processors pay farmers on a range of protein to butterfat ratios. Some are at 2:1, others 1:1 and some in between.

They do this to ensure they have the ingredients they need to produce their product mix. Perhaps an easier way to think about it is this...

You're a smoothie maker, who's product is majority yoghurt, with a couple of nuts.

To secure your ingredient mix, you encourage production by paying more for the ingredient you need most, which in this example is yoghurt!

For Australian dairy farmers, the protein to butterfat ratio also means they have a choice in who they supply and which ratio they select based on their own farm production systems.

To learn more about milk pricing go to [milkvalue.com.au](http://milkvalue.com.au)



### About us

**The Australian Dairy Products Federation (ADPF) is the national peak policy and advocacy body representing commercial, post farm-gate members of the Australian dairy industry, including processors, traders and marketers of Australian dairy products.**

**Our members process more than 90 per cent of Australian milk volumes and provide dairy products for both domestic and export markets.**