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AGRICULTURE, RESOURCES AND ENVIRONMENT COMMITTEE

Members present:

Mr IP Rickuss MP (Chair)
Mr JN Costigan MP
Mr S Knuth MP
Ms J Trad MP
Mr MJ Trout MP

Staff present:

Mr P Rogers (Acting Research Director)
Ms R Campillo, Executive Assistant)

PUBLIC HEARING—INQUIRY INTO THE MILK PRICING (FAIR MILK MARK) BILL 2013

TRANSCRIPT OF PROCEEDINGS

WEDNESDAY, 11 SEPTEMBER 2013

Brisbane

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Committee met at 9.59 am

Campbell, Mr Noel, President, Australian Dairy Farmers Ltd

CHAIR: Welcome, ladies and gentlemen. I declare the meeting of the Agriculture, Resources and Environment Committee open. I would like to acknowledge the traditional owners of the land on which this meeting is taking place.

I am Ian Rickuss, member for Lockyer and chairman of the committee. The other members of the committee are: Jackie Trad, member for South Brisbane and deputy chair; Jason Costigan, member for Whitsunday, Shane Knuth, member for Dalrymple, Anne Maddern who unfortunately is an apology because she is not very well; and Michael Trout, the member for Barron River. And of course we have got Jackie's backup, Leo, in the back here.

Please note that these proceedings are being broadcast live on the Queensland Parliament website. The purpose of this meeting is to assist the committee in our examination of the Milk Pricing (Fair Milk Mark) Bill 2013 introduced by the member for Dalrymple, Mr Shane Knuth, in May this year.

We will begin today with a public hearing to hear from submitters and others about the merits or otherwise of the bill. We will also then invite Mr Shane Knuth to respond to the questions and concerns raised about the bill. This will be followed at around 12.15 by a short briefing by officers of the Department of Agriculture, Fisheries and Forestry and Queensland Treasury. I will be inviting officers to respond to any issues raised today.

Before we start can we ensure all phones are switched off or switched on to 'silent', please. We will hear from the Australian Dairy Farmers, Mr Noel Campbell, by teleconference.

CHAIR: Good morning, Noel. You heard the introduction of the members here. We have got quite a few people from the QDO and dairy farmers and that here as well, Noel, just for your information.

Welcome, Noel. Would you care to start with a rundown of the main points of your submission, please.

Mr Campbell: The Australian Dairy Farmers is representative of the dairy industry nationally. We would like to point out that there are really two distinct variable types of industries within Australia: one is a domestic market industry; the other is an export market industry.

Clearly in Queensland, Western Australia and northern New South Wales especially the market milk situation, or the white milk situation, is very critical. They have very little ability in those areas to divert the volume to other areas because of the infrastructure that is available to process milk, so they are very conscious of pricing that is set basically in the supermarket area. We all are aware of what went on a couple of years ago with respect to the pricing of milk in supermarkets for generic branded products, which we believe severely undervalues milk generally and puts dairy farming businesses at risk in the longer term.

We have looked at a fair milk pricing type mark before previously ourselves. We believe it is the way forward to ensure that consumers can actually look at a product on the supermarket shelves and understand so that there is the ability for consumers to make a decision as to what is in the best interests of not only themselves long term, but for the dairy farming industry in general. Clearly we have pursued over time a mandatory code of conduct for supermarkets. We have not had, from either the previous government or what is the current government now, a tick for that. They are more towards the voluntary code.

The new government has indicated that they will look at the ACCC to give them a view of where to go from here with respect to competition in that sector with respect to the supermarkets. We do not hold out any great hope for that. We know that supermarkets tend to pursue the view that if a mandatory code were to come in, there would therefore be a situation where prices may go up. That is an easy thing for them to say. We do not believe that is the case; however, we believe it will be difficult for us to move on it on that basis.

We would like to point out if that is not the case the states could move themselves with respect to something to that effect, and that should be looked at if we were unsuccessful with the federal government. Generally speaking, we understand the pressures that are on farms at the moment. We do not really see a way forward under the current scenario to be able to give farmers an effective price for their product. To be perfectly honest, a milk price of a dollar a litre in the generic sense is an insult to farmers for the capital and the labour that is required to produce that milk; therefore, we believe that a fair mark pricing structure would be advantageous to the industry generally.

CHAIR: What sort of price are the manufactured milk suppliers down in Victoria, New South Wales and Tasmania and that sort of thing getting?

Mr Campbell: Last year within the vicinity of probably on average around about 36 or 37 cents. This year it has risen significantly, mainly because of the Australian dollar movement. What we have normally seen is that in times when the prices fluctuate with exports, that also the prices in the market milk states have moved as well. We have seen significant increases in price for the export milk sectors in probably the last three or four months. We have not seen a similar move in those other areas, which includes Queensland as well, which was what we would normally expect. Currently the price in Victoria would probably have been moving towards something like 45 cents.

CHAIR: I did see the export prices up to nearly $5,000, I think it is.

Mr Campbell: Certainly the commodity prices have strengthened and even solidified where they are, but certainly moving from above $1.05 back to about 92 cents has made a massive difference.

CHAIR: This is one of the problems I am struggling with a bit. With the fair price, every farmer has a different cost of production. Even in Queensland, whether it be in the north, or down the south or in the Wide Bay region, there could be quite different costs of production. That sort of makes it a bit difficult to me to put that fair milk price on. What would stop the processors from putting a fair milk mark on now?

Mr Campbell: I guess as individual processors they probably could. I possibly think that the more regional brands would be likely to pick up on this, which would be helpful to them. Whether the two major processors picked up on it or not would be how it was perceived by the consumers, I would suggest.

What you said before is true: different areas have different costs of production, and it is not just the areas, it is also the systems that they use, whether they are using a grass based system compared to a fully total mixed ration type system. There are variations there, and from year to year those things change considerably as to the cost effectiveness of those particular systems.

CHAIR: That is right. I remember in the drought farmers were virtually having to buy all their feed in and over the last couple of years they would not have had to buy much, but then they have had to repair a lot of fences and a lot of damage that has been done to farms.

Mr Campbell: Yes. No, every year is different, there is no doubt about that. We think the fundamentals of where we are at at the moment with respect to pricing structures and the way it is being done is unsustainable.

Mr KNUTH: There might have been a little bit of confusion in some areas in regards to this type of bill, but basically it is a noncompulsory market mechanism that is put in place to bring about a fair price, but also in regards to allowing the consumers to have a choice. What was not necessarily put in the bill, and which we will be moving an amendment to this, is that QDAS is a structure that is put in place by the department of agriculture and they have basically a determination of prices, the cost of production and price setting right across all the different regions. So in North Queensland—and I am probably not the best person to explain this—the cost of production to the farming area is worked out and likewise down in the south-east corner it is the same, we would be using this structure from QDAS to determine the cost of production and farm gate price for all those different areas. It is not going to be difficult to have a set price in those different areas, because it is virtually the same at this present moment. But the great aspect of it is that we have the department of agriculture who will be working with the dairy farmers to set that price throughout those different regions.

Mr Campbell: Some of the difficulty with that is that is probably okay for the regional processors or the boutique processors, but for the two main bigger processors that are working right across the state it probably makes it a little bit more difficult. But I guess there needs to be a significant amount of robustness with respect to the benchmarking that will need to be done on the different farms and different farming systems.

Mr KNUTH: You mentioned before about the mandatory code of conduct and that you would hope to see this put in place in regards to the predatory nature of the major supermarkets. Why is this so difficult and why has this not been put in place? Given the fact that we are seeing a whole dairy industry almost completely wiped out, why is this so difficult and why has it not been put in place years ago?

Mr Campbell: I guess from our perspective there are only 6,500 dairy farmers in the whole of Australia who only cover a limited number of electorates and have not got much voting power; therefore, if the perception by the supermarket chains is that milk prices—and food prices generally—will increase because of a mandatory code, it would be seen that, from their perspective, consumers might lose. I guess from a voting perspective, consumers cover every electorate and dairy farmers do not.

Mr COX: From what you have mentioned and from what I have read, there is obviously a limited capacity and infrastructure for processing. Can that be addressed, or is that something that needs to be looked at? That may be from a private point of view. You mentioned the two big players in Queensland have indicated that there has been a drop in the prices affecting their bottom line which flows back to producers. For example, if they lifted their price to the end users, the big guys, where else would they go to get it? If the Queensland processors lifted their prices tomorrow, which would flow back to upping the prices back at the farm, what would happen to the market? Why aren't they able to lift those prices up? Where else would the milk come from?

Mr Campbell: I guess at some point in time the pricing would indicate that it would be worth bringing milk from southern states. You have got the largest co-op in Australia who is currently moving north. I guess at some point in time if the milk price went significantly higher in the north, there would be a want to bring milk from southern areas. So that is the trigger point, I guess.

As far as the infrastructure is concerned, realistically when deregulation occurred and after that time a lot of the manufacturing capability in Queensland and northern New South Wales, et cetera, moved south because of the cost of production on the farm. I think there has been some work done on a northern dairy industry plan—probably QDO can fill you in on that later—which is looking at other options for milk in areas such as your own and that would need, obviously, investment. I think there is some significant work being done on that, and I probably would not have time now, but QDO might want to answer that.

Mr COX: That is enough. I appreciate it, Noel, thank you.

Mr TROUT: In regards to predatory pricing, have you exhausted all avenues in regards to the ACCC? Secondly to that question: have you been able to establish exactly what the ACCC would require to mount a serious case against this monopolisation?

Mr Campbell: The indications that we were given by the coalition prior to the election were that they would fast-track some sort of inquiry to the ACCC. This came out of Joe Hockey's office. We would then obviously make submissions on it. Our concern is how long it will take, et cetera.

We had diverse views from both sides of politics during the election campaign with respect to their acceptance of something like a mandatory code. Some people were quite positive towards it; others said there was no way they would do that. It is just a matter of us continuing to work alongside the federal government to try and pursue this and show what it could do to the dairy industry and consumers in the long term. We believe that these low prices and the selection that consumers can make on the shelves will be limited in the long term because of this, and therefore it will not only be in dairy farmers' worst interests but also consumers' in the long term as well.

CHAIR: As you know, we cannot stop interstate trade, but there is a fairly heavy cost to transport milk north, of course.

Mr Campbell: Yes.

CHAIR: I do not know what their back load would be. I cannot imagine them taking petrol back or something.

Mr Campbell: No, not really.

CHAIR: So it is a double transport. Have you actually looked at that sort of margin per litre or per megalitre, or whatever it is, to—

Mr Campbell: It is highly variable depending on the time of the season and the pricing in particular regions. In the likes of the southern states, there are higher prices paid in the winter, for milk provided to the manufacturers in winter. The margin then closes up significantly between the Victorian price and the Queensland price. It has to be looked at across the whole season. When we get paid in Victoria, the less price is in the spring time obviously when there is a flush of milk. The Queensland or New South Wales price is flat across the whole year pretty well, so the margins vary between different times of the year. There have been some numbers muted, but again I think QDO would be able to give you those.

CHAIR: Yes, I will ask for them.

Mr COX: I have a quick question on the back of that. With the milk coming up from there—and please excuse my ignorance—are we comparing apples to apples? Is it the same milk coming up as far as freshness goes or does it have to be processed before it comes up because of the time frames?

Mr Campbell: I think it would come up in bulk form. I think that is the way it would go up. As far as freshness, obviously there is a time to take it up there. As far as the quality is concerned, I think it would be very similar.

Mr COX: Thank you.

Mr KNUTH: Noel, one of the main reasons why I introduced this bill is because I could see that the demand here was going down, down, down. I could see the predatory nature of the supermarkets. One of the reasons why I introduced this bill was that we could see that milk was coming in from New South Wales and probably Victoria, and the dairy farmers are doing it tough down there. They are trying to survive, themselves. Obviously, we would see a cost factor coming into this state. One thing that I really wanted to ensure was that the Queensland consumers—and I know that you represent all dairy farmers, which is very important, right across Queensland and Victoria. One thing that I wanted to ensure, and this is the whole reason why this bill was put through, is that we wanted to identify the difference between milk that is not paid at a fair price and milk that is paid at a fair price, so that when a consumer in Queensland goes into his local store and sees the fair milk mark on it, he knows that that milk has been paid at a fair price to the dairy farmer. I wanted to see if you were aware of that, because the dairy farmers have said to me there are some confusing parts. Basically, the whole thing is that we can identify the milk that is paid at a fair price so that consumers can be consumer driven. If you have milk coming in from other states, obviously there will be a cost factor there because of transport and the freshness of it, but the consumer will really identify that this is fresh milk and also it is milk that is paid at a fair price to the dairy farmers.

Mr Campbell: I think a very important thing is that, if you look at it across the whole consumer base, there are some who will just buy on price always. If we can continually put something in front of them to say that this is going to be sustainable for everyone in the long haul, a lot of people will look at that positively. Can I just say that with where the milk price has got to in the southern states now, there is an absolute shortage of milk for processing into export product at this price rage. Queensland is also in a situation now where they have the requirement for more milk than they can actually supply, so the supply/demand thing is not working up there at the moment. Clearly, we have to deal with that as well, because there is more milk required than actually can be produced in Queensland. I am sure that most of the processors in Victoria will not, at this point in time, want to be sending any milk north. We have to find a price that will enable the Queensland farmers to be sustainable in the long term and that will give them a future.

CHAIR: Thank you very much, Noel. That is what it is about: getting that supply chain to work properly, isn't it?

Mr Campbell: Yes, sure.

CHAIR: Thank you very much for your time this morning. We have a fairly busy morning, so we will have to go on to the QDO hearing now.

Mr Campbell: Thanks for that. Thank you, everyone.

PEAKE, Mr Adrian, Chief Executive Officer, Queensland Dairyfarmers Organisation Ltd

TESSMANN, Mr Brian, President, Queensland Dairyfarmers Organisation Ltd

CHAIR: Brian and Adrian, welcome and thank you for presenting again. Would you like to make a brief opening statement?

Mr Tessmann: Thank you, Chairman. I will say a couple of words and then Adrian will also make some opening statements. Thanks, Chairman, for the opportunity to address this inquiry into milk pricing and the fair milk mark bill. The issue for the dairy farmers in Queensland, and really the whole dairy industry in Queensland, is that we feel the industry is in decline. It is in very clear decline with really no market justification. Back in 1999, the Queensland industry had the biggest year it has ever had. It was an industry that manufactured product and even exported. Since then, there has been a rapid change, particularly over the last two and a half years, where we have lost over 85 farmers and also lost that milk, a corresponding amount of milk. That milk has not been replaced in the market. The world market at the moment is buoyant. The dollar even has reduced recently. Costs to dairy farmers at the moment have gone up quite dramatically in feed yet, as we have seen over recent years, there has been no response in the market at farm gate for that milk.

This bill, we believe, is about a matter of choice, giving choice to the consumer: whether the consumer wishes to support the dairy farmers and the future of local supply in Queensland or whether they do not and, obviously, they would still have the option to buy cheaper milk. This is about really some transparency and choice in the market and for those consumers to have some security in their buying decisions.

Earlier there was a comment about milk from the south. I make the point that whether the processors come from the south or from Queensland, they still face the same costs of getting milk from the south. It does not matter whether it is a large Victorian cooperative or a processor in Queensland, the fact of the matter, as Adrian will address, is that the milk from the south is considerably dearer than the local milk, to land it in Queensland. As a source for milk for consumers in Queensland, it is not a cheaper option. That is part of, I think, the market failure we are facing at the moment. With that comment, I hand over to Adrian.

Mr Peake: Thanks, Brian, and thank you, Chair. Again, as Brian said, thank you for the opportunity to appear today. As set out in our submission to the committee, I would highlight some points. The Queensland industry, even though we are going through a critical time at the moment, is still a critical rural industry in Queensland. Gross value production is over \$200 million, there are about 2,500 people employed in our industry, and end-of-chain value is about \$700 million in product. As Brian has highlighted, our industry is really in a critical situation at the moment. The two major natural disasters in the past three years have cost our industry in lost production and damage over \$120 million at farm level. There is more damage through the rest of the supply chain, as well. It actually left our industry short of milk to meet the needs of the Queensland market in 2011.

Right at that time, as you know, Coles led the milk price war that is ongoing on 26 January 2011. I will make a note also for you: on our submission at page 5 I omitted the year 2011 at that last paragraph. It should say 'on 26 January 2011'. Following that, the milk price war forced a situation of dropping the retail price of milk right across the country. The other major retailers dropped their price as well. At the time, Woolworths stated publicly that they thought that pricing milk at \$1 per litre was unsustainable and would eventually impact farmers. QDO and ADF presented evidence to the Senate inquiry back in 2011 and we actually set out in our submissions at that time what the implications would be, particularly for our industry. That has absolutely come true. If I could say, we were probably conservative at that point in time.

We estimate that the lost value to farmers in reduced farm gate price has probably cost our farmers a combined \$50 million to \$60 million in the last two and a half years and lost opportunity milk sales of probably about \$70 million as milk has been brought across the border to fill that gap. The milk price war has continued, as you know. Both of the major processors have publicly stated the impact on their profitability. That has not changed. The processors have been forced into a situation of discounting their own branded product and advertising more, which all comes off their bottom line, to try to regain some market share. They have regained some market share and you may be aware that the processors also launched into a non-permeate type of milk. That actually got them some market share back as well, but then, as soon as the retailers put the pressure on the processors to supply them with non-permeate milk for their own supermarket brand, they lost market share again. That fight is still unfolding in the marketplace.

The critical issue is that, because of the structure of the pricing at that retail level, which is set by the major retailers, it is causing market failure in our region. At a time when we were short of milk and the price should have been going up to stimulate supply, as was the case in, say, for example, the fruit and vegetable industry, we saw our prices go down and prices for farmers go down. That has continued to be the case. The processors have been trying to look at ways of getting higher returns back to farm gate, but they really are jammed at the marketplace because, as soon as they try to increase the price of their branded product, they will lose further market share to the discounted supermarket brands.

If we can look at what has happened in the UK, as I pointed out in our submission, in the United Kingdom the tactics by the supermarkets have been brought here to Australia in the past two and a half years and have been playing out in the UK probably over the last 10 years. We have seen there that the impact has actually been a situation where the supermarket store brands have taken the majority share of the market. At the same time, the actual margin to farmers and processors has not changed much at all, but the margin to the retailers has increased by over 600 per cent. At the same time period, the price to consumers has gone up by about 50 per cent and the consumers have less choice than the marketplace.

So there actually is a long-term detriment to consumers, which we have actually been highlighting to the federal government. It is one of the reasons why we are seeking changes to the Competition and Consumer Act, particularly to bring back the effects test, which was taken out of the act in the last major review. That effects test actually would allow the ACCC to look forward about the implications of these tactics, which the current act does not allow them to do. As Noel highlighted, that is why we are continuing, as an industry, to push for changes to the Competition and Consumer Act, particularly to stop predatory and unconscionable conduct and also seeking that mandatory code of conduct to cover the whole supply chain, from farm right through to retail checkout, as well as looking at ways that we can possibly strengthen collective bargaining powers to groups of farmers, including the potential for boycott powers.

Coming back to the issue of today about the fair mark bill, as Brian said we have supported it because it is a voluntary process. As an industry, we have looked at this commercially over the last two and a half years with one of the major processors and approached the other major processor. They have not taken it up. They have not given us a precise reason for that. We fear that it may be concerned about retaliation from supermarkets or concern by their major clients about that sort of approach from them. But we certainly see there is an opportunity for the smaller processing sector, particularly for the regional operators who have their own niche market products. We know from our own discussions with the food industry that there are a lot of consumers out there who are asking the question, and asking of us as an organisation, ‘When we purchase milk at a supermarket or at a fruit shop or whatever, how can we know that the purchase we are wanting to make is actually helping farmers and providing a sustainable return to farmers?’ This fair milk mark bill actually would provide that sort of transparency. It is particularly from that point of view that we support the approach. Chair, I will stop there.

CHAIR: Thank you very much, Adrian and Brian. Surely the processors cannot keep burning money by bringing milk up to meet their markets. To me, it is the processors who have a little bit to pay in this, too. If they have made an agreement with these supermarkets to supply at this price, surely they have a little bit to answer for as well. Now, that they are having to transport milk up, it is cutting more into their bottom line. They have to manage some of these issues themselves as well, do they not?

Mr Tessmann: I think so, but I think the processors have their own pressures on them. They have people who they have to show a profit to as well. I think they are working on the basis of what gives them, for the year overall for the milk, the best outcome. Obviously, rather than pay more to Queensland farmers for all the milk, it is still cheaper at this stage to bring up a certain amount of the milk at a higher price from southern states. Where that sum works out they know and we do not, basically.

I think a really interesting question is why they do not really take the issue up further. Some of the supermarket contracts have rise and fall clauses in them, which at this stage as far as we know have not been triggered. Obviously, one of the reasons they have not been triggered is that they have not put up the price to the farmers. So that really is a question that would be interesting to be answered by the processors. At this stage I think it is really a total sum—it is better to bring up a bit of dearer milk from the south than pay a bit more here on all the milk.

Mr Peake: If I can expand on that. It is a key question. Our view is that it is a complex issue, but part of the issue about market failure in our region is the way the contract system works through the supply chain. When I spoke to the committee previously I spoke about the history back in 2006 and 2007 when we had the end of the severe drought in Queensland and we were right on the supply and demand situation then. The processors at that point could go to the marketplace and increase their price at retail or in terms of their wholesale price and get an extra return back. So they could increase the price to farmers and offer them longer-term contracts.

What has happened with the milk price war, the pressure back on the processors and the way the supermarket contracts work it is that it has resulted in the processors shortening their contract offers to farmers. So they cannot offset that risk in the marketplace. They have shortened up the contracts to farmers and they have pushed the price down. That is the breaking point. If the processors could get a commitment from the retail sector to provide longer-term contracts and a sustainable price, then the processors could then mirror that back to the farm sector, but that is not playing out at the moment.

CHAIR: The consumers are benefiting a bit from the supply chain at the moment, of course. But you cannot keep selling stuff if you are not making any profit. So somewhere along the line the processors or the farmers have to draw the belt in and say, ‘We’re not going to supply.’ Admittedly, it is harder for the farmers, because they have 400 head of cattle milking 25 litres a day. But it is up to the processors a little bit. Let’s face it: if you put 15c or 20c back into the supply chain, it would be a $1.20 a litre of milk. That is still cheap milk, is it not?

Mr Peake: That is right. We have been calling on the major retailers, particularly Coles, because they led the $1 a litre, to stop that $1 a litre, increase it by 10c or 15c and get that back through the supply chain. QDO back in 2011 and again in February this year approached the two major retailers to stop the discount campaign and restore a sustainable price, particularly for our region, which has suffered the impacts of the natural disasters, to help our recovery. They refused to respond to that. I will need to note, though, that Woolworths back in 2011 did contribute $1 million to our flood recovery fund. But they said at the time that that was as much as they could do, because if they changed their price and Coles did not they would lose market share of their brand.

CHAIR: Who is supplying Aldi at $2.89 for three litres?

Mr Peake: It varies around Australia in terms of the supply contract, so I could not give you an exact answer.

CHAIR: But I am saying that processors are then undercutting themselves again, are they not?

Mr Peake: Absolutely. That is right. The difficulty, I should add, is that, for the processors, the two big retailers—and this is part of the again for seeking a change to the act in Canberra—is that the two big retailers collectively have 70 to 80 per cent of the grocery market. So those processors, for their own proprietary brand—

CHAIR: Only 50 per cent of the milk market, though, have they not?

Mr Peake: Getting up towards 60. So it is growing. The difficulty for the processors is that the two big supermarkets provide the biggest avenue for the sale of their own branded products to Australian consumers. We still need to deal with them, but because they have so much market power it creates that tension for the processors.

Ms TRAD: Mr Tessmann, I am interested in knowing how the industry has bounced back from the natural disasters to start with. As you said in your submission and in your verbal statements today, it has been a double whammy. How is the recovery going?

Mr Tessmann: It is, I think, a resilient industry, but it certainly has been hit hard. The two floods in 2010-11 and also earlier this year came on top of the worst drought in history. So the industry has been dealt some really severe blows from all of those. There are certainly farmers out there at the moment who, because of no response from the market to the lower volumes of milk coming out, have not really been able to get the farms back into full operation. Certainly, I think there are farmers, if it had not been for organisations such as BlazeAid would not even have all of their fences back up yet at the moment. So there are certainly lingering issues from the flood. I think there the virtually lingering issues from the drought as well, because the industry has not been given the chance to recover from any market response from the lower volumes coming out off the farms.

Ms TRAD: I am interested, Mr Peake, in your views in relation to a voluntary fair milk coding on milk products in the supermarket. In your submission to the committee previously you elaborated on how this was a key strategy for the big retailers in terms of securing customers—bringing them in on cheap milk prices so that they would buy other products. Do you think, essentially, this is enough or is it the first step in a much broader strategy? I would assume that the supermarkets would look at either not putting fair milk mark coded milk on the shelves if they directly complete with their cheap products or they would do something else as in stock smaller amounts of it. Given that this is predatory behaviour, it is based on a long-term strategy of securing customers long term, then surely they are going to find ways of not having the product on the shelf.

Mr Peake: That is a really interesting question. My initial view is that, as I said in the previous presentation, I think, with the smaller microprocessors, it would give them an advantage at the regional level. They would take it up. In terms of the major supermarkets, there has been a change of tactic just recently from one major supermarket to promote itself as stocking more Australian products and supporting Australian farmers. Coles announced a 10-year supply arrangement with Murray Goulburn for milk which starts next year. So I think there is the potential that they may pick it up, but they would only pick it up if they saw an advantage for them as themselves as a business.

My view is that there is a section of our community out there—the consumers—who are wanting to make that conscious purchase, are wanting to know that, if they pressure this product, because it has this mark on it, it is doing the right thing by the dairy farmer. If we could get a start to this scheme and promote it with the consumers, I would hope that that section of the community would drive it. That would put the pressure on the supermarkets to take it on themselves. So I see that if we could get consumer support behind it, that would be the real driver.

CHAIR: Just before we move on, you requested this to be tabled?

Mr Tessmann: Yes.

CHAIR: Is the committee happy with that? Yes.

Mr TROUT: Have you learned anything from your UK counterparts? Is this bill in line with what you have seen over the last 10 years there? By having this fair milk mark in Queensland, is that going to go far enough when Coles and Woolies are all over Australia?

Mr Tessmann: What we have learned from observations of what has happened in Britain is that those processor brand—the branded milks—have almost totally disappeared. They are very difficult to find in Britain. Britain has ended in a position where it is importing milk from Europe. They have certainly lost a lot of their production. So that has certainly been a negative as well. As Adrian has said, we have seen that, while the farmers' margin has hardly moved and the processors' has moved not that much more, the margin for the retailer has gone up to about 600 per cent. So that is certainly what has happened on the ground. What we have also seen is that introduced a voluntary code of conduct and we have seen that that did not work. That was not the way to go. So I think we can learn from all of those experiences in Britain. They have gone to enforce that—to basically go down the road that we are advocating of a mandatory code. They have gone to have an enforceable code overseen by an ombudsman. That is the way that I think is obvious that we need to go. There is no point in that regard messing and with things that do not work, such as voluntary codes. They are really only a token issue. So there is certainly a lot to be learned in Britain. Sorry, there was another part to the question.

Mr TROUT: About the milk mark.

Mr Tessmann: The milk mark is certainly not a panacea in itself. I think it is just one part of a package of things that may have an impact on this issue of making a fairer market for domestic milk in Australia. It is just one part. It is the part that gives the consumers who want it—if that is something that they want enough—they can be sure that that milk is milk that is going to help sustain a local industry. They will pay more for it—like quality or whatever else they might like in a product—that is a benefit to them. I am asked regularly by a lot of people, 'What is the right milk? What is the milk that will return a fair price to the farmers?' There was a television show earlier this year that seemed to confuse the issue. I know people who got so confused from that that they thought that the supermarket milk might have been the right milk to buy. So we really need to clarify that. I think a milk mark, where they have some security—'This milk, I can see that. Maybe there are some other milks that do it too, or maybe there is not, but there is a mark on that milk bottle. I know that that has been returning a sustainable price to the farmer'—our experience is that is what the consumer is looking for.

Mr Peake: Just to expand on that milk mark issue in the UK, the UK has a different concept. They have a red tractor mark, which is a similar concept. There is community support for that, definitely, around the same sort of issues about sustainability. Yes.

Mr KNUTH: In relation to the permeate milk. Obviously, one put it in place and then it was like a domino and it was unstoppable. Whatever processor takes this on and markets the fair milk mark, obviously, it is going to be to their advantage, because they are the processors who initiated this from the beginning. You might have to explain a little bit more in regard to the permeate milk, because I do not have a great understanding, but can you see this to be opportunity for this to be a domino factor like it happened with the permeate milk? Likewise—and I believe this matter was brought up in the previous committee meeting—why not just put a fair milk mark on it? There are the big Woolworths and Coles that use mimicking. As a result of that predatory nature we cannot rely on that.

Mr Peake: Shane, I want to make a couple of points, and again I suppose I come back to my response to Jackie. I see that there is a section of our community there now asking the question. They are wanting to make a conscious purchase to support farmers. They are aware of the issue. They are aware that dollar milk is damaging the industry and they want to make a conscious purchase to support farmers. So we know that exists in the marketplace. This mark would provide that transparency, and I think that is the key thing. It will provide transparency to consumers. The big supermarkets talk in Canberra about transparency and the need for greater transparency. This sort of milk mark would do that right through to the consumer, and that is a good thing. I think from that and if we can get some consumer support behind it, I think that would help drive it. Going back to the point, I think it is an opportunity for the smaller milk processors in our regions in Queensland to take it up before the others.

CHAIR: Just on that in terms of a comparison with the permeate milk that Shane was talking about, do you have a comparison there?

Mr Peake: I will not get into the whole tos and fros about permeate, but really permeate got demonised by current affairs shows in Australia and I think a processor saw an opportunity to differentiate their milk product from others by going nonpermeate for some of their range, which they did. The other major processor then matched it and of course within a couple of months the two supermarkets were demanding of the processors to supply their own supermarket store brand with nonpermeate as well. So in effect it did drive that sort of category throughout the market.

CHAIR: And the processors dropped their pants again, did they?

Mr Peake: Basically you can say that the demand was put on them to supply it to the supermarkets as well for their store brand. The processors will not tell us the intricacies of those negotiations, but I assume that there would have been quite a bit of pressure because it meant that those processors could no longer hold that differentiation for the proprietary brands against the supermarket discounted brand.

Mr KNUTH: With regard to this fair milk mark in relation to permeate milk, this could be something where Woolworths may not want it but as this market is consumer driven then Woolworths and Coles might say that they want it by whatever means necessary in their stores. Is that a great possibility?

Mr Peake: I think it is a possibility and hypothetically the major supermarkets may wish to have that mark on one category of their milk and still sell another range of their milk at a discount level so they have a range of choice for consumers who come to their store. It would still mean that for that category of milk with the mark on it there was a guaranteed sustainable return back to those farmers, so I think that is important.

CHAIR: This will be the last question.

Mr COSTIGAN: Thank you, gentlemen, for your presentation today and your submission. I note the decline and supply in Queensland now, at last report, was 95 million litres.

Mr Peake: Yes, and growing.

Mr COSTIGAN: Do you believe that the introduction of a fair milk mark will guarantee that we can turn that around?

Mr Peake: No, there are no guarantees in that. I think having the fair milk label on a percentage of our milk sales would help stabilise that component of milk that is getting that return and I think it would put some transparency pressure on the rest of the sales in the domestic market, but it is not a silver bullet by any means. We still need to get those changes to the competition and consumer act. We still need that mandatory code of conduct. There is no doubt about that, but this would be one tactic that would help.

CHAIR: Thank you very much. We have let you go way over time simply for the fact that it was a very interesting discussion and your submission is very comprehensive as well. Thank you very much.

McINNES, Mr Ross, Private capacity

TRACE, Mr Matthew, Private capacity

CHAIR: Matthew, would you like to start given you are on the phone, just in case it drops out?

Mr Trace: Yes. I will just give you a quick background. I am dairying near Kenilworth half an hour south from Gympie. I am 32 years old and married with four kids. I have been doing this since I left school and am a third generation dairy farmer. We really enjoy dairy farming and we are fairly proud that we supply food to Australians, but we just cannot make a decent living out of it. There are always ups and downs in all agriculture. I accept that and understand that there are a whole heap of factors that affect that, but since we have had the $1 a litre milk we have not seen that we have anything near to a functioning market. There are lots of terms used—free trade, fair trade. This does not fit into any of them. To my knowledge right now Victorian farmers are being paid an export price for milk dictated by the world market and the Australian exchange rate. They are getting approximately 50c a litre for this coming season. There is a freight factor of 14c to 18c to get it to Queensland. Logic would say that we should be getting somewhere around those two numbers added together which would be well over 60c a litre, but we are getting low fifties. That just does not add up to me and we cannot make it unless we get 60c a litre.

CHAIR: Just for the committee's information, how many dairy cows are you milking, Matthew?

Mr Trace: We are milking about 270, so we are slightly above average but not that much.

CHAIR: And you get a fairly good yield out of the cows?

Mr Trace: Yes. Where we are farming is very dairy suitable country. If it is not dairying, it is going to go to beef cattle. Last year we turned over $800,000 and did not make a profit. If you have these same farms go to beef cattle, they are going to turnover between $50,000 and $100,000. The effect on the community when you pull dairies out is devastating because it is such an intensive high-work industry. You buy in a lot of products. You have a lot of people working. It is just so intensive and the effect on the community is just terrible when dairies leave.

CHAIR: But you are nearly doing it for the experience at the moment, aren't you?

Mr Trace: We are. That is okay if you can see a light at the end of the tunnel, which is what happens when markets are moving up and down. You understand that something will happen when the product gets short, but we are short of product, it is costing them more to bring it in than to buy it from us and there is no light at the end of the tunnel. It is a broken market.

CHAIR: Are you a bit disappointed in the processors though? They have a little bit of blame in the supply chain too, haven't they?

Mr Trace: I think the only blame that I would lay at the processors is the timing of contracts in the system. I think they definitely intentionally have contracts that end at different times which benefit them, because as a dairy farmer your product must be sold every day. In terms of this notion of just going off contract and risking it to see if you can find somewhere else to sell your milk, there would not be a single dairy farmer in the state who could miss one month's milk cheque. There would not be a single one. There is no way. I could not do that, and there are people in a lot worse positions than me. The blame of the processors is whether they have the guts to take on Coles and Woolworths. They do not, and we all know why: because the ones that have been slaughtered by them. This is pretty damn obvious. My figures could be slightly out here—I have not prepared with writing down numbers—but the Parmalat factory in Brisbane puts through over 200 million litres of milk a year that they process and sell as liquid milk in Queensland and over 100 million of that goes through Woolworths stores as either Woolworths milk or Parmalat milk. So you cannot take them on. If they lose those contracts, they are cactus. You cannot halve the throughput of a business and pay your overheads. I cannot.

CHAIR: No, that is right.

Mr Trace: I think all businesses are the same. You can cut by five per cent and 10 per cent to trim the fat; you cannot halve because you cannot keep up with your infrastructure and your debt costs. So that is why they will not take them on. There is no doubt about it. The market is stuffed because there is too much power. I understand that that is not the Queensland government's area of responsibility. I understand that that is the federal government, but this buck-passing has to stop. I think if you are genuine about supporting a Queensland industry, you have to do something and I think this fair milk mark bill might well be something you can do.

CHAIR: I am a bit concerned though, as I said before—and you probably heard me say it—that Aldi is selling milk at $2.89 for three litres. The processors must be supplying that as well, mustn't they?

Mr Trace: They are, but here is the argument as to why we should have a fair mark bill: a lot of people I talk to are very sympathetic. As farmers we worked our butts off to get the public on side, and they are on side, but they do not know what to do. They have not got a clue and this would make it very easy for them. I heard some of the discussion before. I do not know if it was you, Ian, or someone else ask Adrian if he could guarantee that this would turn things around. Of course no-one could guarantee it, but I would say it could turn things around, because outside of putting something else in place we as farmers have been urging Woolworths and Coles to take this on themselves. If they decided to pay properly for the milk tomorrow and come out and promote it tomorrow, we would back them all the way and I think they would be successful. This is just giving them a more obvious avenue to do that, isn't it? It is really just laying it out in front of them. If one of them decided to have a crack, it would be very hard for the other one not to come on board in a domino effect.

Mr COX: Matthew, we are talking about the processors and I do not know what their cost of production is. We have not heard that; we are talking about the production at the farm gate. Obviously we do not know what margins they are making, but are you—just very quickly, yes or no—just paid a straight price or are there rebates of some kind when you get paid?

Mr Trace: Rebates? So you are talking about when the processors—

Mr COX: You get an extra rebate for quality or production in terms of producing more.

Mr Trace: Yes. But when we talk prices, we talk average prices.

Mr COX: Yes. So there is a rebate scheme in yours?

Mr Trace: It is not called rebates, but there is a base price per litre for most people and then you get higher or lower prices depending on protein and fat and a low bacteria count.

Mr COX: Yes, it is a bit like sugar with c.c.s. As a statement, from a processor's point of view we do not know what their production is and what margins are in there and they seem to be able to lower this price to $2.98, as the chairman was saying. The fact is that we do not know what rebate the processors themselves are getting when they deal with the big Woolies and Coles. There is a lot of room in there for them. Again, I am just putting emphasis back on the processors because, as the chairman said, they have had a fair bit to play here, haven't they?

Mr Trace: I would say no because I think we do know. They are confidential contracts, but everyone knows that Woolworths is paying Parmalat 98c a litre for the milk in Woolworths bottles delivered. That is confidential but 3,000 people know it, so how confidential is it?

Mr COX: I have worked in other industries and there are rebates and then there is another rebate and then there is generally another rebate behind that.

Mr Trace: Let us look at it this way: out of the two major processors in Queensland—you can add Norco in as a third one because they are northern New South Wales—in the last five years Parmalat has made some reasonable profits. Lion Nathan and a company that was bought for $3.8 billion has made nothing. They have made nothing. They made zero in five years. They are a company that has just been destroyed by this. I do not even supply them so that is not as concerning for me, but for an industry it is clear that the processors are not making a killing out of this while the farmers get screwed. That is not what is happening at all. I totally reject that the processors are more responsible than anyone else. I would lay 80 per cent of the blame with the supermarkets and 20 per cent with the processors. This cannot be solved if government does not intervene.

Mr COX: Thank you. Again, I am not saying the processors are completely to blame, but I appreciate it. Thank you.

Mr KNUTH: Basically you are saying that this is an opportunity. Like you said before, no-one knows the dire state of the milk industry and what was personified at the Brisbane Ekka in terms of the desperation of the state of the farmers. Do you feel that as a committee we must strongly look at this as an option? There is nothing really out there, but we have heard talk about trying to do something with regard to the predatory nature of Woolworths and Coles. Likewise, the federal governments are not seen to be stepping in. We would be mad if we did not embrace this and give it a go, believing that this is the best thing that we have available to us.

Mr Trace: That is sort of how I see it. I think it is something that cannot hurt Queensland farmers. I cannot imagine it being a very expensive government scheme. I cannot imagine it annoying consumers because it is an opt-in scheme. I just think it is one of these things that has very little risk for the government and for farmers and there is a large potential upside. It may not solve things but it could. As you were talking about when the permeate issue got a roll on, this is what we would like to see happen. I just do not know why the government would not pursue this.

CHAIR: Thank you very much, Matthew. I might leave you on the line but we will go to Ross McInnes now, and I am sure his views will be similar to yours. We will leave you on the line to listen, if you like. Is that okay?

Mr Trace: Yes, fine.

CHAIR: Ross.

Mr McInnes: I am the Vice President of the Queensland Dairyfarmers Organisation and part of a family dairy business at Harrisville in the Fassifern Valley. We milk about 450 to 500 cows there and we produce enough milk for 40,000 people, and we have been at it for 99 years. We will probably make 100; I do not know. Chairman, if I could just pick up on some things that have already been said today, Brian spoke about choice and transparency, and I think that is one of the biggest things for the consumer. I see linkages to what is being asked or proposed here with the labelling laws, because there is a high expectation from consumers: 'Is this product made in Australia? What is its place of origin?' So I see a certain linkage there. Anyone who buys Woolworths milk will note that they have 'Queensland produced milk' on their carton, so they see providence of that as being important for their product.

Noel spoke about two dairy industries—domestic and export. But you also have year round systems and you have seasonal systems. A year round system is more expensive. It is like proposing to someone, 'How much money and when do you want it?' and then telling them, 'Well, it is either Thursday afternoon at three o'clock or Sunday morning at three o'clock.' If you want a product every day of the year at a regular level, it is going to cost more. It is the same as keeping a business open 24 hours a day.

CHAIR: Who supplies the fresh market in Victoria? They have a few farmers that go through, do they?

Mr McInnes: They do, but Victoria produces 65 per cent of Australia's milk. So only about eight per cent of their milk goes into bottles. Their packaged milk sales are slightly higher than Queensland's—we have about 550 million; I think theirs is about 580 or 600 million. We are pretty close.

CHAIR: So they just have a small percentage go through the season.

Mr McInnes: Yes, but they have changed a bit. They were very seasonal but they do batch calving now in May and probably August—two batches. So it has flattened out. Just to give you an example, Queensland is the flattest supply in Australia. June production throughout Australia is about the lowest. Our October production is about 20 per cent higher. So that is the trough to the peak. We have had people say to us that we need to be more efficient, especially like New Zealand. Well if we are flat, New Zealand's peak to trough is obscene, because their October production last year was 22.7 times than what their June production was. In June and July they produce one per cent of their annual production. So they are up for a big export market and they do it off spring growth, and their population is similar to that of Queensland's.

CHAIR: Sorry to interrupt you.

Mr McInnes: Coles talk about the national averaging. I suppose if you actually spoke to people in the processing sector up here it would be highly debatable how much milk is actually put on a shelf in Queensland and sold for a dollar that has not cost more than a dollar. That may be the case in Brisbane, but once you got out of the South-East Queensland I would question whether any milk is put on the shelf that has cost less than a dollar. But the fact is that the supermarket use national averaging and that is how they get around that. So you can buy milk at Shepparton or at Mount Isa for the same price—a dollar a litre. For people in North Queensland it would be like saying, 'If you walked into a fruit shop in Cairns and bought bananas and then you walked into a shop in Bernie, Tasmania, and bought bananas, you might expect to pay a bit more in Bernie, and that is just a fact of life. But the price of milk no matter where it is sold is a dollar a litre.

Brian and Noel spoke about the milk shortages. The troughs line up. By and large, you have a spring peak and an autumn trough. There is about a six-week variation between where the bottom of the trough is, but it is very similar. So when we are short, Victoria is short. Noel spoke about the fact that they cannot get enough on the export market for their export orders, so that is a worry going forward. Ian, you and Sam both asked about why processors don't just put the price up. If you walk in and ask a retailer to talk about milk, they will probably put a cheese contract in front of you and a yoghurt contract in front of you and say, 'Well, we better talk about all of them.' I think there is a will from some retailers to pad out one area as long as they can keep their legal margin to still sell milk at a dollar.

Jackie, you asked about how we are recovering from the floods. I will tell you about our farm. As I said, there are three brothers on the farm. If you went on our tax this year, you might say we had an average income this year. If you go into inventory and take out what we have actually mined out of the business this year, we would be running lineball. If you look back at what damages are still left from the flood, I think we still have somewhere between $100,000 to $150,000 in damages that have not been fixed up and probably will not get fixed up for another 12 months. So that is the reality.

The fact is that, when the price went down in 2011, to keep the industry sustainable it actually should have gone up. When the flood happened in January 2011, we were starting to urge in the columns that some price rise should occur to cover this because it was so dramatic. The average dairy farmer in Queensland suffered damages worth 30 per cent of their annual turnover. So you are only talking about a small business—less than a million litres; half a million dollars of turnover—and the average damage was $150,000. Now if you apply those figures to any sort of business, a 30 per cent hit on annual turnover is dramatic. We were not personally hit that hard in 2011, but we copped an absolute flogging this year. There were fewer people affected but it was more dramatic this year.

When a dollar a litre for milk came in, there was always talk that it was all covered by the retailers, especially Coles. They stated categorically that it was their margin that they were cutting into. Personally it did not have an effect on our milk price until June, until our contract finished, and then we went down 3.5c. Every liquid milk processor in Australia recorded a significant drop in profits. We are talking about a drop in profits in the 25 per cent to 50 per cent range for every processor across Australia.

CHAIR: So when did you get a new contract? Was it June this year or 12 months ago?

Mr McInnes: We have just gone into a new contract now.

CHAIR: And it is 3c cheaper than it was in—

Mr McInnes: No. That was 2011. It went back by 3.5c for us, which for our business was about $130,000. We have just had new contracts in now. Our price has marginally gone up but only because we are in the first zone from Brisbane. We have gone up half a cent. There are suppliers in our group that have gone down by 1.9c at the same time because of logistics charges being put in place.

CHAIR: So they charge you more the further distance you are.

Mr McInnes: Yes. The average has actually gone down this year, so we are still pushing down. I suppose going forward, when we talk about food security, in the Senate hearings two years ago Lion's division of dairy and drinks spoke about servicing 100,000 outlets throughout Australia. The fact is that, as this squeeze goes on, I think the first thing that will happen is that, in the far-flung regional areas of Queensland, I do not know whether fresh milk will able to be delivered. It will start in the regional areas; it will never start in the supermarkets. But I have a brother outside Melbourne and he has a small business. It costs him $3.50 to buy a two-litre container of milk and he is competing with $2 down the road. The cost of delivering milk to those far-flung areas will just make it untenable, I think, and we will have Queenslanders who will not have fresh milk if this does not get sorted out shortly.

It is a very difficult thing going forward. People say, 'How quickly can an industry respond?' and there was a question earlier, 'Do you have a guarantee that this will work?' I do not think it will. I think this will have a stabilising effect on the industry. But one thing that has to be considered is—and excuse me, Jackie—if a cow comes on heat today, there will be a decision made about whether she gets mated to a dairy or a beef bull. As a result of that mating, if it is a heifer calf, she will not produce milk for two years and nine months. The farmers making decisions now are a long way ahead of where the market thinks or knows it is. I do not see dairy as a special case. I think it has a wonderful future because, when you look at the margins or the market going forward, in the next 10 years we will need another 100 million litres of milk in packaged milk sales in Queensland to cover the population. It should be coming from Queensland producers because we are the best option.

CHAIR: There should be growth there. That is really what you are saying.

Mr McInnes: Yes. It is just that at the moment because of this garbage—this short-sighted stupidity of a dollar a litre for milk—the industry is unable to move forward.

CHAIR: Are there any questions for Ross?

Mr COX: I have a quick question. Ross, thanks very much. We appreciate your time. There are some positives, but I know that there is an issue that we are talking about because of this bill. But I note that in the presentation we had before there was tabled an Australian regional industry snapshot, and there is a lot of information in there. It mentions the supermarket issue, which is what we have been talking a lot about. But at the bottom of the page it talks about the drivers of the industry's future, and you just finished off by saying that you believe there is a future. In terms of those drivers, I believe that there are things the government can help with—R&D and water supply, and we looking at greenspaces where we can increase agriculture in completely new areas whether they suit dairy or not. I understand that there is hurt right now, and we do need to try to address that. But it is good to see someone like yourself who has been in the industry 100 years—

Mr McInnes: Not personally.

Mr COX: No, but your family has. But there is another 100 years ahead and we have to look at other ways of doing things, and we need to not lose sight of that at the moment. As you said—and I come from a cattle background—if a cow has a calf tomorrow, you do not sell the calf the next day. It takes a long time.

Mr McInnes: I think there is the issue that, like with any industry, you will have people in an industry who for them this will be the last generation. Everyone knows that. A certain percentage of any membership will go out on this generation. We need enough people coming forward, but at the same time you need the right economic triggers to get new investment. They will be larger areas. They just have to be. If you go back to 1950, there were 50,000 dairy farmers in Queensland. The average herd was 19 cows, producing less than four litres of milk per cow per day. So they sent out about not quite a tanker load full for the year. When you look at it now, the average herd is 180 cows, producing about 18 litres of milk per cow per day, which is about one million litres for the year. So we have moved on and we are doing that with 505 or 510 dairies in Queensland, compared with 50,000.

CHAIR: Thank you very much, Ross. Thank you to everyone who has participated this morning. We will take a short break now and come back at quarter to 12.

Proceedings suspended from 11.15 am to 11.43 am

KNUTH, Mr Shane, Member for Dalrymple

CHAIR: Welcome, Shane. As the member who introduced the Milk Pricing (Fair Milk Mark) Bill 2013, would you care to make some comments on the points made this morning?

Mr Knuth: I consider this bill very important and would like to ensure that we have all committee members here. Is Mr Trout going to be here?

CHAIR: Mr Trout should be back.

Mr COX: He is coming back, but he is at another meeting.

CHAIR: He had something that he had to shoot through and do. You can start, Shane. We will read the transcript.

Mr Knuth: Thank you for giving me the opportunity to address the committee on this bill. This is an issue that I, and I believe Queenslanders, consider one of the most important issues to come our way. I am a member who represents a rural electorate that has quite a number of dairy farmers. As I walk the streets I run into many farmers, half of which were former dairy farmers. The foundations that have been put in place that have led them to leave the dairy industry need to be looked at and considered. What on earth has gone wrong? Why is government, whether it be state or federal government, not doing anything about this?

The fair milk mark is derived from what occurs in Europe. I would have to go to Europe and communicate with the dairy farmers there to be able to give the committee the full details of what has occurred there.

I will give you an example of how I arrived at this legislation. I represent an area called Malanda. Everyone knew where Malanda was as a result of the milk they bought. If you bought a bottle of milk on that bottle it had Malanda milk. Everybody identified with where that milk came from. My wife has always said to me, 'Shane, we must support Malanda milk.' But I can tell members that she does not know which one is Malanda milk. Consumers out there do not know which one is Malanda milk. As was mentioned by one of the previous speakers, consumers want to know where their milk is coming from and whether it is local milk.

I, in conjunction with the Lions, campaigned to get 'Malanda milk'—which is Dairy Farmers milk—branded onto milk containers, but they indicated very strongly that they were looking at a robust advertising campaign to encourage people to buy Dairy Farmers' milk. They spent millions of dollars on this advertising to get people to buy Dairy Farmers' milk, and it was working until this $1 per litre price war started. The fact is that the majority of people out there do not know where the milk they are drinking comes from, and they want to know.

Another thing about the dairy industry is that everybody likes dairy farmers. There are conflicts between people from different walks of life in different industries and backgrounds, but everyone likes a dairy farmer. It is so important that we save the dairy industry. Dairy farmers were being lost in Europe when the major chain stores reduced the price of milk to the point where it was not viable for them to continue. The European Dairy Board met in Luxembourg and put a fair milk mark on their milk bottles and very strongly promoted that milk which had a red cow on the milk bottle represents fair milk. It just took off. Many other countries in the European community embraced it, and that fair milk mark saved the milk industry in those regions. This is something that is very similar. It is a noncompulsory, voluntary market mechanism that is put in place so that the consumer has a chance and an opportunity to know what milk they are buying. When they go into Woolworth's and Coles, they see Coles and Woolworth's branded milk that is reduced to $1 a litre and they see other branded milks which are coming from local dairy farmers, but they are still unsure what milk is what and what is local dairy milk.

This is a question that has to be asked: why are the majors, Woolworth's and Coles, marketing their own $1 milk and why aren't they marketing the local branded milk at $1 a litre? This gives processors the opportunity to have an advantage as well so that when consumers see milk in their supermarkets that has 'fair milk' on it, it clearly identifies to those consumers that it is local, fresh milk and they are supporting local dairy farmers.

This is not about reregulation at all; this is about opportunity and choice. This is noncompulsory. It is a market mechanism that will be put in place. This is also about bringing in transparency, as Mr Chesterman said, but he also said that consumers are desperate to know where their milk is coming from. The fair milk mark is the only thing that we presently have which allows consumers an opportunity to address this issue. When we talk about milk that is coming in from down south—and I believe this was addressed by Mr Chesterman—it is not necessarily cheaper with that 8c a litre above the cost of production. We have to realise that there were 1,545 dairy farmers in 2001 and now we are down to about 519. When I started to write this bill there were 540; now there are 519 and it is going down, down, down. I think that we have lost about 70 dairy farmers since the price wars, and it could even be more.

We can talk about 8c a litre above the cost of production being too much, but then consider: is it too much for dairy farmers who are up from four o'clock in the morning until late hours in the evening working their guts out for a lousy 8c a litre above the cost of what they can produce? We are not fit to be on this committee if we cannot sympathise. We have to find other ways and means instead of thinking that this is a terrible thing and the sky is going to fall in because we are paying these dairy farmers 8c a litre, when we have lost 1,000 dairy farmers in the last ten years. This is why I have proposed this bill.

As one of the previous representatives indicated, if Queenslanders do not do something now we will not have fresh milk. I am going to read this, because I think it is very, very simple. There are a few tiny little issues that were brought up in regards to certain details, but I will explain this to you.

4 Objectives of Act

The main objectives of this Act are—

(a) to provide for the setting of a fair price to be paid to dairy farmers for the production of milk to ensure a sustainable dairy

(b) establish a fair milk mark to be placed on containers of milk to indicate to Queensland consumers that a fair price has been paid to the dairy farmer who produced the milk.

5 Fair milk price

(1) There is to be a fair milk price for milk.

(2) The fair milk price for milk is to be set by the Minister by gazette notice.

(3) The fair milk price per litre of milk must be at least 8 cents more than the amount the Minister is satisfied is the cost for a typical dairy farmer in the State of producing a litre of milk.

Now, if you are looking at a dairy farmer who has 500 cows, I am not quite sure of the calculation but I think that he would probably make about $40,000 a year—three times less than a politician. Where I have said 'typical' dairy farmer, I will be changing that to 'average' dairy farmer. That average dairy farmer will be determined by the minister and also QDAS, which is a government department, in conjunction with the dairy industry to work out what an average dairy farmer is.

(4) The Minister must publish a gazette notice setting the fair milk price for the milk at least twice during each year.

In other words, we talked about price variations. We also talked about price variations in different areas, but we are not talking about New South Wales here; we are talking about Queensland. We already have the cost of production for North, Central and South-East Queensland available to us through the department of agriculture, QDAS, so the foundations have already been laid. That price will be set because there will be market fluctuations, but the main thing is that if we go below 8c a litre above the cost of production, then we are going into the situation we are in now where we are losing our dairy farmers. This is why we are trying to do our best to set a price. However, this may increase above 8c a litre above the cost of production because it will be set by the minister working in conjunction with the dairy industry and the department of agriculture.

It is a very, very simple process and it is about the dairy industry, the minister and the department of agriculture working together because we want to ensure that we are working with the dairy industry. We want to constantly highlight the issues and problems relating to the dairy industry, and we want to ensure the survival of the dairy industry. If there were any concerns regarding price setting, every six months that we can go back to this and have it addressed.

6 How fair milk price is to be decided

In setting the fair milk price for milk the Minister must—

(a) consult with dairy farmers across the State, and organisations representing the interest of the dairy farmers in the State, to decide—

(i) the characteristics of a typical dairy farmer in the State.

It says here 'typical'. I will be amending this from 'typical' to 'average' so it is not confusing.

(ii) the costs for a typical dairy farmer in the State of producing milk; and

(b) have regard to the following—

(i) the need to ensure food security in the State;

(ii) the need to preserve a dairy industry in the State;

(iii) the need to encourage and reward best farming practices and innovation in the dairy industry in the State.

As I have mentioned, the determination of an average dairy farmer will be made by QDAS, the department of agriculture and the dairy industry, so that is very simple.

7 Fair milk mark

(1) There is to be a fair milk mark for milk sold or supplied in containers.

(2) The fair milk mark is to be decided by the Minister and set out in a gazette notice.

8 Offence to use fair milk mark

(1) A person must not—

(a) sell or supply milk in a container that bears the fair milk mark unless the milk is a fair price milk; or

(b) place the fair milk mark on a container unless the container contains or is to contain fair price milk; or

(c) advertise, market or promote milk in a container that bears the fair milk mark unless the milk is a fair price; or ...

The maximum penalty is 75 penalty units. We need this legislation to ensure that the fair milk mark will not be mimicked by major supermarkets who may try to implement their own. By way of illustration, the Heart Foundation has its tick of approval; why can't we just have a tick on it? The Heart Foundation says—

Trademarks such as the Heart Foundation tick and the RSPCA's animal welfare standards are based on health and emotional appeals. The economic impact that the misleading use of a fair milk mark will have on the dairy industry in Queensland requires specific legislation enforcement. The Heart Foundation has a tick; why can't processors use a fair milk mark because they are paying their dairy farmers a fair price? This is a much bigger picture than the health side of it or the emotional appeal of it; this is about the survival of the industry. This will ensure that we have the legislative framework. I will be writing to the committee and asking them what resources the state government has to ensure effective policing, so that is quite a simple process too.

Just going on to clause 9, it says—

9 Minister must consult about fair milk price

(1) The Minister must consult each relevant Minister about—

(a) trying to establish ...

The reason I had 'trying' there is because I know it is very difficult, and I did not want to have any aspects of reregulation put in because I know how governments are running like there is no tomorrow when it comes to the word 'reregulation'. This is about the minister going to each state to establish a fair milk price. If you have a fair milk price here, you have a fair milk price here. We had the Australian Dairy Industry here before, and there are concerns. Someone said that our milk would be 8c a litre higher than what it is in New South Wales. But if we can establish that in New South Wales, those dairy farmers will be paid a fair price. If we can establish the fair milk mark in Victoria, those dairy farmers will be paid a fair price.

There is a cost factor associated with bringing milk in from other states and it is not necessarily cheaper, but that is one of the reasons why I brought this in. There is a cost factor associated with bringing milk in from other states and it is not necessarily cheaper, but that is one of the reasons why I brought this in.

One of the reasons why I brought this in is to ensure that it identifies the milk: it does not matter how much milk comes in from the other states; the consumer will know that in Queensland that fair mark milk is our milk, it is fresh milk and the farmers are paid a fair price for it. You can say, 'Oh, we're scared. We are scared that we are going to get a flood of milk from New South Wales'. That is the whole reason I am putting this forward. We do not want to use the excuse that we are frightened of a flood of milk and that everyone will be buying New South Wales milk or Victorian milk. We brought this in because we want to ensure that local consumers are buying fresh local milk and we want to ensure that our dairy farmers will survive as a result of consumers buying that milk.

Clause 9 states—

(1) The Minister must consult with each relevant Minister about—

(a) trying to establish a fair milk price in all States; and

(b) trying to develop an industry code of conduct to provide a framework for the continued profitability of the Australian dairy industry.

(2) The Minister must, within 14 sitting days after 1 January and 1 July in each year, table in the Legislative Assembly a report about the consultation.

This is about the minister consulting with the relevant ministers in the other states on two different areas: a fair milk mark and also an industry code of conduct, which is something the Australian dairy industry and the Queensland Dairyfarmers Organisation have been strongly pushing for. As the ministers work to develop an industry code of conduct, they will be highlighting the concerns of the industry. Those concerns will be before our faces. It is about doing it. It is working on it, but also acknowledging that these foundations have to be put in place.

Why do they have to be put in place? I always want to buy Dairy Farmers milk. I go into my local Woolworths or Coles, where you have the Woolworths brand of milk and you have the Coles home-brand milk. On a tiny little shelf you will see just a little bit of Dairy Farmers milk. Every time I tried to find the Dairy Farmers milk it would be all gone, because everyone grabbed that Dairy Farmers milk, yet they have the audacity to say that the consumer has choice. This is why we need an industry code. I went to the manager and I said, 'You need to do something, because I want to drink Dairy Farmers milk. I want to support Dairy Farmers. You have a tiny little shelf from which you sell Dairy Farmers milk.' Since then, that shelf has increased in size. The other side to it is the predatory nature of the industry, as mentioned before, so that branded products such as Parmalat and Dairy Farmers are not reduced to $1 a litre. Why is it only the Woolworths branded products that are $1 a litre? This is about powerfully working together with other states to introduce an industry code of conduct, which is very important.

We have heard the dairy farmers who have spoken here today. They are very passionate about this. You can see that there is desperation, too. Dairy farmers are desperate. We do not want to look at the politics side of it; we want to look at the outcomes side of it. Today, we have dairy industry representatives and dairy farmers here and it is very important that we have this opportunity to put in place something that we have not seen before. Year in and year out, we have seen federal governments reject and avoid this. Re-regulation is not a part of this. This is non-compulsory, it is voluntary and it is an opportunity given to the consumers. We keep hearing about it being consumer driven, but we do not see anything being consumer driven when it comes to supporting dairy farmers. This committee has an opportunity to ensure that we put in place something that is fair to the farmers and that keeps the industry sustainable and that keeps it alive. It may even increase from 520 to 600, if this is put in place. I do not believe it, but anything is possible. This is about the sustainability and the survival of the industry. I hope that we can all see the logic behind it, as can the dairy farmers. Some are out there working their guts out, day in and day out, and some are leaving the industry in droves. This gives the industry an opportunity to brace.

If one processor embraces this, it will give the advantage to the brand of product that it processes and markets. It will be to that processor's advantage. There will be a domino factor, as was mentioned before: the next processor will take it on and then the next, as happened with non-permeate milk. No-one wanted non-permeate milk and now everyone wants it, including Woolworths and Coles. Mr Chairman, thank you for giving me this opportunity.

CHAIR: Are there any questions?

Mr COX: I have a quick question, Shane. Correct me if I am wrong, but earlier I think it was Brian who said that volunteer schemes do not work. You are pointing out that this is voluntary. It is not, for whatever reasons that you decide. We have heard from other people—

Mr Knuth: This is why we have a combination of two, with the legislation side to it. This is about an opt in, just like when the government brought in a voluntary system for taking ownership of water resources; people can opt in. We could say it does not work, but at the present moment we have farmers who are interested in opting in to take over the Mareeba and Dimboola irrigation channels, to take ownership. At the moment it is an opt in. I am now starting to see that this can possibly work. What he was also talking about was an industry code of conduct. Woolworths and Coles are ruthless. They have no compassion for the Australian farmers. You could probably say they have no compassion for the Australian consumers and no compassion for small business. You are saying that if we put to them something that is voluntary, they will laugh at it.

Mr COX: Shane, the question I was asking you is, do you want it to be voluntary? You do not argue for it being mandatory?

Mr Knuth: If I say that at the moment it has to be compulsory, the first thing, Sam, you are going to say is, 'This is re-regulation'.

Mr COX: It is not my bill, Shane. I am just asking you a yes-or-no question; that is all.

Mr Knuth: You should be supporting this, being a farmer.

Mr COX: I am just asking you a yes-or-no question.

Mr Knuth: If I say it is compulsory, then it becomes re-regulation, but this is consumer driven. It is about putting something out there and giving people an opportunity to embrace it, knowing that the state government, because it cares about the dairy farmers, will be aggressively behind this and will support it.

Mr COX: So the answer is that you want it to be voluntary—

Mr Knuth: I have answered your question. I could go on all day.

Mr COX: You do not agree with the dairy industry—

Mr Knuth: I have answered your question. There are different circumstances for voluntary and we could argue the different circumstances of voluntary. We know and I know—

Mr COX: It is a simple question: yes or no?

Mr Knuth: What I have put in place here is not re-regulation. It gives an opportunity to opt in. I could argue the same thing about the Mareeba irrigators, that it is not compulsory and it is an opt in, so it will not work. But it may work; it may work.

Mr COSTIGAN: Member for Dalrymple, is it fair to say that your constituents on the Tablelands are on the same page as you lock, stock and barrel? Do they believe this is the way forward?

Mr Knuth: I should have brought the photo with me, but I presented it at the first meeting. I will be able get you a copy and one for the QDO. If you can give me two minutes, my staff can track it down. It is a photo of me and 25 dairy farmers behind me. We could have got the whole lot—

Mr COSTIGAN: I have seen the photo.

Mr Knuth: There were 270 on the Tablelands. I think there are about 57 now. The photo has around about 24 or 25, which is half the dairy farmers on the Tablelands, who were backing this—

Mr COSTIGAN: It was a good photo opportunity. I saw it.

Mr Knuth: They were backing this. Dairy farmers do not come in just to get a photo with a politician. They came because they are desperate; they are on their knees. They do not care about me or my photo, and I do not care about it either. I could not give a stuff about a photo. But I do care that they care, because they are going broke and that is why they came in. They do not get in photos. If someone asks me, 'Do you want to get in a photo with this person?' I have to find out the reason for it. They got in that photo because, if you hear them talk, they are choking, they want help and they are desperate. As I said, the figures are here. This is not pie in the sky stuff. This is the real deal. This is desperation stuff. If you want to talk about that, that is an example.

Mr COSTIGAN: On a supplementary to the member for Dalrymple, we have heard that this will not be a silver bullet, but it will help stabilise the industry. Would you concur with that assessment?

Mr Knuth: It is not a silver bullet, but it will stabilise the industry. This is about opportunity. No-one would ever have believed that Woolworths would take on non-permeate milk, but it has. This is an opportunity to put in place something that the dairy framers can grasp hold of and that the processors, the small processors, can take on board. It highlights where the dairy industry is going and it gives the consumer a choice and an opportunity. It gives them not only the choice but also the opportunity to know where their milk comes from, because at the moment they do not know where their milk is coming from. This is an opportunity for all.

Mr TROUT: Member for Dalrymple, there is no doubt that there is not one person sitting on this side of the committee who does not feel for farmers. They are the backbone of our nation. I think some components of your bill are not workable, particularly to ask a minister to coordinate other ministers from other governments throughout the east coast of Australia, and potentially Western Australia, to come on board with this. I think that it should remain a Queensland issue, otherwise it should be in a different arena, that is, the federal arena. Brian from the Dairyfarmers Organisation commented that predatory ACCC issues could be fixed sometime soon. I think that your bill, on the surface, has all the accolades of what we all want, which is to be able to produce milk at a reasonable price so a farmer can make money, but I think there are some issues where you are going to make it very difficult for a minister in regards to pulling ministers from other states on side.

Mr Knuth: It is like this—

Ms TRAD: That is a question, actually. We should maybe—

Mr Knuth: I would just like to answer that, too. We are on a committee. We have legislation thrown in our faces day in and day out, but we are there to assess that legislation. Nothing is 100 per cent, so we ask the minister to make an amendment. We advise him. The minister may or may not take that advice. He may make that amendment. However, I am prepared to work with this committee and this government, because I have dairy farmers who are on their knees. If you are concerned about a minister having to try to work with other ministers to highlight the problems of the dairy industry throughout Australia, I point out that our dairy industry is suffering and, as you were trying to point out before, we know that it is not really a big issue that we have milk coming in from the other states, but at the same time the dairy farmers have this problem. We are trying to work the coordination with other states. I think it is section 71 of the constitution that is always being quoted—

CHAIR: Free trade or something?

Mr Knuth: Yes, free trade. We cannot deny that. I hope you will not rule out our minister working with other ministers to develop an industry code of conduct because we have two major stores that are killing our small businesses and families. If the committee feels that this is petty and you are not going to agree to it let me know and I might remove that provision. That is if you feel it is very petty. We will have the discussion. I will send you a letter and ask you to explain to me whether you consider this issue regarding our minister working with other ministers to develop an industry code of conduct is something that you may not seek to support. I will write to you. That is resolved, Michael. It is a good question but it is resolved.

Ms TRAD: Can I say from the outset, Mr Knuth, that I think the committee should acknowledge and commend your passionate advocacy for dairy farmers not only in your own electorate but across Queensland. I think that should be noted. I am interested that you referred to what is happening in terms of the European market. I did some quick research while you were talking about the fair milk product in Europe. You are saying that it is currently in Luxemburg, is that right?

Mr Knuth: Jackie, I had those figures but I cannot recall the first one. It is not prudent of me not to have that information here. My apologies—

Ms TRAD: That is okay; you can supply that at another time. It looks like there are a lot more—

Mr Knuth: I do believe Belgium is one.

Ms TRAD: Austria

Mr Knuth: Austria, Luxemburg—

Ms TRAD: Holland.

Mr Knuth: Yes, Holland. They have all started to embrace it.

Ms TRAD: I guess my question to you is: how quickly has that happened? I do not get a sense that there are actually ministerial compulsion or cross-governmental decrees around what that fair milk price is. It is more about the industry cooperating across European countries and advertising quite heavily to get the consumer on board in terms of this campaign. Is there a level of government intervention to set that fair milk price?

Mr Knuth: This is an important issue. I saw that what was put in place over there worked and it was a saviour. If the government wants to pay for me to go over to Europe—and members of the committee can come with me—to get the facts about exactly what happens—

Ms TRAD: I am happy to support that, Chair.

Mr Knuth: I can only download the information on the internet. I would love to go over there—and if someone would like to join me that would work—to see whether it works and whether legislation had to be put in place. It is a good question. We may look at that. I would love to go to Europe—

Ms TRAD: I guess my point is, Shane, if it takes off without a level of government intervention and legislated pricing is that where we need to go in terms of trying to get movement across the federation?

Mr Knuth: You would probably have to ask the QDO that question because they would have more detailed information. What we are seeing is that there needs to be that legislated oomph behind that. There desperately needs to be legislative oomph. It is not compulsory. At the same time, when it is in place there needs to be protections in place to protect the legislation—

Ms TRAD: I refer to the code of conduct that was introduced into the federal parliament by Rob Oakeshott. Is that something that you are encouraging your dairy farmers to lobby the new federal coalition government to get on board with and support?

Mr Knuth: The Queensland Dairyfarmers Organisation has been working on this for many years. This is not a new argument; this is an old argument. They seem to be dodging, weaving and hiding from it. This is a good question, Jackie. We have politicians roaming the streets of the Tablelands and they are offering more promises but they hide from the dairy farmers because they have nothing to offer them. So they dodge—

CHAIR: I thought that was the tobacco—

Mr Knuth: They dodge, weave and hide.

Ms TRAD: I thought Barnaby Joyce went to the RNA, didn't he, to talk to a couple of dairy farmers about something?

Mr Knuth: We have to do something, but nothing seems to be done. We want to work on this. We see dodging, weaving and hiding to the point of being invisible. We had the Senate inquiry and nothing came out of it. Here is something that could alleviate the problem and hopefully be a foundation until an industry code of conduct is put in place. That is why it is so important that we get this fair milk mark bill up now and the processes in place. We have been waiting for 10 years and they still have not done anything. If we wait, as Ross said before, we will not have fresh milk in Queensland. It is a big issue, but we would like to see it supported. We cannot just sit back and wait and say, 'They are going to do something,' when we have been waiting for 10 years and nothing has happened. We are doing something here.

CHAIR: Thank you for that, Shane. There is fair price coffee—

Ms TRAD: Fair trade.

CHAIR: Fair trade coffee and fair trade diamonds. There is a bit of that around.

Ms TRAD: Go to Tiffanys, I think.

CHAIR: There are processes around the world that are very similar to this. It is worthwhile having a look at this, Shane.

Mr Knuth: I agree.

CHAIR: Ross, who is the supplier down your way that has the bottling plant working now?

Mr McInnes: Greg Dennis of Scenic Rim 4Real Milk.

CHAIR: We are talking to them to see what they have done. We might even call into your place, Ross, on the way back, if we can fit it into our trip. Thank you very much for the briefing, Shane.

DARLINGTON, Mr John, Principal Policy Officer, Animal Industries, Department of Agriculture, Fisheries and Forestry

HOMAN, Ms Tania, Director, Microeconomics and Structural Reform, Queensland Treasury and Trade

LETTS, Mr Malcolm, Executive Director, Regions and Industry Development, Department of Agriculture, Fisheries and Forestry

CHAIR: I welcome officers of the departments. I remind honourable members that the officers providing a briefing are here to provide factual information not to give opinions or to outline the merits or otherwise of the policy of the bill or the alternative approaches.

Mr Letts: Thanks for the opportunity for the departments to provide a briefing on the Milk Pricing (Fair Milk Mark) Bill 2013. Our briefing will be in two parts this morning. John Darlington from the Department of Agriculture, Fisheries and Forestry will brief you on the elements of the dairy industry and Tania Homan from Queensland Treasury and Trade will actually brief you on the specifics of the bill. I will hand over to John to give an overview of the dairy industry.

Mr Darlington: The dairy industry has been in a state of change and adjustment since the 1970s—from the move from cream production systems to high-volume milk production through to the industry decision to deregulate in 2000 and now the impacts of the national milk market that is exposed to the vagaries of the international market. There was significant structural change in the industry following deregulation with the subsequent consolidation of processor ownership and the closure of manufacturing capacity in Queensland, with large volume manufacturing capacity now largely located in southern Australia.

There has been a continuous decline in the number of dairy farms since deregulation. In the year 2000 there were approximately 1,500 dairy farms in Queensland. As at 30 June 2013 there were 521 dairy farms in Queensland. Similarly, Queensland milk production has continued to decline. Recently milk production in Queensland has fallen consistently below Queensland milk sales, in part due to the impact of the 2013 flood event. In the longer term there is a likelihood that the regional fresh milk supply will consistently fall below demand with interregional milk transfers becoming the norm to balance regional supply and demand year round. In a whole-of-Queensland context, milk sales continue to grow, essentially in line with Queensland's population growth.

The complexities of issues that face the Queensland dairy industry also have a national context. Queensland is part of a national milk products market with the Queensland and northern New South Wales production subregions now operated as a single milk supply area. Milk processors are balancing regional demand and supply through interregional milk transfers, sending sharp price signals to dairy farmers.

Ms Homan: I suppose from Treasury's perspective, we recognise the economic benefit of having an economically viable dairy industry in the state. Since deregulation, and in the lead-up to that, we were very conscious of the challenges for the Queensland dairy industry and the competition with their interstate counterparts. I think that has become more acute over the last number of years, particularly with what we have talking about today—the price wars.

From a departmental perspective we would acknowledge that—and there has been a deal of discussion about this today—the challenge is once the government starts to hop in and attempts to estimate what the cost of production is or what an efficient cost is. I think that has been something that governments have typically struggled with. They usually struggle because of limited information. I know there has been some discussion today about the process that is used for QDAS. We did quickly look at that. Currently only 62 Queensland dairy farmers contribute to that process. If you talk about the average process, it would need to be all of them. It would need to be something that is done—I think the bill talks about at least twice a year. Again, it is one of those things, once the government starts to hop in how quickly can the government react to changes and fluctuations in markets? Governments are not typically good in those more volatile type areas.

I know that you have proposed changing the definition from typical to average. What is a representative farmer? That is always going to be a difficult call. As for the government, it is notion of what is the right premium to apply. There is certainly the 8c there. I think to take account of those regional seasonal fluctuations is always going to be a challenge.

The member for Dalrymple talked about this at length. It is not about re-regulation. Again this is one of those ones where the enforcement side is going to be quite difficult. There is nothing to compel supermarkets from putting the products on their shelves. The member for Dalrymple talked about the shelf space for branded products shrinking.

Again, without the support of the retailers themselves, while we can provide a fair milk mark on the product, there is no obligation on them to stock it or in fact to make it prominent if that is not part of their overall strategy. I would also say that—and we have discussed this with a number of people as well—it is a challenge for a state government in this space given the nature of that national market to have something that is going to be fair across the industry, and there has been some discussion about the capacity to import milk from other states. There has also been a discussion about the potential review of the competition law at that national level and some review of whether in fact the competition and consumer act as it is currently drafted is an effective mechanism to deal with the issue at a retail pricing level and whether that is fair across the sector in terms of providing the appropriate price signals.

CHAIR: Any comment, Malcolm?

Mr Letts: No, that is the submission.

Mr KNUTH: Obviously the government is a big organisation. When we talk about the difficulties with regard to QDAS in working out the cost of production—it is an average; it is averaged out—I have faith in the department of agriculture and I have faith in the Minister for Agriculture. I am confident that the minister and his department will have no problems with regard to working out a price structure across the different regions when they have already got it in place right at this present moment. I am quite confident the minister will not find that to be an issue because he says that he is very passionate about the milk industry, and that is petty stuff. It is only little stuff. Likewise, we also have to remember that it is a billion-dollar industry. So we are not saving a small industry; we are saving an industry that is important for the mums and the children of this state. What we are asking the minister to do here is minuscule. With regard to the federal government reviewing this issue, that same federal government was in power six years ago, 10 years ago and 13 years ago. They still would not address this issue. They said they were going to address the industry code of conduct issue in terms of the market dominance of Woolworths and Coles. This same government coming back in actually gave the market power to Woolworths and Coles. If we were going to sit back and reject this on the grounds of waiting for them to do something, we had 1,540 dairy farmers. We now only have 500. We will probably have about 300 by the time we wait. As one dairy farmer said before, if something is not done then we will not have fresh milk supply through Queensland.

CHAIR: Malcolm, Ross was saying that the industry does need more production, and all of the figures are showing that the industry does need more production. Has your regional development side looked at how we can develop the industry? Is there reason there for growth? Let us face it: I have got sons and they are virtually both not on a farm now because the money was not good enough.

Mr Letts: The department does a range of work with the industry. It works fairly closely with the industry. We have a research facility at the University of Queensland at Gatton which was established recently, and it is a pre-eminent research institution in relation to the dairy industry in Australia. We continue to provide those sorts of services. We work very closely with Dairy Australia in relation to the funding into those sorts of activities, including extension activities.

CHAIR: Yes, but not so much the extension but how we are actually going to supply the production. How are we going to supply another 200 million litres or whatever it is that we are going to need in the next five years?

Mr Letts: I guess across all sectors we are also working with industries and other agencies and other departments around things like availability of water and opportunities to expand cropping. There are all of those sorts of things we do. But as you would be aware, there is very little that the department can do in relation to the price of products in the market, particularly those—

CHAIR: No, what I am saying is where is the opportunity. We have looked at opportunities in DNR—that is, we have opened up more irrigated land in North Queensland to try to improve agriculture there. Are we looking at opportunities for the dairy industry to grow?

Mr Letts: I might get John to answer this as well, but my understanding is that on-farm productivity is where most of the effort is going at the moment, and the representatives from the dairy industry could comment on that as well. The industry has impacted on input costs such as grain fodder and all of those things that they need to buy in. As we expand into Northern Australia with some of the work that has been done around the Flinders and Gilbert and those sorts of areas, more fodder will be produced hopefully. That may have a positive impact; we do not know. But the price of grain fodder and of grain is obviously set internationally, so that obviously has an impact. The dollar has an impact on those sorts of things. It is a fairly complex story. Do you have anything to add, John?

Mr Darlington: Mr Chair, the other element is of course the export development facilitation, and the department works closely with Trade and Investment Queensland to facilitate both inbound and outbound investment opportunities. Unfortunately, as I said before, in Queensland there is a lack of existing manufacturing capacity for products which would be likely to go into an export market such as milk powder. So there is potential space for development. The downside is that as the number of farmers continues to decline the capacity to find a base for product export becomes a fairly fine balance. So I suppose the department, as Malcolm said, does focus in that R&D space but also we are acutely aware that that trade and investment development is very important for the future of the industry as well.

CHAIR: Tania, in terms of some of the micro-economic issues, the Coles at Longreach will be selling milk at $1. There is no way in the world you could get it out there for $1.

Ms Homan: No.

CHAIR: So is that ACCC stuff?

Ms Homan: That is in that space. The ACCC has looked at—and I think it has been talked about as well—that notion of providing a product across Australia at a common price and whether in fact that is a notion of some kind of predatory pricing. I think their view to date, given the way the legislation is drafted, is that that is part of their business strategy and something that they can sustain.

Mr COX: I could be wrong; I should have asked the other gentleman before from QDO. For the last 12 months or so you have been setting up a new code of conduct for the industry. How is it going? I am not sure, but I thought that that was something I had heard. If so, have maybe the department, John or someone like you been working with them in that space?

Mr Darlington: Australian Dairy Farmers and the QDO have been working on a milk industry code of conduct and some proposals to amend the consumer and competition act, and Adrian briefly spoke about that before. Those proposals have come to the department and we have reviewed those and our legal advice is that they are consistent with Australian competition law.

CHAIR: At present.

Mr Darlington: At present, yes.

Ms TRAD: I need a bit of clarification, Mr Darlington. I think this is the second time the committee has turned its mind to this specific bill and heard from the industry. The industry is saying there is a crisis happening. Farmers are saying there is a problem—a big problem. We know that there is a decline. We know that there is a lack of production. Is the only thing we are doing research and development? Not that I am saying that research and development is bad, but is that the only thing that we have in terms of an industry response at this stage?

Mr Darlington: In terms of the market response, that is right. The department is not involved in the commercial activities between processors and farmers and supermarkets.

Ms TRAD: So it is up to the market to determine what happens to the dairy industry into the future?

Mr Darlington: Yes.

Mr KNUTH: As a Treasury we are seeing a billion-dollar industry going down the drain in terms of the return of taxes, stamp duties, you name it. For you to come in here and not really offer anything to get a return for the government and to the public, it seems like you have got nothing in—

CHAIR: You are starting to stray into policy a bit there, Shane. You cannot really go there, mate.

Mr KNUTH: You are getting into little detail things as to why this cannot happen. Shouldn't Treasury be inspiring this in terms of there are opportunities for us and therefore we have to do something to get money returned to the state government?

Ms Homan: I will answer that in the context of the decision that was made at the time to deregulate, and I think that was really about making sure that we do have the right price signals around economic efficiency. It was done on the basis that there were appropriate protections between the competition law and the market itself. I think from our perspective it is around the concern if we have ineffective markets—and the discussion has been at length today about the role that the retailers are playing in that space addressing that level—and whether or not the competition protections that we have are adequate to make sure that the markets are working properly underneath. We have taken it from that perspective rather than trying to deal more particularly with individual industries and I suppose having the government back into the space of, as you talk about, some regulation.

Mr KNUTH: Because the government had powerfully campaigned and still keeps talking about how agriculture is one of the four pillars of the economy. Receiving advice from the Treasury here, we are not really getting anything—

CHAIR: This is about policy, Shane. If there are no further questions, thank you very much. The dairy industry is a very complex issue. I have lived in a supply and demand market of the horticultural industry and unfortunately have ploughed very good crops of potatoes into the ground and ploughed very good crops of lettuce into the ground at different times just through that supply and demand market. The real problem of course is with people like Ross McInnes sitting behind you. He has only got a couple of people he can really sell 13,000 litres of milk a day to and it does make it difficult. By the same token, anyone who is serious about growing vegetables or supplying meat or whatever is involved with Woolworths and Coles in some way because they are the big retailers in the market. They do have a big share and somewhere along the line you are dealing with them.

Mr Letts: Chair, if I can just make a comment around the R&D based on Jackie Trad’s question. One of the issues around the competitiveness of the Queensland industry is around productivity and that the cost of production here has been higher than other states. The research centre at Gatton has made significant strides in relation to raising that bar, so in terms of productivity per cow they have proven that we can actually increase it significantly.

Ms TRAD: I understand that, Mr Letts, and I do not in any way, shape or form want to denigrate the role that R&D plays in terms of industry development. It is a very, very important role. But what we have heard today is that there have been two disasters that have attacked this industry—two natural disasters—and we also have a milk price war that is really putting pressure on this industry and I am not sure that the only industry response from government should be more R&D or R&D. I think people are saying they need help. The industry is saying it needs help. I am not sure that that is sufficient.

Mr Letts: Specifically in response to the natural disasters, there were, as you are probably aware, the whole natural disaster relief schemes that were put in place that the dairy industry also was able to access—a whole range of different measures.

Ms TRAD: Yes, but it did not cover off everyone.

CHAIR: Tania, just before we finish, I want to ask you one thing as an economist. The supply and demand market is not quite working probably how it should be. We have heard 18c a litre to truck milk up and they are paying 50c a litre, so the world price is up there. Will this change quickly or can the big supermarkets, as a loss leader, virtually just wear this for as long as they want?

Ms Homan: That is a question I think you would have to ask the retailers, but it is clearly a choice that they are making and it is a choice that they have carried on for a number of years.

CHAIR: Because, really, it is not how supply and demand markets should work though, is it?

Ms Homan: In a perfect world one would not think so, no.

CHAIR: Thank you very much. Thank you everyone for attending today. Thank you to the committee, committee staff and Hansard. I declare the hearing closed.

Committee adjourned at 12.44 pm