Australian Dairy Farmers

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Mr Ian Rickuss MP
Member for Lockyer
Chair
Agriculture, Resources and Environment Committee
Parliament House
George Street
Brisbane Qld 4000

Dear Mr Rickuss,

Thank you for the opportunity to provide a submission to the Agriculture, Resources and Environment Committee examination of the Milk Pricing (Fair Milk Mark) Bill 2013.

Australian Dairy Farmers Limited (ADF) is a not-for-profit organisation representing the interests of Australian dairy farmers. We are a strong collective voice to Government and the community on national issues affecting Australia's 6,700 dairy farmers and their profitability.

ADF's members include state farmer organisations, such as the Queensland Dairyfarmers' Organisation (QDO).

The ADF has a long history of successfully lobbying for the rights of dairy farmers on many fronts - trade, water, carbon, milk price and animal health and welfare issues.

ADF is a national organisation and would like to briefly explain the key differences between the dairy markets in Queensland and the Southern states in particular. Victoria, Tasmania and to a lesser extent, South Australia produce milk for manufactured product and export markets whereas Western Australia, northern NSW and Queensland chiefly produce milk for the domestic drinking milk markets.

In the case of Queensland virtually all milk produced is used as drinking milk, making Queensland farmers highly susceptible to variations in the price of drinking milk. When this situation is coupled with the small number of processors operating in the state and the need for milk to be supplied all year around in a flat supply curve it makes things very difficult for Queensland farmers.

Prices paid to dairy farmers in the southern states are generally based on seasonal milk production largely for manufactured or export markets and not for milk produced 365 days a year, which costs more to produce, for the fresh domestic milk market.

The Queensland drinking milk supply chain was also already under the greatest pressure before the advent of supermarket discounting, with retail prices lower than the national average and costs of milk production the highest of all the states.

Coles' decision, back in January 2011, to cut retail prices for private label drinking milk was clearly driven by a desire to expand its market share of domestic retail food sales at the expense of retail competitors (supermarket, corner stores and home delivery suppliers).

This decision was made either with a poor understanding of, or no regard for the impact on dairy farmers, milk processors, local corner stores, independent service stations or the tens of thousands of other workers who depend on milk for their livelihood.

ADF has noted, and is concerned at, recent QDO data that shows the heavy toll that the industry in Queensland has experienced since Coles dropped the price of private label milk to $1 per litre in January 2011.

Both major processors in Queensland, Parmalat and Lion Dairy and Drinks, have indicated that the drop in price is having an impact on their businesses, with a reduction in profits flowing through to impact on farmers.

QDO has shown that more than 80 dairy farming families have left the industry since January 2011.

The QDO report, *Northern Dairy Industry Regional Situation and Outlook Update: July 2013,* shows the loss of these dairy farmers equates to a reduction of approximately 80 million litres of fresh milk production per annum.

It is estimated these farmers exiting the industry then have a consequent impact of a loss of over $240 million in investment in fresh milk production, along with 240 jobs at a farm level and more staff losing their jobs along the value chain.

The report also sets out the results from a recent survey of Queensland dairy farmers which showed that 68% of them could not cover their monthly accounts from the proceeds of their monthly milk cheque. The report also indicated that for the 2012/13 financial year the majority of dairy farmers in Queensland will have negative returns.

This information is reinforced by recently released research from the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES). In its report, *Australian dairy Financial performance of dairy producing farms, 2010-11 to 2012-13* ABARES shows that farm cash income in Northern NSW and Queensland (ABARES treats this as one region) has dropped from $102,700 in 2011-12 based on preliminary estimates to $61,000 in 2012-13, based on provisional estimates.

ABARES also shows farm business profit in Northern NSW and Queensland dropping from $14,100 in 2011-12 based on preliminary estimates to a loss of $39,000 in 2012-13, based on provisional estimates.

The above figures are very stark and show the impact that decisions beyond the control of dairy farmers have on them. They also highlight the imbalance in the market that is occurring which the Milk Pricing (Fair Milk) Mark Bill 2013 is attempting to address.

ADF understands that the objectives of the Milk Pricing (Fair Milk Mark) Bill 2013 are to:

1) Provide for the setting of a fair price to be paid to dairy farmers for the production of milk to ensure a sustainable dairy industry continues in Queensland; and
2) To establish a dairy 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.

ADF further understands that the Milk Pricing (Fair Milk Mark) Bill 2013 will:

1) Introduce a Fair Milk Mark for all milk that is sold in Queensland where the farmer is paid at least 8 cents per litre above the cost of production.
2) Introduce a penalty system for any milk that is sold in Queensland bearing a Fair Milk Mark for which the farmer has been paid less than 8 cents per litre over the cost of production.
3) Outline a program of ministerial consultation to develop an industry code of conduct to ensure the profitability of the Australian dairy industry.

The national dairy industry operates in a market forces environment. The Queensland market is impacted by several factors:

- A limited number of processors;
- The reliance on the drinking milk market;
- The need to produce milk all year in a flat supply curve; and
- Private label milk priced at $1 per litre;

ADF prefers to see the market work efficiently to ensure fair competition and fair prices. Unfortunately due to the excessive concentration of retail power in Australia this is not happening.

Whilst ADF cannot support a national pricing approach such as that outlined above as it would not be feasible due to a large number of factors, including the differences in regional markets outlined previously. ADF understands from QDO that there is potential for such an approach in Queensland due to the unique factors currently at play in the Queensland market.

There are also difficulties associated with a marketing device such as a Fair Milk Mark. ADF is willing to support investigating a marketing device such as a Fair Milk Mark. There is a need for appropriate mechanisms and benchmarking to ensure it is achievable and works as intended, given the numerous factors that can impact on cost of production, such as climatic conditions, cost of feed, cost of other inputs, conditions in other markets and many more.

There would obviously need to be substantial consultation across industry to ensure it is viable, including with farmers, processors, retailers and other key stakeholders.

The key point that must be made is that the current price of private label milk at $1 per litre is unsustainable, devalues milk as a product and is directly impacting on the price farmers receive, particularly in the drinking milk market states of Queensland, Northern NSW and Western Australia. It is damaging the dairy industry in key states and regions and affecting industry confidence.

A competitive and productive dairy industry contributes directly to economic growth for regional communities, states and Australia. A fair market place will ensure dairy farmers stay in business and secure market access will provide enormous potential for growth to the industry and the economy through greater exports.

Australia's domestic market must be as fair as possible and allow all forms of business, both large and small, to compete. The two major supermarket chains in Australia account for almost 80 per cent of packaged grocery sales in Australia and between 50 and 60 percent of dairy product sales, giving them an immense amount of bargaining power in their negotiations with farmers and processors. A mandatory Code of Conduct and an Ombudsman with teeth are necessary to balance this excessive market power.

ADF will continue to look at ways to work with both processors and the major retailers and believes that a mandatory Code of Conduct and an Ombudsman with teeth that covers the entire value chain and balances retail market power is of paramount importance.

If you require any further information or wish to discuss these matters please do not hesitate to contact me on (03) 8621 4200.

Yours sincerely,

Noel Campbell

Noel Campbell
ADF President