Supermarket Pricing Inquiry

Submission No:	6
Submitted by:	Dairy Farmers Milk Co-operative
Publication:	
Attachments:	
Submitter Comments:	

QUEENSLAND PARLIAMENT

SUPERMARKET PRICING SELECT COMMITTEE

INQUIRY INTO SUPERMARKET PRICING

DAIRY FARMERS MILK CO-OPERATIVE

Submission
April 2024

DAIRY FARMERS MILK CO-OPERATIVE
ARBN: 108 690 384
Level 4, 65 Brougham Street,
Geelong, Vic 3220

WHO WE ARE

Dairy Farmers Milk Co-operative (DFMC) is a stand-alone milk supply co-operative with an established commercial Milk Aggregation Supply Agreement supplying milk processor, Bega Dairy and Drinks (BDD). DFMC holds an authorization from the Australian Competition and Consumer Commission (ACCC) that enables us to engage in collective bargain negotiations with BDD on behalf of our member farmers on milk price and other relevant factors impacting a farmer's payment for raw milk. BDD owns several iconic dairy brands across the nation, however regarding Queensland they own the Dairy Farmers milk brand along with Dare and Classic flavoured milk. Their Queensland processing facilities include a factory at Crestmead (south of Brisbane) and Malanda on the Atherton Tablelands.

DFMC operates across four states (Queensland, New South Wales, Victoria, and South Australia), with Queensland as our largest state for both supply and membership. The Board is drawn from our farmer-based membership and an independent director appointed (generally with an agribusiness background).

Our Queensland membership base in the southeast predominantly stretches between the Darling Downs and Gympie regions, with farms spread throughout the Sunshine Coast hinterland, Brisbane Valley, Lockyer Valley, and Scenic Rim. We are also proud to represent all conventional farming dairies supplying the Malanda factory on the Atherton Tablelands. Queensland's total milk pool sits at 279 million litres (ML) of which DFMC has contracts on roughly 30% of the milk produced.

Having an eastern seaboard footprint we employ an Executive Office and Finance Manager based at our head office in Geelong and two Regional Managers (Northern and Southern) out of Brisbane and Bendigo who work directly with our member farmers.

INTRODUCTION

Dairy is Australia's third largest agricultural commodity group and a staple for most Australian households. With 88% of General Practitioners in Australia recommending dairy as part of a balanced diet, Australians have one of the highest per capita consumption rates of milk in the world at 90 litres per person. When compared to United States (65 litres) and the United Kingdom (70 litres) our high consumption is attributed to Australia's entrenched coffee 'culture' and preference for flavoured milk varieties. With its demonstrated nutritional benefits and strong support from consumers, DFMC believes that our industry has a great future. Furthermore, both milk production and processing in Queensland must continue to be a feature of the Sunshine State's varied agricultural and economic landscape.

What we feel is less clear and understood by government is the complex nature of production, processing, distribution, and sale of fresh milk. Whilst DFMC's interests are squarely focused on the farmgate interests of our member suppliers, the wider dairy industry's footprint goes beyond farmers and paddocks of cows. The milk processing sector employs thousands of Queenslanders across centres like the southern suburbs of Brisbane, Labrador, Malanda, Nambour, Logan, and smaller processing operations in the Sunshine Coast hinterland. The complex relationship between farmers and processors is a delicate one but the stark reality is that neither can exist without the other.

It is true to say that dairy production in Queensland has had a difficult history in recent times. The infamous eight year-long $1 per litre milk campaign undertaken by supermarkets ended on 20 March 2019, and in its wake has left a radically reduced number of dairy farms in Queensland with a set of complex challenges to ensure that consumers demand for fresh milk is met.

However, an ever-declining national milk pool and a rise in international dairy prices in 2022 saw farmgate milk prices lift significantly.

This turnaround in the industry's fortunes has sparked genuine interest back in dairy but there are significant strategic matters for discussion that require a whole-of-supply chain approach, which includes state government involvement, to ensure fresh milk availability on supermarket shelves in Queensland for the long-term.

DFMC sees this Parliamentary Select Committee as an opportunity to highlight the need for assistance from the Queensland Government in undertaking a strategic review of the Queensland dairy industry. Industry has already established the steering group as an initial step of creating a strategic plan for the Queensland dairy industry. Funding has been committed by relevant stakeholders including farming bodies, milk processors and the Dairy Australia's Regional Development Program (RDP). However, a financial commitment from the Queensland Government has yet to be confirmed despite the strong case from a food security perspective.

The Western Australian dairy industry has very similar (but at the same time distinctly different) issues impacting their industry. Stakeholders were able to come together and jointly fund a strategic plan with financial assistance from their state government to help create a roadmap for all sectors of their supply chain. Without doubt, their plan launched in mid-2022 is considered a benchmark within industry for a state with unique challenges on supply, demand, distance from surplus milk markets and processing.

Section 2c of the Terms of Reference commits the Select Committee to examining "the long-term trends in profits accruing along the supply chain for perishable produce, with particular regard to impediments to the profitability of primary producers". A Queensland-specific industry strategic plan would help to ensure that there are constructive discussions and planning in place to ensure fresh milk remains on Queensland shelves all year round as a priority. The plan would also provide confidence to farmers in their business planning and decision making, opportunity for genuine discussion on the future of Queensland's milk manufacturing capacity and importantly contribute positively to changing the narrative of dairy in the Sunshine State. The ability for all elements within the industry, from farmers and processors, to sit down in the same room and openly talk through the future of the industry is vital.

DFMC hopes that Section 2c of the Select Committee's Terms of Reference will lead to positive discussions as to the Queensland Government's role in the strategic planning process for Queensland dairy. We believe a contribution of government funding, matching that of industry's pledged financial input, would ensure the creation of a Northern Dairy Industry Strategic Plan.

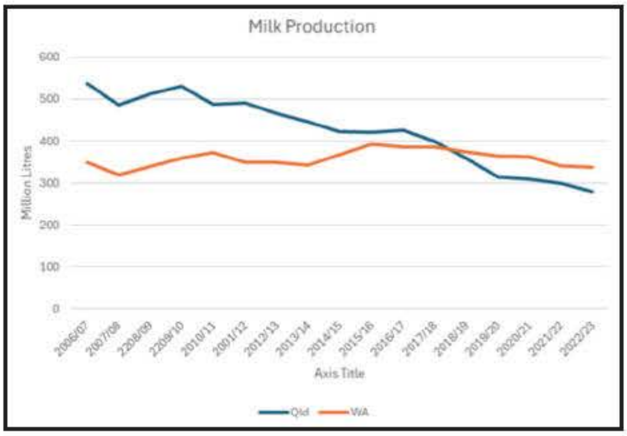
[1] Dairy Australia "In Focus 2023. The Australian Dairy Industry"

[2] Dairy.com.au

CURRENT QUEENSLAND SUPPLY & DEMAND CHALLENGE

Queensland has long been an 'importer' of fresh milk, that is raw milk is brought in from southern states to fill the gap between local supply and consumer demand. Based on current numbers, Queensland produces 279 million litres (ML) milk with consumption of fresh milk sitting at 570 ML. To provide some context to Queensland's supply, Australia's largest dairying region is western Victoria (west of Geelong to the South Australia border) which produces in peak years two billion litres annually. The large difference in production is due to the more temperate climatic conditions in southern Australia compared to Queensland, and the existence of a dairy commodity manufacturing industry which complements the drinking milk market. Farmgate prices for milk are typically less in the south dairy regions reflecting both the lower cost of production and the lower returns for the commodity products.

The Australian dairy industry has retracted by every metric (farms, cow numbers, milk production) since deregulation in 2000, however there has been a more marked reduction in the numbers for the Queensland industry. A comparison with Western Australia, for example, illustrates how milk production has fallen away in comparison with the West. Drinking milk sales however have gone up in Queensland and remained relatively static over the last 15 years.



There are several contributing factors with many negative signals to dairy farmers that have impeded investment but that is not to say dairying north of the Tweed is unviable, quite the opposite as many of the farm business operating measurements of returns are comparable to southern states. Advances in research for subtropical dairy production (principally lead by the team at University of Queensland), industry led initiatives through the Subtropical Dairy Programme and the general dynamism of our farmers has ensured that the dairy industry can continue to respond to the conditions in front of it.

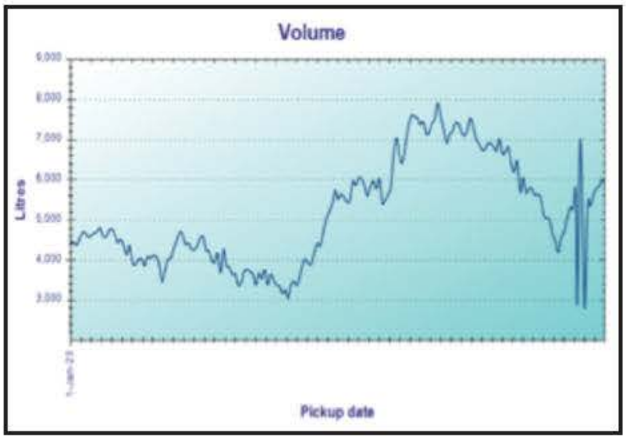
The additional required amount of milk transported in from southern states changes throughout the year based on the locally produced seasonal supply. These fluctuations in the local supply are due to on-farm factors such calving patterns however Queensland dairy farmers do produce milk with less seasonal variation than the southern states. The required amount of milk transported in from southern states changes throughout the year based on the locally produced seasonal supply. These fluctuations in the local supply are due to on farm factors such as a majority of cows calving in the Spring (where production is at its peak) when access to feed such as ryegrass is abundant and weather considerations in terms of animal welfare (less impact on cows when calving given the more pleasant conditions of Spring). Additional weather factors such as the extreme heat and humidity of late Summer keeps production lower during February.

[3] Dairy Australia – "In Focus 2023. The Australian Dairy Industry"

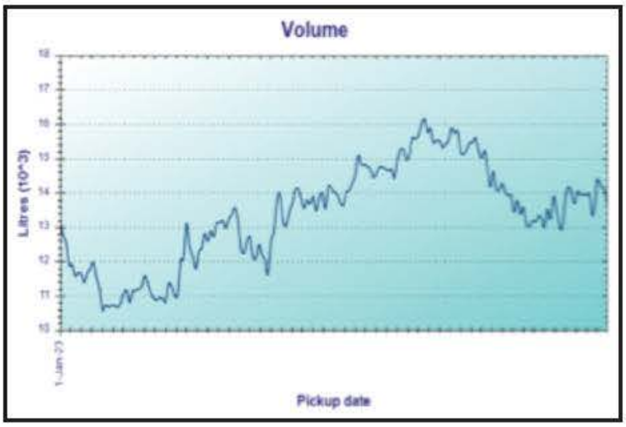
CURRENT QUEENSLAND SUPPLY & DEMAND CHALLENGE continued

Below are two graphs showing litres supplied throughout a calendar year from two actual farms in Queensland which represent the variation in supply on farm. It is important to note that consumption only marginally changes throughout the year, exposing Queensland to local milk deficits at certain times of the year.

Additional weather factors such as the extreme heat and humidity of late Summer keeps production lower during February.



FNQ



SEQ

Figures from Dairy Australia estimate that the yearly deficit in Queensland is 290 ML, so Queensland is less than 50% self-sufficient in its fresh milk supply. During the seasonal lows in production the deficit is around 24ML per month between mid-March through to late May. One of the many challenges for milk processing companies is ensuring there is sufficient milk brought in when local supply is low while also managing supply when it is at its peak during the Spring.

Not withstanding milk either produced by or supplied to bespoke dairy companies or micro-brands for products such as cheese, the overwhelmingly majority of the milk produced by Queensland dairy farmers goes into a bottle that ends up in a dairy cabinet on a supermarket shelf, corner store or service station for domestic consumption.

The additional raw milk required for Queensland is moved throughout the country by road or rail into the key processing facilities within the State. This raises some obvious issues with long term trends in logistics costs, "food miles" and an increased carbon footprint of the industry.

Sourcing milk from southern Australia is not as clearcut as might be predicted (expected) as Australia still exports approximately 30% of its dairy produce in the form of manufactured products such as cheese, butter, UHT (long-life milk) and milk powder. Even with our high per capita consumption of the fresh product and a shallowing milk pool, Australians do not consume enough dairy for the industry to shrink down to only servicing the domestic market. Ensuring there is sufficient contracted milk for the Queensland market is not always guaranteed as previous years have shown. When the international dairy price is high, farmers will move towards those processors with an export focused product which can leave Queensland exposed during our months of low local production.

FOOD SECURITY

2022 created the 'perfect storm' for a food security emergency regarding fresh milk availability in Queensland. The combination of a high export price for dairy, the declining national milk supply pool and the low supply period of autumn saw supermarket dairy shelves empty in some regions.

Dairy Australia's In Focus 2023 report on the sector states that Australian milk production hit a historic 30 year low with 8.1 billion litres produced by our nation's farmers for FY23. Still, Australian dairy exports in 2022/23 totalled $3.7 billion, which was a 3% decline on the last season. In contrast, the volume of Australian dairy exports totalled just over 400,000 tonnes, the lowest volume in over 28 years.

This limited Australia's exportable surplus for companies supplying these products and drove local farmgate milk prices to record highs. Indeed, the value of farmgate production increased by 24% to a combined $6.1 billion nationally. The increased costs dairy farmers face for key inputs like labour, electricity, fertliser and grain saw the much of this price increase get absorbed but the ability for the farmgate price to lift has been welcomed given the artificial 'brake' placed on it from the $1 milk campaign.

For context, farmgate milk contracting is regulated through the national Dairy Code of Conduct (CoC) which requires all buyers (processors) of milk to publicly release their minimum prices for milk by 2:00pm on 1 June each year. Milk processors then adjust farmgate prices for milk (or farmer-run supply co-operatives like DFMC) as they compete to ensure they secure their desired level of supply. Once milk is securely contracted within 30 days of 1 July, farms are committed to their processor for the length of the contract. With mostly one year Milk Supply Agreements (MSA) in place between farmers and processors for the 2022/23 year it became apparent during autumn that there was not enough available milk to supply Queensland.

The inability to meet the milk deficit in Queensland became a reality for Far North Queensland, as was widely reported in the media at the time during April and May 2023. As was seen in Queensland's most heavily concentrated dairying region of the Atherton Tablelands it was not uncommon to see milk unavailable for purchase on a supermarket shelf literally 500m walk from the Malanda milk processing factory. This came about due to the expected seasonal lull in local production during autumn, more southern Australian milk contracted to processors supplying an export product but made worse by the overall drier periods across the country leading to less milk being produced.

There are no 'war time' like provisions requiring farmers or processors within the supply chain to meet domestic consumer demands first. China (37%), Japan (12%), Indonesia (8%), Malaysia (5%) and Singapore (5%) have remained unchanged as Australia's dominant dairy trading partners by value for 12 years and account for more than two-thirds of the value of Australia's dairy exports. Cheese accounted for 24% of exports, followed by skim milk powder (15%), whole milk powder (7%) and butter (4%). Other dairy products, including infant and non-infant food preparations, comprised the remaining 50% of total export value. It should be noted that it takes approximately 10L of fresh milk to produce 1kg of cheese.

It is acknowledged that an industry-wide Strategic Plan would not have solved this challenge however it underscores the need for wider discussions regarding the availability of fresh milk in an ever-turbulent industry exposed to international pricing trends and strategies to help boost local production.

[4] Dairy Australia – "In Focus 2023. The Australian Dairy Industry"

DECLINING FARM NUMBERS & PRODUCTION

As mentioned previously, Australia's milk production for 2022/23 was at an historic 30 year low. Indeed, since 2016 national production has declined on average by 1.8% per year. Alarmingly though, Queensland is declining at twice the average rate for milk production at 3.7% each year. From a longer-term perspective, since 2011 there has been an enormous drop in the number of dairy farm numbers contracting by 60%. If this trend was to be extrapolated at its current rate there would be negligible local production by 2037. Whilst it would be expected that most of these farms would transition to another agricultural commodity, the situation exposes Queensland's blue-collar jobs in the milk processing sector as the inevitable question about keeping processing facilities open becomes a reality.

Central to the question on future availability of fresh milk on shelves is the number of farms supplying raw product, their location, size, and type of production. When assessing this issue, DFMC agrees that the Northern Dairy Industry Strategic Plan needs to examine the reasons for this dramatic set of circumstances facing Queensland's local milk supply and then consider strategies to turn this trend around.

Without question, Australia has more varied weather patterns than many other dairying nations across the world which has had significant impacts on the number of dairy farms still in operation. DFMC commends the Queensland Government for the Farm Business Resilience Program (FBRP) that encourages farms to plan for their drought preparedness. We have worked with our member farms to help them take up the planning process and engage with the incredibly capable DAFF staff to unlock the opportunities for their businesses available through the FBRP. Although not unique to dairy farming, during dry periods there are significant the added costs for growing feed on farm and sourcing additional feed such as grain to keep cattle in production. This grinds against the heavy mental health toll that droughts create to cause a 'domino' type effect that the predominantly family farm nature of the Queensland industry can easily succumb to.

Additionally, and very relevant to Queensland in relation to the causes for the decline in farm numbers has been the disastrous 2011 $1per litre milk campaign for home brand waged by Coles, Woolworths and the other players in the retail grocery market. Relevant non-farmer players within the sector readily acknowledge that $1 milk stripped millions from the supply chain and detrimentally impacted the confidence of farmers for the industry. As one of the duopoly players stated to a Senate inquiry at the time, the rapid price drop on the shelf "effectively re-based the price of white milk across Australia overnight" and "set a new benchmark that can be expected to flow back to processors and farmers as new supply and pricing agreements are negotiated over the coming months and years".

Suffice to say many otherwise viable Queensland farms could not see a practical future for the industry with an arbitrary, bolted in shelf price unreflective of cost of production locked in with no room for negotiation or movement and made the decision to exit the industry. Unquestionably, this strategy by Coles to increase market share detrimentally impacted the long-term profitability of the Queensland dairy industry as shown by the contraction of farm numbers and supply.

GROWING QUEENSLAND'S DAIRY PRODUCTION

Amongst the dairying states, Queensland has the smallest average herd size,

State	Average Herd Size
QLD	216
WA	446
SA	357
NSW	466
TAS	499
Vic	281

Family owned and operated farms are still the backbone of the industry. Dairy farming is an intensive food production system requiring specialist knowledge on animal health, pasture production and the day-to-day management of complex assets based on differing farming systems which is often passed down through generational family businesses. Each farming system has unique needs and constraints which require tailored strategies to assist in increasing production. For example, lifting production on a 1M litre complete grazing farm through to 1.5M requires a different approach to that of lifting production on a 2M litre Partial Mixed Ration (PMR – mixture of silage and grazing feeding) farm to 2.5M-3M litres. It should also be noted that a grazing-based farm on the Darling Downs is significantly different to that of a grazing enterprise on the Sunshine Coast hinterland and totally distinct again from grazing on the Atherton Tablelands. As a genuine way forward, this strategic plan supported by industry sets out to develop targets and strategies for remaining farms to grow, built upon the varying farming systems and in consultation with the longer-term needs of milk processors.

Importantly, the issue of alternative pathways (other than farm ownership) needs to be addressed to help provide a viable locally produced supply base. The Queensland Dairy Accounting Scheme (QDAS) shows that the investment per cow ratio has increased to an almost unachievable goal for potential new entrants in an industry where land ownership is viewed as virtually the only way to enter.

Year	Investment Per Cow
2006	$12 000
2011	$17 500
2015	$13 500
2019	$15 500
2023	$19 100

It should be noted that new farms coming online are not completely out of consideration as we have seen within the last two years a handful of farms commence operations, however these limited examples have either been via purchasing cattle from an exiting farm or moving cattle interstate. An often aspired to goal, but one seldom ever thought to be achievable goal for the Queensland industry in recent years is a dairy farm being sold and continued as a dairy farm; this goal has now been achieved. These stories are warmly welcomed and show that the industry is not bereft of potential, but a genuine plan to address alternative ways into the industry through share farming opportunities and engaging with the banking sector is key to growing beyond the trickle of stories currently available.

[5] Dairy Australia – "In Focus 2023. The Australian Dairy Industry"

ENGAGEMENT WITH THE QUEENSLAND GOVERNMENT

DFMC has a significant role in the Queensland dairy industry, which is why we sought advice from (dairy advocacy body) eastAUSMilk about the value of writing to the Queensland Minister for Agricultural Industry Development, Fisheries and Regional Communities Hon. Mark Furner MP in support of the Northern Dairy Strategic Plan. The then Co Executive Office of EastAUSMilk indicated that highlighting wider industry collaboration and cooperation for the desired plan would be of value.

Given our strong backing of the plan and understanding the need for both State Government participation in the plan's development to ensure it has legitimacy within industry and need for a financial contribution to ensure its delivery, we wrote to Minister Furner on 23 February, 2023.

Minister Furner's Office wrote back on 4 April 2023 to confirm that it was discussing the matter with EastAUSMilk. Our understanding is that no agreement on a funding contribution has been reached at this time.

PREFERRED OUTCOME FROM THE SELECT COMMITTEE

Dairy farmers, milk processors and industry bodies sitting down in the same room to have constructive dialogue on the future of the industry has been a great thing through the early stages of creating a steering committee for a Northern Dairy Strategic Plan. DFMC has taken its place on the steering committee alongside the three major processors, EastAUSMilk and the northern industry's RDP body Subtropical Dairy plus Dairy Australia. Our understanding is that all participants (most definitely including DFMC) have pledged financial support towards the creation of the plan.

We feel that the Queensland Government must take a role in the process to ensure there is a sustainable industry for farmers, consumers and those working the milk processing sector. Considering the financial commitment made by industry we would ask that the committee consider making a recommendation to the Queensland Government of contributing $80 000 towards the delivery of a Northern Dairy Industry Strategic Plan.

CONCLUSION

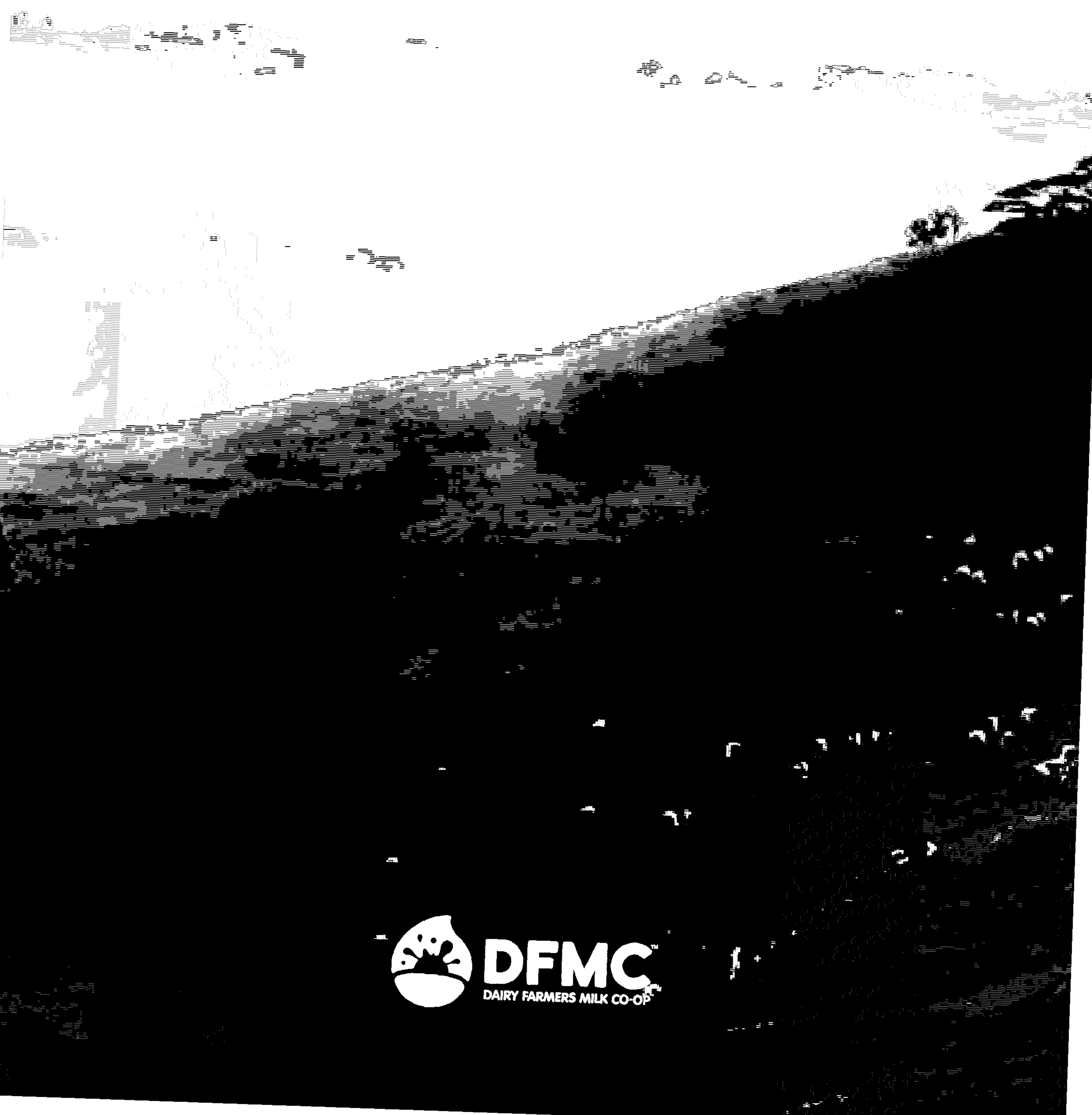
The Queensland Dairy Industry has suffered through the aggressive pricing practices for home-brand milk of the supermarket duopoly, eroding the confidence of farmers and the overall sustainability of the industry, demonstrated to its severe contraction rate. Our industry is more than just dairy farmers, the strong number of blue-collar jobs in the milk processing sector should also be front and centre for future considerations by government.

We understand there are initiatives underway to drive development in our industry. However, we are firmly of the view that the action needed to lead to sustained change is greater than the sum of individual efforts. Collective action through providing a forum for dialogue, avoiding duplication and competition amongst service providers, enhanced investment in key initiatives, communicating a positive narrative and solving complex issues cannot be achieved through individual organisations.

The case for the Queensland Government's involvement both from a financial and participation perspective rests on:

- The number of Queensland farm halving since 2011 and the advent of the $1 milk scheme of the supermarket duopoly.
- The deficit of locally supplied Queensland fresh milk to meet the needs of Queensland consumers continues to grow with a dwindling supply.
- Queensland declining at twice the national average of milk production, which has the strong potential to impact jobs in the milk processing sector throughout the State.
- The decreased availability of fresh milk in low seasonal production periods in Queensland and combined with strong competition from export markets has exposed Queensland consumers to an alarming food security issue.
- A higher industry carbon footprint with the need to transport by road over 50% of Queensland's fresh milk demands from southern states.
- Investigating and promotion new pathways into the dairy industry given the extremely high costs associated of investment required.
- Whole of industry strategies being implemented to help lift supply on existing farms are required to arrest further decline in production.

We respectfully submit this submission and hope that the Select Committee considers our industry's request.


DFMC™
DAIRY FARMERS MILK CO-OP