

17/03/2011

**Senate Inquiry into Supermarket Milk Pricing**

Thank you for the opportunity to consider this letter as part of your deliberation on the dairy industry and the current milk pricing.

My background is that of a fourth generation dairy farmer, who has spent much of the last 25 years in agri-politics. As a member and chair of the VFF's Water Resources Committee, and from 2005 to 2009 as the President of the United Dairy Farmers of Victoria. I have also served my fellow farmers on a number of Boards and Committees in the areas of surface and groundwater policy development.

The history since Deregulation has seen exit's from the dairy industry. Dairy Australia figures show that in 1980 there were 22,000 dairy farmers in Australia, in 2009 the number was 7000, and I believe currently the figure would be closer to 6000. Many would say that many have amalgamated into larger operations, and that is true, however since the year 2000 milk production has been dropping from 11 billion litres down to this year of 9 billion litres. One of the local real estate agents has over 36 dairy farms on their books, with no inquiries. Many more farms have gone out of dairying and into beef production in an attempt to have a life style in their later years.

I believe that the issue is not just deregulation, it is the supply chain, and the fact that without a framework of operating rules in which competition will grow, then we end up with the current outcome of monopolization within the supply chain. When the co-operatives were alive and well, we saw competition between factories to pay the highest farm gate price in order to attract supply. Today we only have one true co-operative (Murray Goulburn) left, and the corporate factories only have to match MG's farm gate price to gain supply, and like the supermarkets can cross subsidize from other products in order to compete, given time they will take MG out, as has been the case with other co-operatives when they have been forced to float to raise capital. This process of the big getting bigger may vary, however the outcome remains the same, the farmer and the consumer are losing. I strongly believe that it is an indictment on Government that Australian Food Industries have to encourage off shore investment (usually from the countries that we are selling to) in order to expand, to the point that our industries are then taken over. Of the top 25 food companies here in Australia only 4 are still Australian owned (Ausbuy).

In the past farmer owned co-operatives saw the consumer dollars being driven back to the farm gate, and the rural community prospered. This model was one of a number of proven ways to return a fair share of the consumer dollar back to the farm gate, through having more players competing for farm supply in order to satisfy demand. I understand another model that was introduced by Government after the Second World War was to have a maximum price markup of 33:1/3 % on all goods. Shop keepers had to keep a ledger of all products purchased, and show the sale price, their books were inspected by government inspectors to check that consumers were not over charged. Today such a system could be monitored via the GST and the need for inspectors would no longer be required. The advantage of this system is that it protects the consumer from overcharging, drives efficiencies , but most importantly drives the consumer dollars back to the farm gate. An example of this is when I delivered potatoes into a supermarket and received \$100:00 a tonne (10c/kg), and the consumer was charged \$1495:00 a tonne (\$1:49/kg) for the same unwashed potatoes, the markup was outrageous. If the Governments 33:1/3 % applied, the supermarket would have received only 3:3c/kg from my 10c/kg which would encourage the supermarket to pay a more realistic farm gate.

The Government is working on a frame work of rules for a market driven carbon trading system, a frame work of rules for the food supply chain is what is missing in the food industry. The ACCC is the only Government Body that has power to over- see competition and it leaves many people questioning its decisions. When Murray Goulburn made a bid for Warrnambool Cheese & Butter, the ACCC was not in favor of the bid as they said that it reduced competition. The ACCC has not intervened as the Super Markets move to take out any competition in the retail market, and are now taking control of the supply of food brands. At a meeting in 2005 I attended with Coles Executives we were told that years before the only products in the dairy cabinets were bottles of full cream milk, a pound of butter and a big tube of yogurt that only people with hairy arm pits would eat!. They congratulated the dairy Industry for the huge range that can be found in the dairy cabinet today. That range is being put at risk as the home brands gain market share; this is not good for the industry or the consumer. If the dairy manufacturers had a back bone they would not supply milk for the home brand market, only making branded milk available.

I urge you to continue your good work, and I would like to remind you that every farm that goes out of production is a family, a family that has contributed to the wealth of this country and the wealth of the rural communities by producing the best food in the world. I question the view that we are a wealthy country, when the people producing the best food in the world are leaving the land they have loved for generations through the lack of a good farm gate price.

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