

Submission to the Economics References Committee on The Impacts of Supermarket Price Decisions on the Dairy Industry

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I am making this submission because I believe many of the arguments made to this inquiry are logically unsound, unsupported by evidence and in conflict with conventional market behaviour. The inquiry also seems more sympathetic to farmers and milk processors than to consumers and price-cutting retailers.

For example, on *Lateline* last night, Senator Xenophon was scaremongering that northern Queensland might end up having access only to UHT milk instead of fresh milk. This is ludicrous, extremist nonsense peddled by milk processors, hysterical farmers and Bob Katter. If current processors are stupid enough to stop marketing fresh milk, new processors will emerge to fill the gap because market demand for fresh milk will not disappear, and when there is demand, entrepreneurial capitalists will meet it.

Another example of bad argument comes from self-interested milk processors arguing that if generic milk is so cheap, no one will pay the premium demanded by branded milk. That is as it should be. That is a basic rule of markets. If customers don't see the value in your product, they won't buy it. Branded milk is still just milk, a basic commodity. The "innovations" that processors claim for their milk are mere marketing ploys to attract higher prices for essentially the same product. It is no different than charging high prices for different brands of water. In many cases, the added nutrients put into some branded milk are either not necessary or are mere replacements for nutrients lost through over-processing. Protecting high-cost branded milk distorts the market and favours processors over consumers.

One processor complained that if generic prices are too low in supermarkets, then cafes and caterers would buy their milk in stores rather than buy it from them. This is not new. I ran a small café for several years and always bought generic milk at the grocery store because Dairy Farmers wanted to charge me retail prices for their branded milk, regardless of the quantity I purchased. This made them seriously uncompetitive with generic milk, especially when a delivery charge was added as well. This is another example of why this inquiry needs to be much more sceptical of the milk processing industry and much less suspicious of the big supermarkets. Processors are the money-making, price-inflating middlemen between farmers and consumers, and they are squealing only (or getting the farmers to do it for them) because they are being pressured to be less greedy by the big supermarkets. Supermarkets aren't threatening farmers; processors are.

The price war is between generic and branded milk, not between supermarkets and farmers as self-interested processors have characterised it. Unless the overall fresh milk market shrinks, demand for farmers' commodity product (raw milk) will remain the same and so should their prices. If the market wanes for branded milk but burgeons for generic milk, then market-responsive processors will make more generic and less branded milk. It shouldn't matter to farmers who buys their milk or what form it ends up in. If one processor doesn't want it or won't pay a fair price for it, then another will unless there is an over-supply of raw milk in which case prices should be falling anyway. Processors will make less money, but they'll also face lower costs to produce generic milk.

I suspect many of the farmers who claim the sky is falling are actually suppliers of processors who make only branded milk. If demand falls for branded milk, their processors will buy less. The processors may be frightening farmers with unsupported claims of how much demand might fall. When farmers make submissions to the inquiry, it will be important to find out who they sell to and also to demand evidence for their claims about the dire consequences for them of cheap generic milk. Can they, instead, simply sell their milk to a processor who makes generic milk? If demand is growing for generic milk, then generic processors will have more demand for milk and will have to pay reasonable prices for it. The way to address farmers' fears is not to protect branded milk processors but to get them to shift to more generic milk production if that is where the demand is.

The inquiry also needs to ask processors about the relative costs of making generic and branded milks, how much of their operations make one or the other or both milks, how easy or difficult it would be to switch between different operations, and how much more or less they pay suppliers for milk used in generic and branded processes. This will uncover the evidence that I suspect will not support the henny-penny tales processors and farmers are spinning.

The inquiry also needs to get some hard numbers. For example, before the "price war," I was paying \$3.09 for 3 litres of fresh milk at both my local Woolworths and IGA in a small country town 35km from Mackay in central Queensland. The price reduced only nine cents as a result of the "war," hardly enough to change anyone's buying behaviour and certainly far from "heavy discounting" referred to in the inquiry's terms of reference. Is a \$1 a litre price (instead of \$1.03) really worth all the kerfuffle?

I hope this submission encourages a little more common sense and rationality into the inquiry and a lot less fear of major supermarkets which may enjoy too much market power (whose fault is that?!) but which also vastly improve the quality of life of people outside major population centres by providing quality fresh foods, cheaper prices and more choice.

As people have also been attacking Coles for reducing the price of its free-range eggs and this may be discussed as part of this inquiry, I urge you to acknowledge the moral value of this pricing strategy. The biggest barrier to turning people away from cage eggs to barn laid and free range eggs is price. If Coles wants to make eggs produced more humanely more attractive to customers, they should be applauded instead of being treated as market manipulators trying to destroy egg farmers.

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