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## **SUBMISSION TO THE SENATE ECONOMICS COMMITTEE INQUIRY**

### **The impacts of supermarket price decisions on the dairy industry**

This submission is directed to the Committee's terms of reference indicated.

#### **(a) farm gate, wholesale and retail milk prices**

In common with many other industries, the domestic dairy industry at least relies on a supply chain: producer; processor; (in some instances wholesaler); retailer; and end consumer. Basic laws of economics dictate that where one link in that chain fails, such that it becomes unprofitable (or even marginally profitable), the industry as a whole is put in jeopardy. Arguably the recent decisions regarding retail milk pricing in supermarkets across Australia have the potential to render two links of the dairy industry supply chain unprofitable to the extent that they could well be unsustainable in the longer term.

Processors must make a reasonable profit from their operations in order to remain in business. If such profitability cannot be achieved capital will be redirected to more profitable enterprises. Similarly dairy farmers, who sell their milk produce to those processors, must also remain economically viable or they will simply close down their dairy operations and:

- devote their often extremely valuable rural land holdings to other more profitable pursuits (eg, cropping, raising beef cattle, etc);
- retire from food production all together; or
- declare insolvency / bankruptcy as a consequence of not being able to meet their loan repayment obligations.

In any event those farmers will be lost to the dairy industry, thereby putting that industry under pressure - particularly in northern regions - to maintain a level of production which is sufficient to meet the Australian consumer's demand for fresh drinking milk.

The retailers of drinking milk must pay appropriate prices to the processors (or wholesalers where relevant), and those processors (or wholesalers) in turn must pay sustainable prices to their dairy farmer suppliers. If not, on the basis of the above

analysis it is arguable that the Australian dairy industry which supplies fresh drinking milk to the domestic market is at considerable risk of failure.

While it is noted that one retailer apparently will "absorb" the cost of its recent pricing decisions, not all retailers have made that commitment. Further, so far as the matter can be understood through press reports, etc no retailer has indicated that it will absorb such costs indefinitely. The question must therefore be asked: At what point will some or all retailers attempt to pass the costs of offering unsustainably low retailer prices for fresh drinking milk down the supply chain to the inevitable disadvantage of the processors and, ultimately, the dairy farmers?

**(c) whether such a price reduction is anti-competitive**

An analysis of this issue should be undertaken by the Australian Competition and Consumer Commission (ACCC). On its face, such pricing is promoting competition at the retail level in the short term. Whether, however, any of the provisions of Part IV of the Trade Practice Act apply with regard to the less obvious affects of the behaviour of the retailers in the medium to long term should be the subject of an inquiry by the ACCC. In that regard, query how a reduction in competition among processors and / or at the dairy farm level could be of longer term benefit to consumers?

**(e) the recommendations of the 2010 Economics References Committee report, *Milking it for all it's worth - competition and pricing in the Australian dairy industry* and how these have progressed**

The recommendations set out in the 2010 Economics References Committee report should be implemented so that a proper understanding can be developed regarding the establishment of an equitable system of milk price setting, particularly in relation to the domestic market for fresh drinking milk. The dairy industry needs a direction which is based on clear answers to the issues raised, in particular, by recommendations 2, 3, 4, 12 and 13. If such a direction is not forthcoming grave concerns must be held regarding the capacity of the dairy industry in northern Australia at least to survive into the medium and longer term.

**(f) the need for any legislative amendments**

Hopefully the Committee's inquiry will assist it to determine whether or not existing legislation is sufficient to address issues of concern in relation to the longer term future of the domestic dairy industry, including in relation to the Trade Practices Act. If gaps in existing legislation are identified the Committee should make appropriate recommendations with regard to any necessary legislative amendments.

In conclusion I take this opportunity to thank the Committee for providing the invitation to lodge this submission.

**David Hodges**