Submission to Inquiry into Competition and Pricing in the Australian Dairy Industry

Introduction and Personal Background

Dairy farming for 26 years at Togari in Northwest Tasmania. Currently Marilyn & I are semi-retired with the farm being operated and managed on a share basis by our daughter and son-in-law. To illustrate productivity gains achieved with land and infrastructure, production has increased from approx. 34,000kg of butterfat to 148,000kg a year – a huge increase on the same land area over the 27 years. While this illustrates our commitment to the Tasmanian dairy industry, it is no doubt duplicated by other dairy businesses in Tasmania. Productivity improvements at farm level have been fully embraced by most farmers by upgrading farm infrastructure from a very low base and it has required significant investment and commitment at farm level to achieve, especially when prices over a significant number of those years has been low. Many dairy farmers took advantage of the better milk prices over the previous 2 years to do much needed improvements to or build new dairys, farm staff facilities and install irrigation and drainage. A new pivot irrigator can cost from $100,000.00 – a new 50 bail rotary dairy can be $1,500,000.00.

Competition between Companies

There is no significant competition in Tasmania as the price paid is set by Fonterra. Tasmanian Fonterra suppliers are currently covered by a Bonlac Supply Company supply agreement. I believe the situation has been made worse by the ACCC allowing Lactos to be taken over by National Foods. Whilst this may not impact the consumer, it certainly does on the farmers by removing a competitor from Tasmania. I am also concerned about the impact on milk pricing when the current Bonlac Supplier Agreement ends.

The potential exists for companies to enter into supply agreements between each other that may not be in the best interest of farmers. Where there is surplus milk held by a company, it can be used as leverage against suppliers when on-selling to another company on the basis that it is selling the milk at a loss, yet these companies are allowed to promote increased farm production thereby diluting the value of milk in the marketplace and, at the same time, keep their options open. Dairyfarmers effectively pay for this with reduced returns.

It is interesting to note that the milk companies quote their pricing to farmers to be based entirely on export commodity markets, regardless of their degree of exposure to these markets, and it seems to be to the exclusion of a growing and lucrative domestic market sector. Where is the competition in this regard?

The Tasmanian and Australian dairy industry is dominated by large multinational companies with no doubt the main focus on return to their shareholders. For the dairy industry and its farmer suppliers to remain viable and meet future challenges, this needs to be addressed. For a young person to be able to enter the dairy industry is a huge financial commitment and it will be impossible to attract these people to the industry if there is insufficient financial return.

Impact of Pricing

Prices received by farmers:

- have a direct influence over socially accepted standards of living in Australia, to the farmers themselves, employees and their families. Occupational health and safety standards can also be seriously compromised if a farmer is overworked and stressed.
- affect their ability to operate and react to changes at farm level (there is a 1 year lag time between making the decision to artificially inseminate the cow to her calving and producing milk. Once the decision has been made the farmer is committed as the milk production cannot be turned off and the cow must be milked. Even in down times a dairy farmer cannot close the factory, so to speak, even for a short time, to save money. Dairy farmers at present only receive a price for their milk 1 year after that decision has been made and this year most farmers were already well into calving before receiving their seasonal price. They also have a commitment to animal welfare and need a certain level of staffing to be able to

adequately look after their stock and maintain a roster of employees sufficient for the needs of a seven day working week. Most farmers work with too few staff for the needs of their business, putting huge mental and physical pressure on themselves and their families, and is a direct consequence of the low price. Calving down many hundreds of cows with only 1 or 2 staff, as is usual, is unacceptable from an animal welfare point of view and a farm business owner point of view.

- affect their ability to meet future changes e.g. climate change, cost increases of energy and water, carbon trading scheme, enviromental impacts to farm input. They simply do not have the money to pay to address these changes and the cost increases generated by them.

- have a flow-on effect as dairy farms usually directly support the nearby towns. The ability of the local farmers to buy equipment, employ local labour and service their farms can severely impact their local urban area and can cause people and their families and other small businesses to leave the area to look for work elsewere.

Attracting and retaining new entrants to dairy farming is extremely difficult. Many leave after a short period, overworked, in debt and disillusioned. The future of milk production in Australia requires well educated and skillful farm managers and employees to run multimillion dollar businesses and to maintain a good quality and essential food item and this cannot be achieved unless milk pricing is seriously taken into account. Modern dairyfarming requires strong ethics on the part of processors with the need to maintain a viable farm sector and a sustainable milk price. There is no visable process in place currently to ensure this happens - actually the opposite exists.

Some Suggestions Moving Forward

(1) More input is required by farmers in the process of achieving this. Companies make all industry market place decisions - effectively committing farmers to the those decisions whether they may be detrimental or not.

(2) The negative consequences of promoting additional milk production into a market place that is already oversupplied, is directly borne by farmers. I suggest that an independent authority/commission be established to overview the industry's decision-making process particularly in regard to the following with the power to - collect factual information from farms
- examine market returns and impact on farm pricing - not just commodity markets
- collect factual information from companies
- provide a process where proposed growth in milk supply can be independently examined before proceeding with further expansion
- maintain a national license register system to produce milk

I believe there are sufficient industry resources through Dairy Australia to establish such a body.

(3) Increase competition in Tasmania. A new company could be encouraged and possibly assisted to establish in Tasmania, preferably this should be a farmer owned cooperative.

(4) Further industry growth in Tasmania should not be encouraged unless it is proved to be viable now and in the future. Producing more milk for doubtful export markets will be counterproductive for farmers.

(5) The industry needs some form of legislated protection at farm level. This may well be restricted to ensuring that producers receive at a minimum, a price that reflects the cost of production. There needs to be more accountability of this requirement from companies.

(6) Milk could be freighted to the mainland for processing.

(7) A full and extensive study should be undertaken of the existing system's operational effect on human and other physical resources.

Wayne Tennant 1 Attachment

COPY TO:
DAIRY
COUNCIL

1996-97 PRICES

COMPARISON OF ANNUAL RETURNS BASED ON ANNOUNCED PRICES TO JANUARY 30	$/kgbf	c/L	
Bonlac	4.98	21.40	15.4c/Kgbf Step-Up on Dec 2
Cadbury	5.05	21.72	20c/Kgbf Step-Up on Jan 20.
Kraft	4.93	21.19	9.2c/Kgbf Step-Up on Dec 3
Lactos	4.93	21.18	15c/Kgbf Step-Up for Jul-Dec on Dec 14
Murray Goulburn	5.01	21.54	25c/Kgbf Step-Up in Jan.
National Dairies	4.90	21.08	
Nestle	5.18	22.27	25c/Kgbf Step-Up in Jan.
Tatura	4.63	19.89	Stepped-Up in January ?
United Milk Tasmania	4.57	19.67	
Warrnambool	4.87	20.94	

Estimated Farmgate Prices net of Levies, and including
Market Support Payment but not TDIA or City Milk Payments.

Davey and Maynard
30/01/97