Submission to the Senate Inquiry on the impact of supermarket milk pricing
By Marian Macdonald, dairy farmer, Jack River, Victoria

When Coles sneezes, the whole retail sector catches a cold
Coles contends that because its homebrand sales amount to a small percentage of total drinking milk sales, the impact is limited. In reality, all Australia's supermarket chains have dropped their prices in response. This shows Coles has tremendous market power.

Impact not limited to homebrand milk sales
It is misleading to suggest that only homebrand milk sales have been affected. Branded milk suppliers are left with the prospect of suffering sales losses or discounting similarly. Branded milk sales deliver a margin to dairy processing companies and the farmers who supply them.

Coles is also discounting other dairy products like cheese and butter heavily, so the impact also extends beyond daily-pasteurised-milk sales.

Processors cannot be made the scapegoats
The amount processors pay farmers is directly related to the profitability of their sales to customers like Coles. Among the processors is dairy farmer co-operative Murray Goulburn, which returns 100% of its profits to the farmers who produce the milk. They cannot be accused of being greedy and are widely regarded as setting the benchmark for farmgate prices.

Demand for milk does not rise when prices fall
Great price elasticity generally applies to luxury items rather than staples like milk. Consider this recent research by Deakin University (Ulubasoglu et al, 2010, *Food Demand Elasticities in Australia,* p 13*):*

"Own-price elasticity of milk is estimated to be -0.23. However, the estimate falls short of being statistically significant, implying that the milk demand is invariant to price changes observed in this sample. Own-price elasticity for dairy products is estimated to be unit elastic with an estimate of -1.00, while margarine is estimated to have an elastic demand, with own-price elasticity standing at -1.70"

This finding backs up the commonsense notion that few beer, Coca-Cola or wine drinkers will switch from their beverage of choice to milk.

The price is not sustainable and losses will be made
Woolworths agrees that milk cannot profitably be sold at this price and it seems Coles didn't think so a year ago, as Senator Colebeck acknowledged in an interview with the ABC:

"Well it's interesting because during the dairy dispute, and the subsequent Senate Inquiries, Coles gave evidence to the Senate economics committee that their margin was 22-23% on the milk. Now they're effectively giving that away. I don't know that there is any room in the process for that to be reduced. There's certainly no room within the producers sector for that to be given away. So that was their gross margin, that's not their profit margin. And they gave evidence to the Senate Inquiry that their margin was 22-23% and that's effectively what they are discounting the price of milk by - in fact, it's 23.5%. So, where's their margin coming from? They also gave us evidence that they didn't use milk as a loss leader so I think we might be asking for 'please explain'."

Even export-focused dairy farmers will be hurt
As a very average Victorian dairy farmer (45% of whose milk stays in Australia), I suffered six-figure losses when the GFC forced a sudden collapse of the international milk price (which flowed on to a 40% fall in our farmgate price) but it could have been worse. Domestic sales buffered us to some degree.

I was so grateful that Murray Goulburn, the cooperative we supply, had invested in its Devondale range of supermarket lines. Coles is not just discounting milk, it’s attacking all dairy products and even Victorian farmers will inevitably feel the impact.

Farmers are price takers and will inevitably carry the cost
Individual farmers have no bargaining power. We are told the price we will receive and can only try to manage the consequences. On the other hand, retailers have massive market power.

Processors like our own cooperative, Murray Goulburn, can only choose between selling on the international market (competing with heavily subsidised European and US producers) or selling domestically. Neither path is paved with gold and we have relied on domestic sales when international prices are poor to maintain viability. We cannot afford for this to be eroded further. Our counterparts in Queensland are even more vulnerable.

Farmers' terms of trade declining despite being one of the world's lowest cost producers
Two excerpts from Dairy Australia's *Australian Dairy Industry In Focus 2010* report are telling:

"At an average of approximately US$29 per 100kg of milk last year, Australian dairy farmers generally receive among the lowest prices compared to many major producing countries and so must operate highly cost-efficient production systems. This is regularly borne out by international comparisons; where Australian farms consistently have costs of production in the lower cost category of all farms in such surveys. The fact that around half of Australia's milk production has been exported over the last decade reflects this high level of competitiveness. However, this has become increasingly difficult in recent years. Farm cost structures have increased in response to the need to adapt to drier conditions where rain fed pastures are regularly contributing a lower proportion of the total feed base available to the herd. Consequently, Australia's share of international trade has trended lower as local milk production has contracted over the past decade." (p. 10)

Couple that with this:

"The national average farm business loss was estimated at $44,000 in 2009/10; compared to a marginal farm business profit of $6,700 last year." (p. 16)

Dairy farming's contribution to regional Australia: third biggest industry
According to regulatory body, Dairy Australia:

"The dairy industry continues to be one of Australia's major rural industries. Based on a farmgate value of production of $3.4 billion in 2009/10, it ranks third behind the beef and wheat industries. It is estimated that approximately 40,000 people are directly employed on dairy farms and manufacturing plants. Related transport and distribution activities, and research and development projects, represent further employment associated with the industry.

"Dairy is also one of Australia's leading rural industries in terms of adding value through further downstream processing. Much of this processing occurs close to farming areas, thereby generating significant economic activity and employment in country regions. ABARE estimates this regional economic multiplier effect to be in the order of 2.5 from the dairy industry."

On a personal note: we're just about exhausted
Why would anyone accept such low returns on their assets, operate with risks and face such a bleak outlook as price takers? And work seven days per week? No wonder it's getting harder and harder to attract people to the industry. My husband and I are both exhausted from working two jobs each to feed our family. We need a fairer share of the profits to keep going.