

Submission to the Senate Committee in Milk Pricing,

My wife Kendal and I own and operate a 220 cow dairy farm near Lismore in Northern NSW. We are the third generation of my family to operate a dairy on this land. I talk to many farmers and can assure you that we are at the end of a very difficult season, weather wise. This season has resulted in farmers having lower production and thus, income. Many farmers who have been progressive and have higher debt levels as a result, (often younger farmers and the future of the industry) are really feeling the pinch financially right now, and any price reduction will result in them starting to leave the industry. Because of the huge capital cost involved in dairying, it is not an industry you can simply opt in and out of from year to year. When people exit the industry, they and their skills are usually lost forever. Perhaps they could go and work for a Mega-large dairy set up by investors? Interestingly these huge dairies usually receive a much higher price for their milk than smaller farms, so this would put pressure on the milk price for the consumer.

The supermarkets say the price at the farm gate will not decrease(or at least that is what Coles initially said), what utter rubbish! What matters to farmers is the **average farmgate price** they receive. If sales move from processor branded product (higher margin) to home brand products, the average return to the farmer will decrease immediately, long before new contracts to supply the home brand milk are negotiated. The home brand milk has a lower margin to farmers because of the power of the supermarkets. Sure they put out tenders, but because they control so much of the market the processors fall over themselves to win the tenders because they can't afford to lose such a large volume of sales. How much worse will this be when they control most of the market, which is inevitable if they continue to sell milk for \$1/litre.

Coles ' latest pricing fact sheet says that the farm gate price should be the export price. Again, what utter nonsense! Does it cost exactly the same to produce 1 litre of milk where ever you are in Australia? I am sure there are areas in the north where Coles is selling milk for less than it costs them. The dairy industry in northern NSW and QLD has dropped out of commodity products since de-regulation, and focussed on the fresh milk market. It is more costly in production terms to produce fresh milk because it needs to be produced **every** day of the year, and not seasonally. The world market price applies to southern Australia which is where products for export are produced. The only link that can be feasibly made to the world market for northern produced milk is that in economic terms, the price would have to be calculated as the export parity price plus the freight from Victoria or southern NSW.(I would be interested to know how the idea of freighting milk that far fits with the growing concept of food miles.)The geographic distance from the south to the north has always given northern fresh milk producers the slight premium they need to cover the higher production costs in the north. It is worth noting that prior to the Global Financial Crisis, there was a time when northern producers received less than their southern counterparts because they were locked in to supermarket contracts and the export price was very high. We do not operate in a free market, but one that is distorted due to the huge market share of Coles and Woolworths.

I have great sympathy for the small stores and independent supermarkets who do not have access to cheaper unbranded milk. Surely part of the reason for the \$1/ litre milk push is to hurt these retailers and force them out of the market place. If people go to the big supermarkets to purchase their milk they will be hoping they will buy everything else while they are there.

I urge the senate committee to revisit the recommendations of the previous senate inquiry into milk pricing. This inquiry made many recommendations which, if implemented, would assist all Australian farmers to receive fair prices. I especially draw your attention to recommendations 1), 3), 12), 13) and 14) of their report. Farmers do not currently operate in a free market. Coles claims that they do not purchase from farmers, but from milk processors, so it is up to the processors to determine the price paid to farmers. This is technically true, but in practise the farmers receive whatever is left over, which in no way resembles the cost of production. The big supermarkets control such a large share of the market that they can totally distort the market. The ultimate aim of this \$1/ litre milk is to further increase their share of sales, which will further distort the market.

We exhort you to act swiftly in order to protect our future.

Regards Ken and Kendal Bryant