SUBMISSION TO THE SENATE COMMITTEE INQUIRY

'The impacts of supermarket price decisions on the dairy industry'

Background

I am a Sydney University Honours graduate (1985) in Agricultural Economics with a special focus on International Trade and Business Economics. My work experience includes corporate and international banking, international commodity trading and several years working and living in Canada and Europe before returning to the family farm at Milton (225km south of Sydney). I took over the management in 1997 with a herd of 150 cows producing 1 million litres of milk to Dairy Farmers. I was later elected to the NSW Farmers' Dairy Executive Committee, South Coast Rural Land Protection Board and am currently a councillor on Shoalhaven City Council.

Current farm operations cover 700 hectares (1,600 acres) of prime coastal dairying land, milking 800 cows with anticipated production of 8 million litres. Expansion options exist to grow the business further if the supermarket scenario is resolved positively. This operation is purely dry land relying on natural rainfall, possibly the largest such operation in the state of NSW. During the past eight years of drought, annual production has fallen to a low of 3 million litres, before returning to present production.

Price discounting vs. costs of production

One litre of chilled water costs $3.50, one litre of chilled Coca Cola $3.50, one litre of chilled fresh orange juice $3.50, **ONE LITRE OF CHILLED FRESH MILK $1.00!** Obviously the price of milk is wrong. Unfortunately, powers are pricing this commodity incorrectly for their own benefit.

There are basic costs of production for all goods; milk is no different. At farm level, it is approximately 40 cents/litre, more if you are required to maintain a flat line production regime throughout the year like that now being enforced by National Foods (owners of Dairy Farmers) on its suppliers – this amount is closer to 50 cents/litre. Add on transport and manufacture and packaging and distribution (whilst being kept refrigerated) and the basic product now has a cost base of $1.00/litre. For a supermarket to sell the product at this price (and say it is staying at this price) threatens the weakest player in the food chain (the farmer) who has the least bargaining power and cannot pass on rising costs.

What happens when wage rises for staff? Do farmers respond with the same attitude as the supermarket – staying down and be in breach of wage laws? Do we not pay increased electricity rates? What happens when oil returns to its peak levels of $140.00/barrel with the Middle East crisis and fuel is $2.00/litre and tractor operating costs rise substantially?

Family health

As farmers we have cut costs to the level where safety is now being comprised due to the effects of fatigue as many operators cannot afford sufficient labour. Farm accidents and growing mental illness statistics reinforce this issue. Income pressures on the family nucleus are leading to more farm/family breakups and fewer siblings continuing is another disturbing trend. To create further income stress on dairying families is unwelcome. New technology will be slower to be adopted and machinery will not be replaced and economic efficiency is being lost. The ability to capitalise on economies of scale at farm level will be constrained and International competitiveness is therefore jeopardised. These impacts will be even stronger in regional areas where spending cuts and cessation of operations in some instances will markedly affect small communities and related business viability as dairying is a relatively high input business and the loss of critical mass is significant

International market

Personally, I view the international market for dairy products as very promising. However, with price discounting by the supermarkets, Australian consumers are paying less than the world price. A dairy producer in India receives more per litre of milk than does an Australian farmer. Another alarming consequence of retail price discounting is the need for farmers to supplement income by selling livestock (their heifers) to the export market. We simply cannot survive from milk sales alone. We will be selling our genetic pool, our future growth potential and other nations will capitalise on this purchasing opportunity. Many farmers resorted to this as a last ditch cash injection to survive the drought, but now it will become necessary for outright survival and it is not a sustainable practise.

We are very likely to suffer world food shortages in the future; the Australian dairy farmer needs to be in a position to benefit from this. The directions we are now heading with aggressive supermarket behaviour will bankrupt us before we are able to act on these opportunities. Australian milk supply needs to be growing, not being curtailed by corporate marketing simply to take market share off a competitor

Milk Price Manipulation

As a Dairy Farmer supplier to National Foods, I no longer operate in a deregulated market. The notion of deregulation has been lost as corporate players influence outcomes. From July 2011, I am tied to a contract (milk quota) which is 3 million litres at approximately 47 cents/litre and 5 million litres at 25 cents/litre. This second tier milk (at 25^c/litre) is less that the cost of production but with infrastructure, I am in 'Catch 22'. I am now being forced to negotiate for other processors to buy my milk after a family association of 152 years with Dairy Farmers. Yes – 1859-2011 with one organisation. Why? The consequences of not acting would be bankruptcy and because other processors are paying a fair price and allowing production on farm to be determined by the farmer. The possibility of growth is self-determined, unlike National Foods which is enforcing a no growth policy. National Foods is tied by the actions of the supermarket giants and as farmers, we then wear the results.

Exploitation

Farm based manufacturing plants or returning to local milk co-operatives are options but farmers cannot overcome the need to sell through supermarkets and sell the product in volumes necessary for commercial viability. The major processors it would seem cannot secure favourable terms and they supply on a national scale; what chance does a small regional operator have. Ashgrove Cheese (Tas) is one operator who can highlight what the challenges are. Farmers are the weakest link in the chain and there is exploitation. No other description can be used. Collectively we still weld absolutely no power. The pricing of milk is beyond our influence, we can only hope that we are paid above our costs of production. It would seem increased transparency within international markets from greater information has enabled true pricing signals to flow back to the farmer. However domestic pricing remains mystic. When a major player Coles can slash prices by 23%, still trade and reinforce the message by saying prices are "Staying Down", is incomprehensible. Coles just gave up a 23% profit margin. Dairy farmers do the long hours, carry the climate and production risk, invest in a highly capital intensive occupation and are very lucky to consistently achieve a 5% profit margin. This is market power gone mad.

What is anti-competitive should also be considered – is there exploitation of the weakest player? The answer is 'Yes', and farmers need protection from the duopoly of supermarkets. Sacrificing a 23% margin only comes about when weaker players can be exploited.

Are farmers getting a return on their capital and being paid for their labour? Collectively, the answer must be 'No' if we are paid less than the cost of production. We need legislative amendments to stop this market power abuse. The CEO of Wesfarmers publically states that farmers' prices have risen 22% over the last year, yet my fellow farmers supplying National Foods who came off contract in July 2010 are suffering the price drop from 47^{c}/litre to 25^{c} /litre. His case is the international price, not the domestic price where Coles operates and has been gouging a massive profit. Fellow farmers have stopped 3 times a day milking, cut herd sizes, reduced staff……anything to cut costs as at 25c/l they are losing money. Sadly massive amounts of capital have been injected into dairy farms in the last two years from the proceeds of the share buyout of Dairyfarmers by Kirin/National Foods. There is tremendous potential on farm but the opportunity is being lost by corporate powerplays

If supermarkets can drop milk prices from $2.46/two litres to $2.00/two litres (23%), what would the reaction be if they dropped all their staff wages by the same percentage .Dairy farmers' livelihoods are being wiped out by this stupidity. This is what is happening on farms now. Farmers are in serious trouble if such behaviour continues and pricing is not restored and confidence in the industry returned.