

27/2/11

Submission to Senate Inquiry
re: The impacts of supermarket price decisions on the dairy industry

To Whom It May Concern:

The reason we are submitting our concerns to the Senate inquiry on supermarket pricing for milk, is that we are deeply concerned about the short and long term consequences this may have on the dairy industry and regional communities across Australia.

The current program of discounting milk for a \$1.00 per litre is primarily about increasing market share of large supermarkets at the expense of smaller businesses that are unable to financially support discounting at this level for an extended period. In our view this is predatory pricing and the ACCC should take immediate action to stop the discounting.

There has been much debate in regional centres about consumers staying loyal to local brands, as we all know for the processing sector to remain viable they must have a balance of their own brands and generic brands to remain profitable. The erosion of the brands and profitability that will occur over time as this price war continues must find its way to reduced farm gate returns. It is unfortunate that many consumers who wish to remain loyal and support local brands, and the dairy industry, will suffer financial hardship compared to others who buy cheaper product.

We recommend that the Senate inquiry investigate avenues of ensuring all consumers are offered fresh milk at similar prices and are not discriminated against depending on their place of residence, income or nearest retail outlet.

We recommend that consumers are made aware of the costs of producing milk at farm gate, the cost of processing, distribution and the margin that the retail sector add to the finished product. This will ensure each sector is compensated adequately for effort and risk applied to produce the finished product.

We recommend that Food Labelling Laws be amended immediately to ensure consumers are fully aware of the addition of permeate and any other substances to fresh milk.

We believe the current discounting in the longer term will reduce consumer choice. This belief is based upon knowledge that in Australia today there are only two large processors capable of supplying fresh milk across the Eastern seaboard. Upon review of available financials and media reports on these two companies (National Foods owned by the Japanese company Kirin and the Italian based Parmalat) their profitability in the dairy divisions is less than desirable compared to other fast moving consumer goods companies. Further erosion of their profitability may very well see reduced investment by their respective parent organisations, and on a pure financial basis question their ongoing

business activity in Australia.

In the event this occurs, there is likely to be less innovation, decreased productivity gains and consumer choice. Some may argue the few smaller players in the dairy industry will take up the opportunities that present themselves at the exit of the larger processors; however this will not occur unless immediate support is given to maintain the viability of smaller processors.

It has been stated by Coles that they will not pass on the cost of discounting to processors and farmers; this same commitment has not been made by all retailers. The lack of commitment by other retailers will place pressure on processor margins and will be reflected in lower farm gate returns to dairy farmers.

Dairy farmers cannot afford further reductions in milk prices, the extended dry periods over the last decade and now the disastrous flooding that has occurred in January 2011 has exhausted farmers finances. With predictions of rises in interest rates, fuel, electricity, wages, grain and fertilizer costs, it is our view that the Senate inquiry should review the Sustainable Cost Model that is available within the dairy industry and we recommend that this model is used for developing a sustainable price for dairy farmers supplying the fresh milk market across Australia.

Finally, our last point is that the continued shrinkage in farmer numbers in all agriculture sectors must be of concern to the Australian Federal Government. With the population expected to double in the next several decades and our ability to export agriculture products will diminish, which will heighten the communities interest in food security.

We recommend that the Federal Government investigate avenues to ensure future food security in Australia.

Our personal experience has shown that the new generation of farmer in Australia is not prepared to work 12 hour days, seven days a week for basic wages. This generation use the resource sector as the bench mark as they see it as an alternative option for employment, our agricultural enterprises must be profitable otherwise our children and future generations will be lost forever to other employment sectors.

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