

Memo

To: Committee Members / The Senate Inquiry into Milk Prices

From: Leigh Shearman and Don Shedden

Date: 26 February 2011

Subject: The Impacts of Supermarket Price Decisions on the Dairy Industry

Dear Committee Members

The recent decision of supermarket chains to lower the price of milk is an issue we strongly oppose and one which affects the livelihood of my family and community. We own and operate a dairy farm milking 200 head of cattle at Goolmangar just outside Lismore on the NSW Far North Coast. We are the third generation of dairy farmers in our family. During this time, our families have witnessed a substantial decline in the dairy industry. As a result of this decline, younger generations seem to be finding dairying prohibitive. We believe that this decline in the dairy industry is due to a number of major factors:

- The enormous capital outlay to acquire a farm;
- Return on capital investments are generally below normal acceptable returns;
- There is constant uncertainty within the industry, which creates a battle to remain sustainable;
- Farming requires a commitment to an enormous workload which is constant every day of the year;
- Farming is at the mercy of the weather;
- Dairying involves obtaining the necessary required skills; and
- The need to comply with strict Australian quality standards;

Dairy farmers strive to support the Australian economy and provide a quality Australian product which is used by consumers on a daily basis. In this respect, we refer to the Coles press release which states that 'we produce *high quality milk* that does not just happen, we work hard to provide food that is of the highest of standards'.

Although the major supermarkets have released statements saying that recent price cuts to milk will be absorbed by the supermarkets, we believe that the ultimate person who will be affected by the recent price cuts will be the Australian dairy farmer. With current milk prices offered by these supermarkets dropping below \$1 a litre, below the cost of production, the current price absorptions cannot be maintained by the supermarkets. Supermarkets cannot in the long term remain viable with losses of over \$60million, simply to supplement the discounting of milk commodities. It is unrealistic to believe that these major supermarket chains will not demand

processors to reduce wholesale prices in the next pricing bracket. If this was to occur, processors would have no alternative but to reduce farm gate prices paid to Australian dairy farmers.

Coles' decision to heavily discount Milk to \$1 per litre for their home branded product has placed unsustainable downward pressure on milk pricing in Australia. These actions will continue to force branded milk and other suppliers to decline and eventually disappear. If this was to occur, supermarket branded milk will be the only product available to the consumer in which by obtaining this control they could eventually set astronomical prices. In this respect, we believe that this discounting was done to drive out competition in the market and is an anti-competitive practice.

Coles themselves have affirmed the rising costs of electricity, fuel, fertiliser, grain etc. which are all essential to the dairy industry. For our industry to remain viable, we cannot continue without a sustainable milk price. As mentioned above, dairying is a declining industry and any reduction in pricing results in further farmers leaving the industry. If this continues, the skills that these farmers have acquired over many years will be lost and will be irreplaceable.

The agriculture industry as a whole cannot remain viable in this country if you allow farmers to be at the mercy of the monopoly of supermarkets. Unless agriculture is supported with real changes and guarantees put in place that provides competition in the market place, the dairy industry along with all other primary production in Australia will become extinct.

Not only will the Australian primary production industry suffer, but also the everyday consumer if it were to eventuate that there was not enough milk being produced to cope with demand. During the recent catastrophic events in Queensland consumers were given a glimmer of what it would be like to wake up each morning with no milk. Consumers require food security and without measures put in place to protect farmers from these unethical practices primary production in Australia will suffer and eventually disintegrate.

Dairy farmers ask that you also refer to the recommendations of last years Senate Inquiry and have the initiative and foresight to carry out the changes that are required before it is too late.

Leigh Shearman and Don Shedden
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