

Friday, 25 February 2011

Department of the Senate
Senate Economics Committee
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

To Whom it May Concern

Please find enclosed my submission to the Inquiry into *"The impacts of supermarket price decisions on the dairy industry"*.

As this is a major industry in South East Queensland and Northern NSW, I extend to the committee an invitation to conduct a hearing in Lismore. If I can be of any assistance in supporting this invitation, please do not hesitate to contact my office on 02 9230 2059.

Kind Regards

(...)

Thomas George MP
Member for Lismore
The Nationals Whip
Temporary Speaker of the Legislative Assembly



Submission to the Senate Inquiry into the Dairy Industry

As the Member for Lismore I write to make a submission to the "*The impacts of supermarket price decisions on the dairy industry*". I am particularly concerned about the impacts of the Coles Group decision regarding the prices of house-brand milk at \$2 for two litres.

The claims by Coles Group that farmers are still being paid the same for their milk are correct.

However, I have a number of other concerns with the recent price decisions.

Prices

Firstly, slashing milk prices by up to 33% has forced other major supermarkets and retailers to remain competitive and match the price of \$2 for two litres of milk.

This predatory pricing will:

1. Not provide extra sales of milk, but shift consumer purchases from recognised brands to cheaper, home-brands;
2. Be used against suppliers of milk products in their re-negotiation of contracts as a result in the drop in sales of their suppliers respective product lines;
3. Have a snowball effect, whereby consumers will continue to expect and demand the extraordinary low cost for these products when it has been priced well below its true production cost.

These prices are unsustainable for the industry. These decisions have been made with little regard for hard-working dairy farmers and the dairy industry in general. They will only lead to more pressures at the farm-gate.

A litre of spring water, which doesn't have the high production costs or the nutritional value of milk, has a higher retail price than a litre of fresh milk. According to Coles Online prices on Friday 25 February 2011, a Mt Franklin one litre bottle of water is \$3.04, and yet a Coles Natural Spring water (600ml) is \$0.86c (which equates to \$1.43 a litre). Both of these examples demonstrate that even 1 litre of milk is cheaper than 1 litre of water from either recognised brands or homebrands.

Not only has the price of home-brand milk been reduced, but cream and butter as well. By cutting the prices of these everyday items so dramatically, it will only serve to bring about the downfall of the dairy industry in Australia.

Effect of lower milk prices on Australian dairy industry

General

I note the latest figures from Dairy Australia that indicate the Australian production of milk has decreased from 11 billion litres in 2004 to 9 billion litres in 2011¹, and had a farmgate value of \$3.4 billion². Furthermore, while most of Australia's milk comes from Victoria, northern NSW and southern Queensland are important contributors to

¹ <http://www.dairyaustralia.com.au/Our-Dairy-Industry/Dairy-Situation-and-Outlook.aspx>

² <http://www.dairyaustralia.com.au/Our-Dairy-Industry/The-Australian-Dairy-Industry.aspx>

the economic security of Australia's milk production. It is important to maintain a geographical diversity within the industry across Australia so as to provide a necessary buffer in times of devastation, such as the recent damaging floods, that can severely impact on the production and distribution networks for the dairy industry.

Finally, I appreciate the significant contribution of the dairy industry to the Australian economy. Dairy Australia states that the industry has a regional economic multiplier of 2.5³, and directly employs 40,000 people across the country.⁴

Farmers

I have serious concerns that more dairy families may leave the industry and result in shortages of fresh, domestically produced milk.

Unless dairy farmers receive better returns, there will be direct implications for the dairy industry and indeed consumers if our long-suffering dairy farmers leave the industry for good. If Australia cannot continue to produce enough domestic milk for our dairy needs, and subsequently supermarkets have to source it internationally, that would be a shame.

Wholesalers and Processors

The reductions in milk prices at the supermarkets will not only impact the farming families that produce the milk, but the "middlemen" such as wholesalers and processors as well.

Wholesalers have a strong history in supporting producers with reasonably high farm gate prices. The milk processing sector operates to produce a mix of homebrand and recognised brands to satisfy consumers. It is generally accepted that the recognised brands tend to provide higher returns and have afforded the processors the opportunity to balance out the lower returns that come from the basic, homebrand products.

However, if these retail milk price reductions are passed back down the supply chain, it will directly affect the wholesalers and milk processors who are only endeavouring to provide their dairy producers with a fair, reasonable price for their goods. Furthermore, the higher returns that processors derive from selling the recognised brands will disappear due to the increasing consumer demand for cheaper, \$2 for two litres of generic branded milk.

Problems facing the Australian Dairy Industry

Over the past decade the dairy industry has been through a number of significant changes. With deregulation, the high Australian dollar, years of drought and the recent damaging floods, the dairy industry is doing it tough.

Currently our farmers are working around the clock trying to:

- Implement grazing strategies to reduce pasture damage;

³<http://www.dairyaustralia.com.au/~media/Publications/Australian%20Dairy%20Industry%20in%20Focus/2010/Australian%20Dairy%20Industry%20In%20Focus%202010.ashx> p9

⁴<http://www.dairyaustralia.com.au/Our-Dairy-Industry/The-Australian-Dairy-Industry.aspx>

- Clear access for vehicles to and from farms and dairies;
- Secure feed as a result of the floods affecting their existing pasture damage;
- Ensure that the dairies, milking equipment and refrigeration are all operational after the floods.

In addition, dairy farmers in NSW were disadvantaged in comparison with farmers from other states with respect to natural disaster funding. Farmers in Queensland were eligible for \$25,000 in grants, whereas the dairy farmers in NSW were only eligible for \$15,000.

Lismore Electorate Dairy Industry

I would now like to draw to your attention the importance of the dairy industry in my electorate of Lismore. Norco is the major dairy cooperative in my electorate, and they are a significant employer.

I have included the following documents as Appendices:

1. Active Members (Norco)
2. Employee Numbers (Norco)
3. Turnovers – Cooperatives (Norco)
4. Norco Footprint & Map – NSW & QLD (Norco)
5. Article from the Tweed Daily News dated 1/2/11

In my electorate, there are 39 Norco dairy farmers at Kyogle, 15 in the Tweed, and 27 in Lismore, totalling 81 separate families that are heavily invested in dairying (Appendix 1).

There are currently 499 people working for Norco in various locations across NSW, and this is 75.7% of their total Australian workforce (Appendix 2).

As you can see from Appendix 3, Norco is #9 on Australia's list of top 100 Cooperatives, Credit Unions and Mutuals by Annual Turnover. In September 2010 Norco had an annual turnover of \$345.5 million.

I have included a map of Norco's operations in NSW and Queensland and draw your attention to their milk factories, rural stores and other businesses that include Dungog, Armidale, Inverell, Casino, Kyogle, Murwillumbah, Grafton, Coffs Harbour and Kempsey (Appendix 4).

Finally, I have included some recent media coverage of the cheap milk prices (Appendix 5), and I would like to draw your attention to the comments of Corey Crosthwaite from Murwillumbah. Mr Crosthwaite has stated, *"If you don't accept their price you lose the market. If you get a flood or a drought it hurts, but it doesn't hurt Coles or Woolworths."*

As this is a major industry in South East Queensland and Northern NSW, I extend to the committee an invitation to conduct a hearing in Lismore. If I can be of any assistance in supporting this invitation, please do not hesitate to contact my office.