

27 October, 2009

Committee Secretary
Senate Economics Committee,
PO Box 6100
Parliament House
Canberra ACT 2600 Australia.

Submission to the Senate Inquiry into competition and pricing in the Australian dairy industry

My submission is made as a management consultant who worked for a Dairy Industry company owned by Western Australian Dairy Farmers for seven years post de-regulation.

(a) the economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors,

The economic effect on the dairy industry of the announced price reductions to dairy producers is likely to be a speeding up of exits from the industry. The ability of processors to arbitrarily change prices paid to producers, who are usually tied to their processors by contract or lack of alternative processor choice, effectively increases the lack of enterprise budget planning control available to producers. Farm budgeting is always subject to the vagaries of nature and pricing but, in this case, the processor is offsetting its own risk by its ability to pass the risk to the producer.

(b) the impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry;

The concentration of ownership of processing facilities further reduces producers ability to negotiate farm gate milk price and eventually must impact on consumer pricing as competition reduces. This needs to be balanced by the need for economies of scale for processors to allow for efficient/effective processing.

(c) the impact of the consolidation of the ownership of the market or drinking milk sector with the manufacturing milk sector on milk market conditions in the dairy industry;

- (d) the impact of the concentration of supermarket supply contracts on milk market conditions;

The market power of supermarkets in negotiating their supply contracts is very high due to the volumes being purchased. However, processors bidding for these contracts are able to bid knowing that they can control the farm gate price.

- (e) whether aspects of the Trade Practices Act 1974 are in need of review having regard to market conditions and industry sector concentration in this industry;

There has been some recognition of the lack of bargaining power of individual producers. Ownership by producers of processing facilities has been greatly reduced since deregulation and this is likely to continue. There is a need for the ACCC to consider all aspects of supply when looking at competition in the market place. There is no future in ensuring competition in the retail sector when the producer cannot continue to supply at the price offered even when operating at optimal efficiency.

and,

- (f) any other related matters.

Leslie Chalmers
Director