

The Secretary,

Senate Standing Committee on economics

P.O. Box 6100

Parliament house

Canberra Act. 2600

Senate Inquiry.

The Impact of supermarket price decision on the dairy industry.

Senators,

I am re-submitting a submission I made to the previous senate inquiry entitled "Competition and pricing in the Australian Dairy Market"

The facts in the document may be a little out of date but I believe the issues raised in the document are just as relevant today. A number of issues raised in that document were backed up by the findings in the first inquiry. It was extremely disappointing after all the effort put into preparing a submission to that inquiry and the subsequent recommendations to see the government once again ignore senate inquiry outcomes without justifiable reasons. I hope that this inquiry has a better outcome.

It is my opinion that the inquiry is missing a vital process in the deregulated environment the dairy industry is operating in. That process is how the arrangements between the big retailers and processors are entered into and executed and the effects the results have on regions. There is a lot of capital tied up in the supply chain that is put at risk whenever the arrangements change. This affects farmers and their business suppliers (banks and merchants), transport operators/distributors (vendors), processors (processing hardware) and all the other social ramifications (maintain skills being just one)

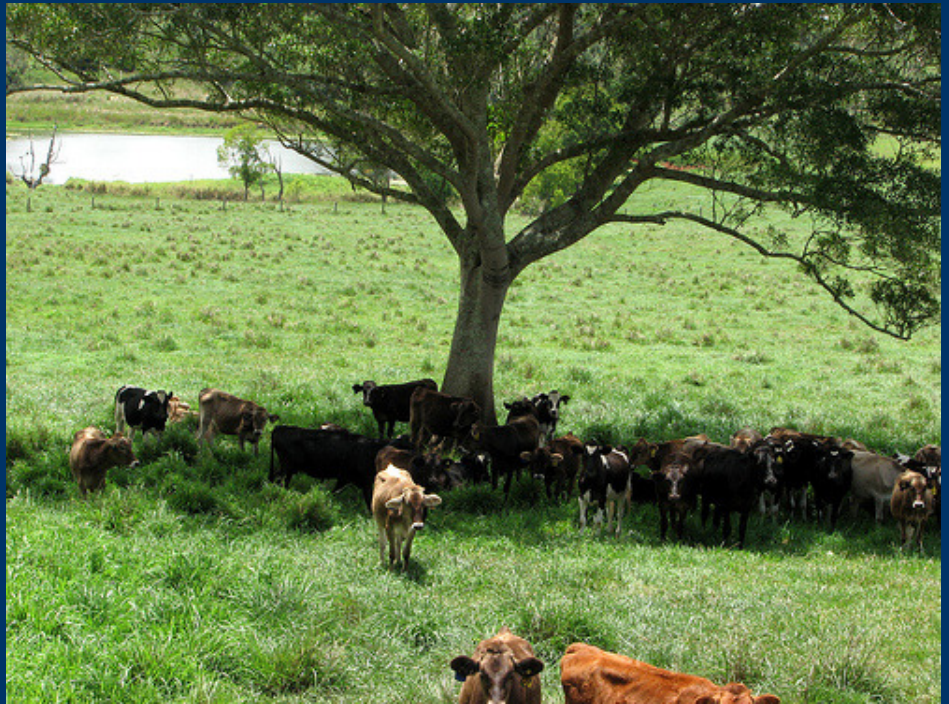
Deregulation may have provided a competitive cheaper price to the top end of the industry but there is a huge cost being paid by the primary end which is ignored.

I wish you well in your deliberations and hope that there is an equitable and positive outcome.

Edward Wallwork

Governments of the world have many problems, but without food they only have one.

Submission to the Department of the Senate
for the
**Inquiry into competition and pricing in
the Australian Dairy Industry**



October 2009

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1. Terms of Reference

This inquiry will investigate the current circumstances of the varying prices being paid to dairy farmers in different Australian states, including:

- a) the economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors,
- b) the impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry;
- 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;
- 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; and
- f) any other related matters.

2. Executive Summary

We have a dichotomy.

The retailers are competing against each other for the consumer dollar. To do this, they have a perpetual push to become more efficient, to keep prices as low as competitively possible and to fulfil their obligation to their shareholders.

In order to achieve all this, they have grown bigger and bigger. They have reduced competition by consolidating into larger more powerful entities.

Retailers have now become so big that a processor **must** do business with them if they want their product to be seen and purchased by the consumer.

The manufacturer/processor is then forced to meet that pressure by undertaking a very similar process. Takeovers, buyouts or simply mergers occur to give this sector greater bargaining power.

This is a result of the National Competition Policy which was high on the political debate agenda in the 90's. Only now are we seeing the results of this.

As we see manufacturers/processors consolidating, the choice for suppliers continues to shrink alarmingly.

Now we have seen the market/liquid milk sector of the dairy industry consolidate into two major players. Parmalat and National Foods – both foreign owned.

When there were three major suppliers of market milk, the big retailers played one off against the other. To obtain an agreement with the retailers the prices for generic brand, milk ended at a price which just covered overheads or lower depending on what profit could be extracted from branded milk sales.

To compensate for this pressure the manufacturers/processors had no choice but to set strategies that enabled them to stay in business. This has been the cause of processor consolidation.

Once consolidation occurred to the level allowed under the Trade Practices Act, they have had to look to other areas in order to sustain their businesses.

They have had to become more efficient but this becomes limited in terms of how far they can go. Obtain more from the market place but this is also limited as pointed out above. Borrow money, increase debt OR put pressure on the price paid for input supplies (farmers).

With milk suppliers stretched from the south west coast of Western Australia to Far North Queensland, it is impossible as individual farmers to have any impact on what processors pay for raw milk.

In the past under regulation, farmers were subjected to political influences (some good, some detrimental) as well as the influences of the market place.

Through state market milk authorities there was some form of arbitration through which the industry would make submissions to the various State Governments when it was agreed by the stake holders that market milk prices should change. It was then up to the State Governments when and where market milk prices were to be set.

This had some protection for farmers if you can ignore the political plays in these outcomes.

Now there is no protection!

Following deregulation, Australian Dairy Farmers Federation (ADFF) made a formal application to the ACCC for an authorisation to allow groups of dairy farmers to form "collective bargaining groups" in an effort to balance power within the supply chain.

The ACCC granted authorisation for:

- a) Groups of dairy farmers to form collective bargaining groups through which they could collectively negotiate terms of supply, including pricing, with a dairy processing company that each member of the group wished to supply; and
- b) The ADFF was authorised to hold general, non-specific, discussions with supermarkets, on an individual and voluntary basis, regarding the impact of the tender processes on dairy farmers.

National Foods appealed the above.

The authorisation was effective only until July 2005.

Through the sale process of Dairy Farmers to National Foods (Kirin), the Dairy Farmers Milk Cooperative (DFMC) won a landmark ruling from the ACCC, when given authorisation for five years allowing it to negotiate of behalf of its membership with National Foods.

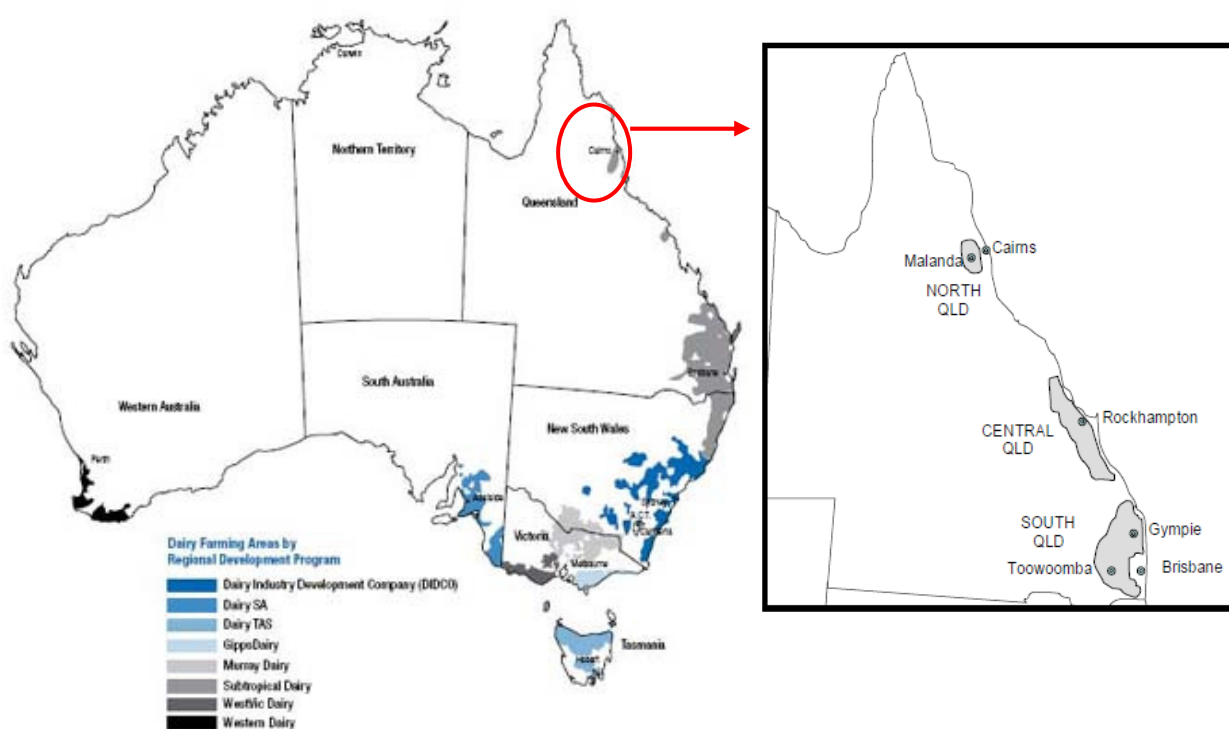
This is an example of the kinds of outcomes that can be achieved.

It is incumbent upon Governments to ensure there is a equitable and level playing field upon which all stakeholders in the supply chain have a fair go. Farmers contribute to the other end of the food chain and unless Governments play an active part in balancing the scales of justice, the Australian Dairy Industry will continue to be an industry in decline until it joins the ranks of others that have met their demise and place the reins in the hands of other exporting countries to supply our essential needs.

3. Overview of Atherton Tableland Dairy Producing Region

I am a dairy farmer on the Atherton Tablelands in Far North Queensland (FNQ) and have been in the industry for the past 30 years, and have played an active role in the dairy industry at local, state and national level during this time.

The dairy producing region of the Atherton Tablelands can be seen in the map of dairy production in Australia below:



(Sources: Dairy Australia, Balancing Dairy Produce)

In 2007, the regional dairy industry had 86 farms and supported more than 650 employees across FNQ both directly and indirectly of the industry. Farm gate production was worth \$36 million and through the multiplier effect, over \$90 million to the Tableland community and FNQ region annually.

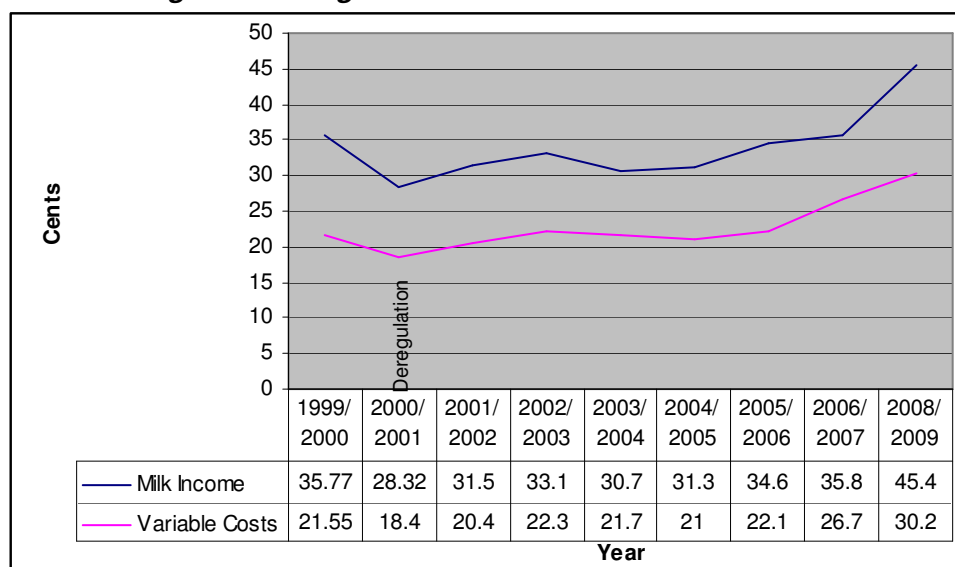
The region has one processor. Dairy Farmers is now owned through National Foods by Kirin, a Japanese company.

Regional milk production represents about 10% of the national milk intake of Dairy Farmers. The FNQ industry is geographically strategic to the business of Dairy Farmers and other processors in the supply to the growing fresh dairy products market in Queensland.

This submission discusses the impact of the lack of pricing policy on the Atherton Tableland dairy producing region, as well as the national industry, when addressing the terms of reference.

3a) **The economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors,**

Diagram 1: Pricing and farming costs



(Source: Queensland Dairy Accounting Scheme (QDAS))

The graph above plots approximate pricing returns to farmers and cost of production from 1999 to 2009 and shows variances in pricing returns, while the cost of production has continued to increase over time and is currently greater than what the farmer receives. It should be noted that costs reflect what producers can afford to spend, not what is required to run a sustainable farming operation.

Further historical manufacturing and market milk price data from the Dairy Australia Corporation's Dairy Compendium can be seen in Appendix 1.

	2000/2001	2004/2005	2007/2008
Returns to Tablelands farmer	28.32c	38.3c	45.4c
Total variable average cost	18.4c	24.2c	30.1c
Difference	9.92c (35%)	14.1c (36.8%)	15.3c (33.7%)

In the 1980's before deregulation, the Mechanism for Manufacture Equalisation Scheme was in place whereby farmers got paid within a set price range, no matter whether the milk was for domestic or export supply. This was replaced by various plans over a period of time (mid 80's to mid 90's) such as the Kerin Plan.

Deregulation of the industry in the year 2000 saw the discontinuation of regulated sourcing and pricing of drinking milk and meant that farmers lost any bargaining power they held with regards to pricing returns before deregulation.

During the last financial year, major farm input costs such as fuel and fertiliser increased considerably causing a marked increase in production expenses for farmers. The mining industry/fertiliser manufactures are responsible for the massive increase in the cost of fertiliser. This to some extent may have been caused by world demand however from our perspective we cannot accept that the increases in the time involved were fair and reasonable.

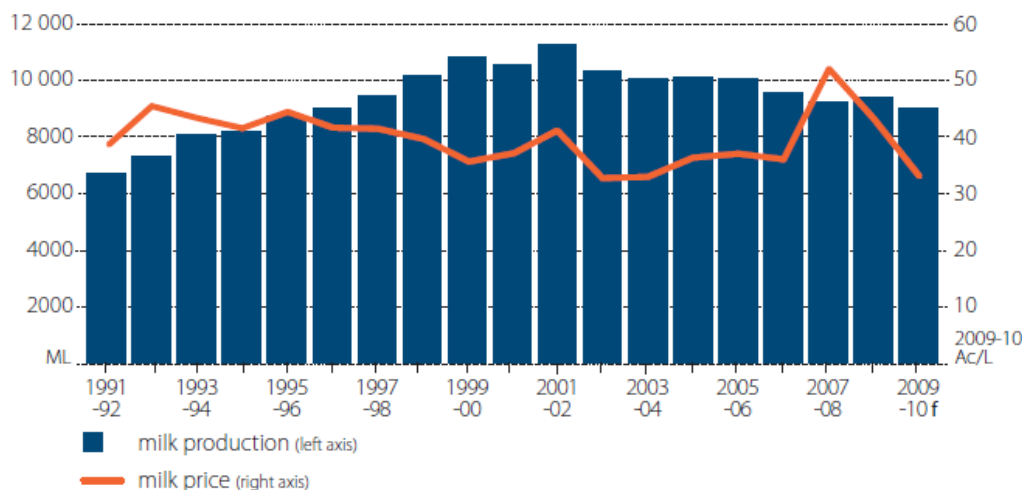
The announced minimum is to be 38 cents per litre, however ABARE reports an average opening price for manufacturing milk for the 2009-10 season set by dairy processors in Victoria of just 26 cents per litre – this is what farmers in Victoria are currently receiving. The price that the major exporting processors announce has an impact on the returns received by farmers on the Atherton Tableland even though none of the tableland milk goes to export.

Since deregulation (other than two year period where there were good prices due to global shortages of dairy products, and now with the Global Financial Crisis importing countries can't afford to buy resulting in over supply), return on investment (ROI) to farmers is significantly lower.

ABARE in Australian Commodities September quarter 2009 reports that the average Australian farm-gate milk price is forecast to decline by 22 percent to 33 cents a litre in 2009-10, given the relatively weak outlook for world dairy prices. However this and pricing in the future will depend on future supply contracts.

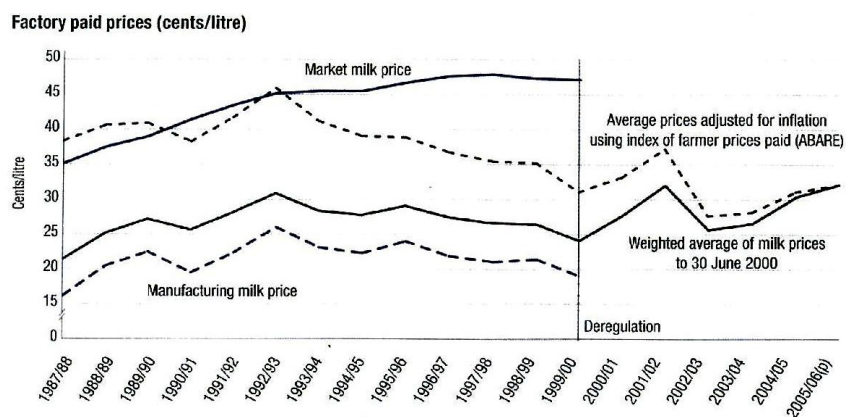
The Australian Dollar exchange rate has a significant effect on returns received by producers. It is sometimes said that when a dairy farmer gets up in the morning he/she looks at the weather and then should look at the exchange rate.

Diagram 2: Australian milk production and price



(Source: Australian Commodities Vol 16 No 3 September quarter 2009, ABARE)

Prior to deregulation in 2000, 50% of milk produced in Australia went to export markets however this has now dropped 40%. The September quarter 2009 of Australian Commodities by ABARE states that the total value of Australian dairy exports is forecast to fall by 24 percent to \$2.04 billion in 2009-11. Australia is the third biggest exporter of dairy products.



The annual ABARE Farm Survey estimates the financial performance of Australian dairy farms. Two main measures are cash income (defined as total cash receipts less total cash costs) and farm business profit (which takes into account the build up of trading stocks, less depreciation and the value of farm labour). Trends in farm cash income and farm business profit over the past decade illustrate just how variable the past five years have been for dairy farmers.

Diagram 3: Declining farmer base on the Atherton Tablelands and Nationally

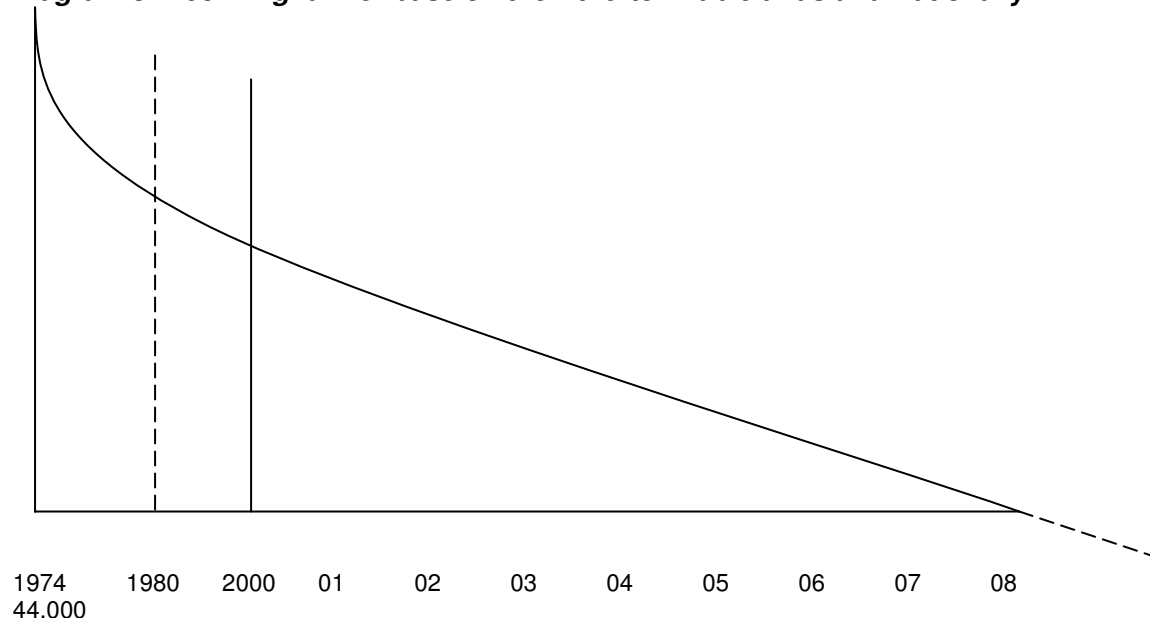


Diagram 3 shows the alarming and continuous decreasing rate of farmers since 1974, which has occurred nationally. The trend is following a similar pattern on the Atherton Tableland.

In 1974, there were approximately 44,000 dairy farmers operating nation-wide. Between 1974 and 1980, when England entered the European market, Australia lost significant international supply contracts such as butter, which saw the farmer base decrease dramatically to 22,000 farmers by 1980. The farmer base has continued to decline gradually over the years with deregulation being a considerable contributing factor to this.

Since deregulation in 2000, 4,000 to 5,000 producers have left the industry. Dairy Australia states that the number of dairy farms have more than halved over the past 25 years from 1980 to 7,950 in 2008. Please refer to Appendix 2 for historical data of the number of registered dairy farms nationally. 11.2 billion litres of milk were being produced prior to deregulation and this is now down to 9.4 billion litres and 9.1 in this production year. There were 184 farmers in the Atherton Tablelands dairy region in 2000 producing a total of 120 million litres and this has now reduced to just 74 farmers producing a total 74 million litres. Each farmer now has to produce in excess of 1 million litres of milk per annum in order to survive.

Average production per farmer in 2000 was 652,000 litres, but today it is 1 million – this clearly demonstrates the levels that farmers have gone to in their efforts to improve productivity and efficiency. But the question is how much more can they do?

ABARE forecasts Australian milk production in 2009-10 to decline by a further 2 percent to 9.2 billion litres.

The industry is losing farmers at an alarming rate because producers can't survive with the milk pricing regime that is in place at the moment. The other factor is the increase in work load on families as farms get bigger in order to survive. This causes social discourse.

Dairy Australia in June 2009 reports that ABARE estimates average farm business profit to fall from \$74,100 to -\$6,000 in 2008/09, with the percentage of farms losing money increasing from 38% to 62%. Please refer to Appendix 3 for a full copy of the Dairy Australia article.

When combined with the impacts of factors such as drought, this compounds the situation for farmers, making it even more difficult to survive. In addition, there are many external factors beyond the control of farmers that have cost consequences on the business including:

- Workplace Health and Safety,
- Environment – increasing pressure is being put on farmers to produce green milk however it is becoming almost impossible to achieve this cost effectively with the added pressure to produce greater volumes of milk.
- Animal welfare,
- Increasing labour costs and competition from the high-paying mining industry.
- Input regulations: local, state, federal – town planning impacts and land values,
- Compliance costs,
- Momentary impacts, interest rates,
- Australian dollar value,

While farmers have had to become a lot more efficient with their production operations in order to survive, there has been a serious reduction in capital spend by remaining farmers who are unable to invest in production operations as they simply don't have the funds to do so. This has resulted in a declining primary production infrastructure base, and will undoubtedly impact on the farming community being able to stave off rapidly increasing costs that they have no control over. Technology and automation is all they have left, but if they cannot afford to buy new and modern equipment, the writing will be on the wall.

There has been a huge rationalisation in the industry at farm level but with very little rewards for producers. The question remains, does the Australian consumer really want Australian produced dairy products? Does the Government really care whether or not we have an Australian Industry and Australian farmers? Based on the trends with the loss of dairy farming capacity and farmer numbers, one can only speculate that the answer to both these questions is NO! If that is the case, then no one needs to do anything and just let nature take its course if current trends continue then in the span of the next 25 years we will be down to 3,950 farmers and 4 billion litres of milk. Will there be enough to feed a growing nation or will we become importers of dairy?

No bargaining power for producers

Dairy producers are, and have always been price takers, but under a regulated industry farmers survived as they held some bargaining power within the market. Since deregulation, the bargaining power of farmers has worsened to a point where producers do not have a seat at the negotiating table between processors and retailers, leaving farmers totally vulnerable and with no means of influencing price return or costs of production. The only time that farmers have some bargaining power is when there is a shortage of food and through supply and demand milk prices increase, but prices soon return to levels not much higher than the costs of production, or below the cost of production.

An issue of viability

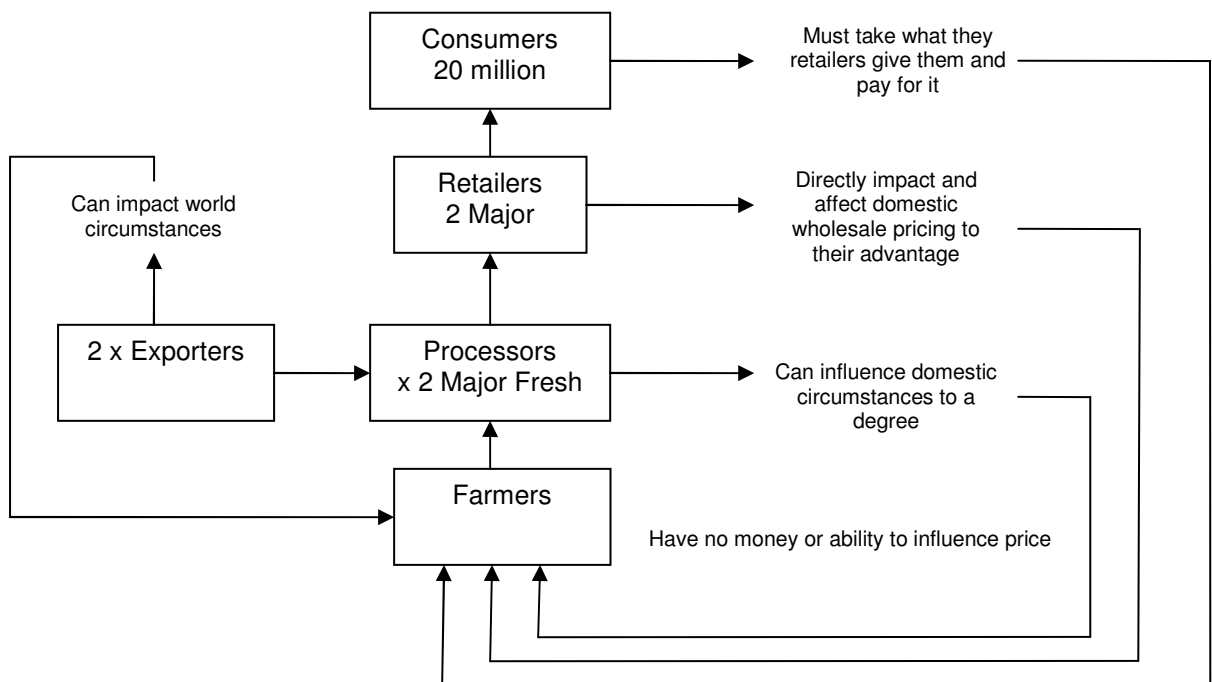
The question is being asked that at what point will the Malanda factory become unviable to continue to operate? It would not be feasible to cart milk from the south as it will cost processors a fortune. If they cannot obtain sufficient milk to maintain the viability of the Malanda factory and it is forced to close, this will spell the end of the industry here in North Queensland. Without farmers you don't have milk, without milk you don't have a factory, without the factory you don't have essential employment, without employment and stable industry you don't have a social infrastructure and taxes to keep Governments employed.

The downstream impacts of the loss of dairy industry income in FNQ will be enormous and already the closure of cheese production operations in Malanda on the Atherton Tablelands is an example of this.

3b) The impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry;

The following diagram shows the supply chain within the dairy industry and the influences and impacts that stakeholders in the industry have on producers.

Diagram 4: Supply chain – influences and Impacts on the farmer created by Industry stakeholders



In summary, a dichotomy has been created between key stakeholders within the supply chain where there is a common objective that is driving power forces, and that is profit:

1. The retailers, Coles and Woolworths want profit;
2. The processors want profit;
3. The producers/farmers want profit

There is a lot of injustice and inequality in the industry and this is brought about by those who have the power and clearly with two major retailers the power is in their hands. Farmers are left with no bargaining power and are forced to continue to contemplate their future in the industry.

Rationalisation of the milk processing sector has been taking place over a long period, due to a combination of the pressures of increasing costs, rise of retail power in the market place and Government policy of a free market. Retailers push for cheap food for the masses - keep the price of food down to dampen the effects of other increases in C.P.I e.g. fuel etc.

Processors have had to consolidate in order to be able to counteract the power of major retailers, who have gained a lot more power due to the policy-free market – TBTF (too big too fail). As shown in Diagram 4, there are currently four major milk processors servicing Australia: Fonterra (New Zealand based), Murray Goulburn, Parmalat and National Foods.

The negotiating power of these two groups have become such that farmers have no means of being able to negotiate an equitable and sustainable long term future. This is expected to cause continuing decline in farmer numbers and reducing production levels.

A producer's contribution to a processor just covers the farmer's overheads. The public is paying a price for milk according to prices set by the retailers. Processors are pushing toward a flat curve production to utilise the capital to develop factories at the cost to farmers. Due to the fact that returns have been historically kept low, farmers are always starting from an unrealistic base when trying to negotiate prices.

Much of what happens on the international market influences the return price for farmers domestically. The world market price sets the price for Australia and return prices to their farmers. International prices do not reflect the cost of production in the country of origin corrupted by various Government trade policies.

The effect on farmers and farming enterprises when relying on an export market price which farmers have no control over that is distorted from the real cost of production in countries of origin and raises the need to set returns to farmers in a domestically set cost structure.

The processors Murray Goulburn and Fonterra are the major exporters of dairy products. Murray Goulburn's opening price for the 09-10 financial year is 26 cents, from a reported return of 48 to 49 cents Fonterra opened a little higher (note: it is difficult to be accurate when discussing return prices because of quality – producers receive a base price for milk and then get bonuses for volumes and quality). The high Australian dollar at the present time is having a detrimental effect on the returns for exported dairy products which effects returns for producers

In the last two years there has been a shortage of milk due to lack of returns to farmers in Europe and US and this is reported by both ABARE and Freshlogic. ABARE states in Australian Commodities September quarter 2009 that in 2009-10, the global demand for dairy products is expected to remain weak, reflecting reduced economic activity in major consuming countries. However, an assumed improvement in economic growth in the emerging and developing economies in the latter part of 2009, together with a gradual recover in the developed economies in 2010, is likely to lead to an increase in dairy demand.

3c) 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;

The major suppliers of drinking milk in Australia are also the main suppliers of short shelf dairy products e.g. yoghurt. There are currently two major suppliers in Australia, these being National Foods and Parmalat.

Prior to the sale of Dairy Farmers to National Foods there were three manufacturers all competing for contracts with two major retailers.

An example of the power that processors have over farmers is that National Foods are currently paying producers in Tasmania and Victoria just 29 cents per litre, while cost of production is 40 cents. National Foods' justification for this negative return is the need to price competitively in the market. Again, without any bargaining power due to the lack of Government policy, farmers aren't able to influence these returns. Ultimately the consumers are paying higher prices for milk, so who is making the killing? National Foods is a domestic supplier where as their competitor in Tasmania (Fonterra) is an exporter, relying on export price for returns to their producers.

Dairy Australia states that in 2007/08, the average price of branded milk increased 11.2% to \$2.09 per litre and, when combined with a 3.4% increase in the average private label price to \$1.22 per litre, delivered an increase in the average supermarket price of 11 cents per litre to \$1.60 per litre.

3d) The impact of the concentration of supermarket supply contracts on milk market conditions;

A duopoly also exists in the market in terms of retail power. The two major retail chains Coles and Woolworths have combined control of 80 to 85 percent of the market. As mentioned above, the policy of free market has influenced how the retailers have consolidated all for the sake of gaining power.

Generic brands created by these major retailers account for over 50 percent of the market share and consequently have pushed other brands out of the mix despite the fact that all these brands are produced from the same milk. These generic brands are often cheaper for the consumer and this is inline with the trend towards cheaper food (see below). Even then, prices that consumers pay do not reflect what farmers are being paid and this again raises the serious question of "who is making the profit?"

Due to the power held by these retailers, the major suppliers of milk and milk products cannot simply boycott the domestic market and send all milk globally. Processors have to work with retailers due to their power in the market place.

The agreements between National Foods, Parmalat and the two major retailers are for two to three years and therefore the low prices set by these retailers are locked in until the end of the agreement and processors will have no choice other than to supply at set prices. These agreements are barely covering costs.

The long held belief by the ACCC is that as long as there are only two players, that is enough. This view was pushed by the Hilmer review in the early 90's. This has proven to be very detrimental to farmers and the industry in Australia and this is supported by the mass exodus of farmers from the industry.

IGA/Metcash is another retailer trying to counteract the power of the major supermarkets however it only controls a small percentage of the market and therefore has little influence of power. Although other retailers are now entering the market such as ELDI (services the lower end of the market) and Costco (consumer type high end products), the major retailers Coles and Woolworths are taking steps to continue to increase their dominance and level of power held in the market place. For example, the major retailers have expanded into retail alcohol sales and hardware stores similar to Bunnings Warehouse. Therefore the ability of these other smaller retailers to pass on justifiable returns to processors and farmers is limited. They have to compete to survive.

The only way for retailers to maintain a competitive edge and to ostracize any new market entries is to lower pricing even more and manipulate and force the return price down for farmers even further to ensure that retailers don't lose too much margin on their profits for shareholders. Producers have no choice in the matter as a result of having no bargaining power with regard to wholesale prices, other than to supply for whatever price they can get in the hope that it will cover a fraction of the costs of production.

There has been a greater push in the market in general for cheaper food and to send cheaper food to the masses. This is clear and currently happening, but at the cost of the businesses and livelihoods of the producers who are the last in the supply chain to bare the brunt of the lower prices due to having no power at the bargaining table.

A lot of unnecessary duplication currently exists in the industry in relation to transport and facilities i.e. milk packing plants: three processors, two major retailers; milk delivery: two to three sets of vendors/franchises, with some operating in the same town and street. This duplication further impacts on return price for producers but is considered by other stakeholders as normal competition and justification for cheaper food. Eventually someone has to pay.

Where is the Corporate Social Responsibility and accountability in this? Moral responsibility went out the window a long time ago in this industry.

3e) 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

A key objective of the Trade Practices Act is to prevent anti-competitive arrangements or behaviour and that the stated purpose of the Trade Practices Act is to encourage competition and efficiency in business, resulting in greater choice for consumers in price, quality and service. The Act is administered by the Australian Competition and Consumer Commission (ACCC).

Following deregulation, Australian Dairy Farmers Federation made a formal application to the ACCC for an authorisation to allow groups of dairy farmers to form "collective bargaining groups" in an effort to balance power within the supply chain.

The ACCC granted authorisation for:

- a) Groups of dairy farmers to form collective bargaining groups through which they could collectively negotiate terms of supply, including pricing, with a dairy processing company that each member of the group wished to supply; and
- b) The ADFF was authorised to hold general, non-specific, discussions with supermarkets, on an individual and voluntary basis, regarding the impact of tender processes on dairy farmers.

National Foods appealed the above.

The authorisation was effective only until July 2005.

Through the sale process of Dairy Farmers to National Foods, the Dairy Farmers Milk Cooperative (DFMC) won a landmark case to be allowed to negotiate on behalf of its membership with National Foods and this is an example of the kinds of outcomes that can be achieved.

Given the economic and social impacts on producers now of having no bargaining power, for farmers to be able to survive in the industry, there needs to continue to be a mechanism available for them to be able to prepare and present their case.

There is a need for Corporate Social Responsibility (CSR). While corporations mouth this philosophy, their prime responsibility is to their shareholders. Only Government can ensure that CSR occurs. The market place doesn't solve this issue. This has to be achieved by good governance of Governments backed up by honest and hard working public servants who are dedicated to fairness.

Therefore, it is requested that the powers of the ACCC be extended to not only take care of the consumer interests but to also look after the interests of farmers in being able to remain equitable and sustain farming operations, through the process of being involved and having say with both processors and retailers.

(Source: Australian Dairy Industry Collective Bargaining Workshops, ADF, ACCC, DAFFA, April – May 2003)

3f) Any other related matters.

Summary of the current scenario

- Commodity players will dump milk onto the domestic market if the world milk price drops and this will drive prices down even further.
- Due to the fact of the policy of retailers to obtain the cheapest milk, processors have had to rationalise.
- Major retailers Coles and Woolworths are only focused on profit margins and returns to shareholders and the Government has allowed these retailers to have too much power in the market place and to continue their dominance.
- Farmers don't have a spot at the bargaining table and are not in a position to negotiate a price change and are unable to apply and sustain pressure to force a price increase. The industry stakeholders that have the power are the only ones who can influence pricing.
- Why is the government letting this happen? When will milk be considered and treated as a major household commodity?
- Producers who are the critical source of supply in the industry are being taken for granted – what will it take for other stakeholders to realise the significance of the role of the farmers in the industry and that without them, there is NO industry?

Social Issues/impacts of the current scenario

1. The industry is losing farmers at an alarming rate because they can't survive the milk to pricing rate due loss of bargaining power.
2. There are less and less young farmers who want to stay on because they don't see a future in the industry because of the current market situation. There has to be a reward for the commitment, dedication, capital invested and risk taken, demanded by a dairy farming enterprise.
3. Husband and wife team relationships are being impacted by the situation as they can't afford to employ others to work so they must do it themselves. This leads to social unrest.
4. More and more partners/children are having to find off-farm work to supplement farm income just to survive and be able to keep the farm. Farm operations need to be niche or really big to survive. Many producers cannot cope and give up, walk out and close the farm down, and there is considerable evidence to support this – just ask the banks.
5. There has unfortunately been a suicide in the local industry since deregulation and is a reminder of the harsh realities of the situation and the stress and financial pressure it can cause people within the industry – people just can't see a future.
6. The reduced returns for farmers has had a ripple effect right down the supply chain, impacting on locals and the economy in a number of ways:
 - a. Impacts on social infrastructure
 - b. Impacts on essential services such as doctors, hospitals, schools
 - c. Loss of expertise and farmer knowledge – essential services such as refrigeration, equipment suppliers.

Dairy Australia states that ABARE estimates a regional economic multiplier of 2.5 from the Australian dairy industry and if losses continue, this will significantly reduce.

Desired outcomes

- There is an urgent need for a balance in power: producers are looking for a statement of status quo, fairness, and recognition by legislators (Governments). Hard to imagine just drinking nothing but black coffee!
- For the Government to take into consideration the social effects of decreased pricing on the industry as outlined previously.
- For retailers and processors to have and demonstrate Corporate Social Responsibility - the public is starting to question the social, economic and environmental impacts of products, and the ethics of the big retailers in many things they do.
- Fairness in return of pricing: as discussed above, a request to the ACCC for a mechanism for farmers to be able to present their case on an equal footing with the other stakeholders.

- Overall, farmers cannot continue to survive the highs and lows of the industry as the extended periods of low returns are such that farm viability is now at an all time low and will continue to decline. The only industry where it works equitably for all players is where the supply chain is totally vertically integrated and this is not the case in the Australian dairy industry at present. If a true business model which is similar to those adopted by corporations is dropped over a dairy enterprise, there would be no farms.
- Processors and retailers generally aren't from a farming or agricultural background and therefore don't understand dairy production and exactly what is involved. Therefore, there needs to be a forced education campaign for retailers in terms of what it takes to run and manage a dairy farm to increase awareness to these retailers of the implications of low return prices on operations.
- Corporate farming is not an option for the Australian Dairy industry: who would want to invest millions of dollars into infrastructure in a declining industry controlled by retailers?
- To begin to treat milk like the world commodity that it is.
- To set cost returns in a domestically set cost structure.
- Food security and defence security of the nation: inline with the increasing demand for milk as Asian demand increases and the world food shortage, will the Government allow the farmers to reap the rewards to be able to supply for a reasonable return to meet this demand? Really, Australia should be the food producing bowl for Asia.

What will happen if nothing changes?

The following are the anticipated outcomes of the current scenario of a policy free market if no action is taken with regards to fair pricing and shift in power:

1. Continuing loss of farmers and production capability, and irreversible loss of farmer skills and knowledge.
2. Continuation of reducing milk production and the current market conditions potentially to a point where Australia could become a net importer of dairy products due to our inability to produce our own. Such reliance on imported products will increase consumer prices, when there is no local competition and they know they have us over a barrel.
3. The above will take away any prospects of cheaper dairy products. In fact, prices are likely to increase and food security in Australia will potentially be lost once reliance moves to other nations to supply milk (Australia and its Governments will become the laughing stock of the world seeing as they have largely allowed the destruction of our own industry base, handing over power to other exporting nations).
4. The impact on Australia of moving from an exporter to an importer and the balance of trade impacts.
5. The loss of employment and business opportunities for young Australians, and an increasing unemployment rate caused by progressive industry downsizing.
6. Loss of a productive industry and a base of solid tax payers should be a concern for all Governments.

4. Appendices

4.1 Appendix 1 Historical Milk Prices

Table 1.8
Cents/litre

Typical Factory Paid Prices							
Year ended	NSW	Vic	Qld	SA	WA	Tas	Aust
30 June							
Manufacturing Milk							
1990	21.2	25.1	20.1	23.5	20.4	22.8	24.2
1991	24.3	21.1	20.9	24.0	23.8	20.4	21.4
1992	27.2	24.2	22.4	24.5	23.2	20.3	24.0
1993	26.5	28.5	24.5	24.1	23.0	23.9	27.5
1994	27.3	25.0	24.6	23.2	22.2	22.4	24.8
1995	27.2	24.1	23.5	20.9	22.1	21.1	23.9
1996	25.9	26.7	21.7	19.1	18.3	22.9	25.6
1997	26.4	23.7	24.2	21.5	23.9	20.6	23.6
1998	25.1	22.7	24.0	21.8	25.6	20.4	22.9
1999	25.3	23.0	23.7	23.1	24.7	21.8	23.2
2000 (P)	21.8	20.7	21.9	22.2	24.6	18.9	20.9
Market Milk							
1990	39.7	37.6	44.9	38.3	37.0	38.2	39.6
1991	37.6	38.4	47.4	42.7	36.6	37.5	40.0
1992	41.6	39.9	49.4	43.3	37.6	37.7	42.3
1993	46.0	41.7	50.5	42.6	38.4	39.6	44.5
1994	46.8	40.8	50.5	42.4	39.6	41.6	44.7
1995	46.8	41.5	*54.1	42.9	40.1	42.3	45.7
1996	47.9	43.1	*54.4	44.4	41.1	42.9	46.8
1997	49.3	44.0	*55.0	43.8	42.6	44.3	47.7
1998	49.6	43.1	55.3	43.8	45.1	45.0	47.9
1999	47.0	43.4	55.7	44.2	44.4	45.7	47.4
2000 (P)	47.7	42.7	54.9	44.6	45.5	44.3	47.2

Manufacturing milk prices prior to 1995/96 include benefits from domestic marketing arrangements. From 1995/96 onward benefits are not included in manufacturing milk prices. Indicative prices paid for milk received before deduction of levies. Market milk prices adjusted for freight charges and farmer contributions to state dairy industry authorities. Queensland & South Australian figures are not adjusted for freight and farmer contribution to authority margin prior to 1994. Series consistent across states from 1995 to 1999.

* Queensland market milk price includes drought levy, January 1995 - July 1997.

Fig 1.6

Factory Paid Prices
Manufacturing and Market Milk

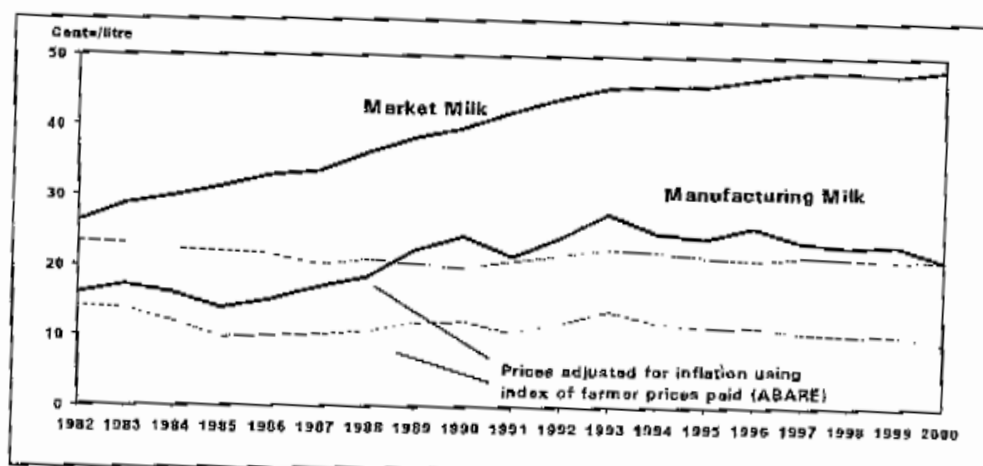


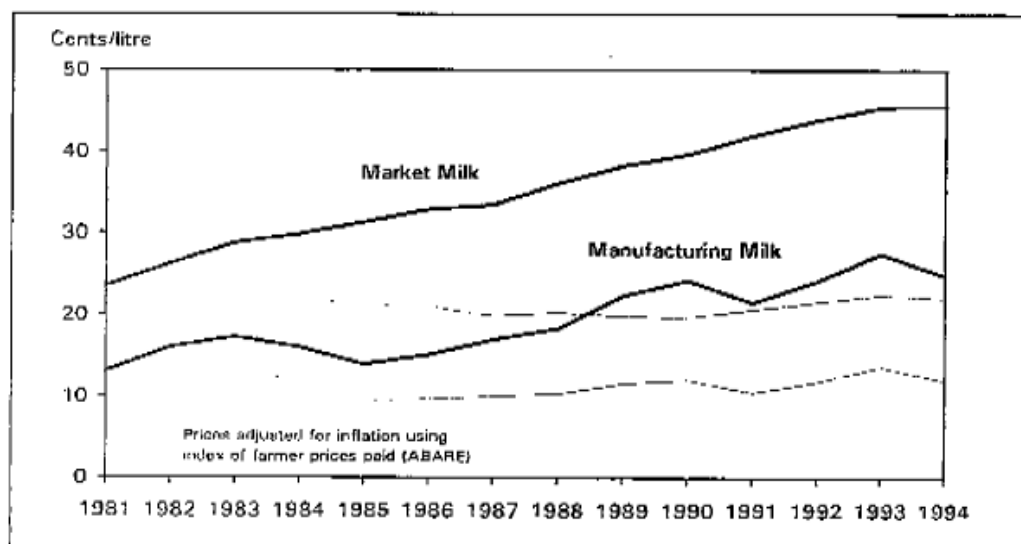
Table 1.8
Typical Factory Paid (1) Prices 1987 - 1993
Cents/litre

Year ended	NSW	Vic	Qld	SA	WA	Tas	Aust
30 June							
Manufacturing Milk							
1988	18.6	18.9	15.4	17.8	13.5	17.4	18.3
1989	19.4	23.2	18.9	20.2	15.9	21.6	22.3
1990	21.2	25.1	20.1	23.5	20.4	22.8	24.2
1991	24.3	21.1	20.9	24.0	23.8	20.4	21.4
1992	27.2	24.2	22.4	24.5	23.2	20.3	24.0
1993	26.5	28.6	24.5	24.1	23.0	23.9	27.5
1994 (P)	27.3	25.0	24.6	23.2	22.3	22.4	24.8
Market Milk							
1988	35.8	35.1	41.7	33.2	30.9	35.4	36.0
1989	39.0	36.3	43.6	35.5	32.3	37.3	38.2
1990	39.7	37.6	44.9	38.3	36.0	39.8	39.7
1991	41.2	38.4	47.4	42.7	42.8	40.7	41.9
1992	45.2	39.9	49.4	43.3	44.4	43.0	43.8
1993	46.0	41.7	50.5	42.6	45.6	44.6	45.4
1994 (P)	46.8	41.5	50.5	42.4	47.2	53.0	46.0

Indicative prices paid for milk received before deduction of freight and levies.
Freight charges may vary substantially between states.

Fig 1.6

Factory Paid Prices
Manufacturing and Market Milk



4.2 Appendix 2 Number of Dairy Farms and Cows

Cows and Farms

Owner-operated farms dominate the Australian dairy industry, corporate farms make up just 2% of the total, with share farmers involved in 18% of local farms in 2007/08. The number of dairy farms has more than halved over the past 25 years, from 22,000 in 1980 to 7,950 in 2008.

Number of registered dairy farms							
	NSW	VIC	QLD	SA	WA	TAS	AUST
1979/80	3,601	11,467	3,052	1,730	622	1,522	21,994
1989/90	2,220	8,840	1,970	969	496	901	15,996
1994/95	1,911	8,379	1,746	819	479	832	14,166
1995/96	1,853	8,275	1,693	791	457	819	13,888
1996/97	1,851	8,203	1,680	768	450	801	13,753
1997/98	1,817	8,084	1,642	749	440	746	13,478
1998/99	1,771	7,926	1,589	714	423	733	13,156
1999/00	1,725	7,806	1,545	667	419	734	12,896
2000/01	1,391	7,559	1,305	587	359	638	11,839
2001/02	1,323	7,079	1,152	538	344	612	11,048
2002/03	1,290	6,801	1,125	516	325	597	10,654
2003/04	1,096	6,242	967	458	305*	543	9,611
2004/05	1,063	6,108	885	402	278	507	9,243
2005/06	1,024	5,892	802	383	245	498	8,844
2006/07	924	5,346	734	354	222	475	8,055
2007/08 (p)	886	5,422	664	332	186	463	7,953

* Estimate Source: State Milk Authorities

This reflects a long-term trend observed in agriculture around the world, as reduced price support and changing business practices have encouraged a shift to larger, more efficient operating systems.

The trends in farm numbers have meant that the average herd size has increased from 85 cows in 1980 to 215 in 2007/08. The 2008 National Dairy Farmer Survey indicated that 8% of dairy farms had herd sizes of more than 500 cows and produced 25% of the total milk produced in Australia. At the other end of the spectrum, 48% of farms had fewer than 200 cows and produced 24% of the milk.

The dominant breed in Australia is the Holstein Friesian, accounting for approximately 67% of all dairy cattle, followed by the Jersey at more than 10% and then the Holstein/Jersey cross. More than 85% of dairy farmers use artificial insemination and access some of the best genetic material in the world.

Number of dairy cows (000 head)							
	NSW	VIC	QLD*	SA	WA	TAS	AUST
At March 31							
1979/80	311	1,047	247	103	71	103	1,880
1989/90	238	968	201	89	64	92	1,654
1994/95	230	1,113	189	97	73	119	1,882
1995/96	235	1,161	189	97	71	130	1,884
1996/97	244	1,229	195	101	71	137	1,977
1997/98	266	1,268	203	107	73	143	2,060
1998/99	282	1,340	197	117	65	154	2,155
1999/00	289	1,377	195	105	65	139	2,171
At June 30							
2000/01**	268	1,377	186	124	72	148	2,176
2001/02	264	1,363	174	110	75	134	2,123
2002/03	250	1,303	159	117	77	142	2,050
2003/04	248	1,297	171	116	74	133	2,038
2004/05 (e)	245	1,295	150	115	70	135	2,010
New Series***							
2005/06	222	1,217	127	104	67	143	1,880
2006/07 (f)	213	1,157	122	105	54	133	1,786
2007/08 (e)	200	1,100	105	102	53	140	1,700

* For 1999 and 2000, Old state figure included Northern Territory cow numbers

** From 2001 census date is June 30 and NT and ACT numbers are included in the national total

*** Change in ABS data collection Source: ABS and Dairy Australia

4.3 Appendix 3 2009 Situation and Outlook Dairy Industry

Release date: 2009-06-03

Dairy Australia Publishes 2009 Situation and Outlook - Dairy Farmers Reassured by Long Term Demand

(Newswire Today) — **Southbank, Victoria, Australia, 2009-06-03** - Australian dairy farmers have been faced with many challenges over the last twelve months due to the global financial crisis.

Dairy farmers nationwide remain confident of the long-term demand for dairy products, despite many facing a one in 35 year step down in milk price for the 2009–2010 season.

ABARE estimates average farm business profit to fall from \$74,100 to -\$6,000 in 2008/09 — with the percentage of farms losing money increasing from 38% to 62%.

Despite this, 66% of farmers surveyed in Dairy Australia's National Dairy Farmer Survey (NDFS) reported they were positive about the future of the industry. Ongoing demand for dairy products was most often cited as the reason behind positive attitudes. While farmer confidence was down from 2008 results (78%), the industry retains a higher proportion of optimistic farmers than in all surveys prior to 2008.

The NDFS examines farmer attitudes and intentions and provides key inputs for the Situation and Outlook report, the annual barometer of the industry, launched by Dairy Australia today.

This year's survey results showed some significant variance in farmer sentiment between the regions. Dairy Australia's Managing Director Dr Mike Ginnivan said milk price was nominated by farmers in every region as their greatest challenge.

"In this year's survey milk price overtook climate and the availability and cost of production inputs. Climate and the cost and availability of irrigation water were the next most often mentioned challenges."

"The impact of the milk price step down this season and the prospect of lower prices in 2009–10 will test farm businesses, particularly in the Lower Murray Darling Basin. While falling input prices may provide some relief, without significant improvement in seasonal conditions farmers will face severe difficulty in trading through the current downturn."

The NDFS indicated that, of the 76% of farmers impacted by the milk price step downs, 24% were planning to extend their debt and a further 24% planned to refinance or defer debt to manage their cash flow.

"The ability and willingness of farmers to restructure their debt and draw on equity, and to realise the value of their assets, as well as their personal and family commitment to continue dairying, will be key factors being weighed up over the coming year."

While both confidence and planned investment were lower in the 2009 survey, production intentions remained largely unchanged from last year. Almost two thirds of the industry plan to grow their businesses in three years time if price and seasonal conditions were reasonable.

*Situation and Outlook 2009 can be downloaded from the Dairy Australia website.

For more information: Adele Buhagiar, Dairy Australia, phone 03 9694 3894 or 0400 923 221

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dairyaustralia.com.au