Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
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The performance of the Australian Dairy Industry and the profitability of Dairy Farmers since deregulation in 2000.

Term of reference (d) asks about the merits of tasking the ACCC to investigate regulating the price of milk.

My experience tells me that this issue is not unique to the dairy industry but rather all farm commodities. The individual farmer is at the bottom of the value chain and therefore a price taker rather than a price setter. Every farmer effectively competes with his neighbour in a supply and demand economy. Farming is a mix of capital investment and active business and this is often confused when determining the profitability of the enterprise.

Those that have been lucky enough to inherit their farm have an advantage over new business entrants. If one removes the cost of capital from any business case then many businesses will be viable even when prices are low. This is not accepted business analytical practice and needs to be removed from any viability analysis. The process in Norway provides for a mechanism of establishing an annual commodity price based on best practice and a viable gross margin. Government representatives sit down annually with farming cooperative representatives to establish a viable gross margin price for the next twelve months for each commodity. Should the price rise above the agreed price then imports are increased and alternatively if prices fall then imports are reduced. In effect this is setting a collar around the price based on supply and demand. The price will still move around the set price but is managed to ensure farm sustainability and restrict excessive upside risk to the consumer.

Australian farmers receive some of the lowest subsidies in the world and although great at what they do they lack business sustainability evaluation skills. I am not sure that the ACCC is the body to manage the price, I would much prefer to see an independent agriculture body established to ensure that gross margins are negotiated with farming organisations annually in good faith so that the farming industries can be sustainable in their own right but still protect the consumer with rational realistic commodity prices.

This approach will ensure Australian farming continues to supply consumers with high quality Australian product at reasonable prices, the alternative is more of the same with farmers leaving the industry in droves and the demise of Regional and Rural Australia. Imported inferior product filling the gaps left by the collapse of established farm industry in Australia will be bad for our balance of trade and jobs.

Term of reference (f) To introduce a mandatory code of conduct.

This is a no brainer, it should always be that negotiations are carried out in good faith without bullying by monopoly retailers. Australia is small with very limited competition in the retail sector and the evidence suggests that this monopoly is manipulating the fresh milk market. Milk is a staple and almost everyone consumes milk daily, my observation is that unless the milk companies supply raw milk at a rock bottom price the retailers will not stock the higher margin value added dairy products from that supplier. Queensland is particularly vulnerable to this pricing pressure as they supply raw milk exclusively. Queensland is a tropical environment and the cost of production is higher than that of a more temperate environment. Currently this is reflected in the price paid for raw milk in Queensland however this has not always been the case and many of the remaining dairy farms are showing the signs of years of marginal returns with rundown plant, growing debts, depression and fatigue. You can bend a piece of wire many times but eventually it breaks.

Kind Regards
Tony Pantlin - farmer, small business owner Queensland
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