



August 26, 2011

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Sent via email: economics.sen@aph.gov.au

Dear Sir / Madam,

The Western Australian Farmers Federation (Inc) (WAFarmers) thanks you for the opportunity to make a submission to the ***Senate inquiry into the impacts of supermarket price decisions on the dairy industry.***

As background, WAFarmers is the State's largest and most influential rural lobby and service organisation. WAFarmers represents approximately 4,000 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, dairy farmers, pastoralists, horticulturalists, commercial egg producers and beekeepers. Collectively our members are major contributors to the \$5.5 billion gross value of production that agriculture in its various forms contributes annually to Western Australia's economy. Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

The Western Australian dairy industry has endured difficult periods over the past decade. The deregulation of the dairy industry, followed by unfavourable seasonal conditions and a challenging retail and processor environment have all taken their collective toll on the dairy industry. The *Australian dairy: Financial Performance of Dairy Producing Farms 2008-09 to 2010-11* Report (Dharma, 2011) demonstrates that farm cash income has decreased from \$170,280 to \$145,900 over this period. At the same time, farm business profit for Western Australian dairy farmers has more than halved; \$79,280 in 2008/09 down to \$31,600 in 2010/11 (Dharma, 2011). The follow submission raises WAFarmers' concerns over the lack of Federal Government response to the 2010 Senate Inquiry, the growth in private label milk sales, the ramifications of the 'down, down' milk pricing strategy employed by Coles and the threat of foreign investment in areas of land used for Australian food production.

Milking it for all it's worth – competition and pricing in the Australian dairy industry

WAFarmers has been advised that the Federal Government has still not tabled a formal response to the recommendations of the 2010 Economics Reference Committee report, *Milking it for all it's worth – competition and pricing in the Australian dairy industry*, despite the recommendations of the Senate Committee that a formal response be tabled by the 13th May 2011. It is disappointing to note that on

such an important issue, the Government has as yet failed to enact any of the recommendations to better protect dairy farmers.

Transition to Private Label

The Australian retail sector has been seeing a clear transition in consumer choice towards private label product at the expense of branded. This has been particularly true in the dairy sector and is leading to reduced margins for the entire dairy supply chain. 'While farmgate price remain stable for many producers, the changes in supply of sizeable supermarket private label milk products is increasingly disruptive for processors and suppliers alike.' (Dairy Australia, 2011). This disruption is leading to processors building in sharper market signals that act as a disincentive for further investment and business growth on behalf of dairy farmers.

The 'Down, Down' Spiral

The sharp reduction in farm business profit provides little incentive for dairy farmers to continue with the gruelling regime of 4am starts, rising input costs and hard physical labour. Coles' actions in deliberately devaluing the efforts of Western Australian dairy farmers to produce a high quality product are yet another blow to the dairy industry. WAFarmers is deeply concerned that the strategies employed by Coles to reduce the price of staples are inadvertently devaluing Australian grown produce with little regard for the long term impact on the sustainability of the agricultural industry. Unlike exporting states such as Victoria, Western Australia is predominately reliant on domestic white milk sales and so figures quoted by Coles representatives, suggesting that the export market drives prices are misleading. While it is all well and good to provide consumers with a short term reduction in the price of everyday products in order to achieve retail targets; tightening margins and reduced returns may ultimately result in a number of dairy farmers leaving the industry.

In a recent industry survey a staggering 73% of Western Australian dairy farmers nominated milk prices as the major challenge for their enterprise in the future (Western Dairy, 2011). WAFarmers believes that as Coles drives prices 'down, down' for consumers they are also driving down supplier confidence in the industry and supply chain margins as retail sales shift from branded to private label products. This will ultimately reduce the incentive for the next generation of dairy farmers to invest in an industry that is being forced into a 'down, down' spiral. With the average age of Western Australian dairy farmers already at 52 and becoming older, it is important for the Senate Committee and consumers to remember that unless dairy farming is a viable industry in Western Australia, we may be left without one.

Industry modelling (Western Dairy, 2011) demonstrated that the proportion of Western Australian dairy farmers to feel fairly to very positive about the industry is significantly below the national average (47% compared to 69%). A disappointing 3% of Western Australia's dairy farmers believe that they will no longer be dairying by 2013-14, while a further 3% expect to have reduced production levels. These figures demonstrate that unless dairy farming is able to remain profitable, more farmers will leave the industry; resulting in a negative flow on effect that will be felt throughout regional communities.

Australian Food Security

WAFarmers would like to draw the attention of the Senate Committee to the recent surge of interest in investment in Western Australia's premier dairy country (the South West) coming from foreign investors. It is timely to remind the Senate Committee that global food security will be a grave concern in the coming decades and productive agricultural land such as that currently operated by Western

Australian dairy farmers will be an extremely valuable commodity, and one which Australia would be wise to retain in its current productive capacity. Although WAFarmers is supportive of the right of farmers to sell their land at their own discretion, the aging demographic of dairy farmers combined with market signals that discourage farmers from ongoing business investment and a rise in foreign interest should be of grave concern to all Australians.

Western Australia has a reputation as a reliable source of high quality agricultural produce. It also has low land prices, in a global sense, and stable government and regulatory processes. Naturally enough, this makes the State attractive to foreign investment. Whilst it is not with the foreign investment itself, WAFarmers concern stems from the potential for any unintended or perverse outcomes to accompany the investment. Foreign investment in some of Western Australia's most productive agricultural lands runs the risk of adversely impacting local communities and reducing Australian access to high quality food production areas. WAFarmers therefore urges the Senate Committee to consider the long term ramifications of reducing the viability of dairy farming in Western Australia in making their recommendations.

WAFarmers again thanks you for the opportunity to make a submission to this inquiry. To further discuss the issues raised in this submission, please do not hesitate to contact myself or WAFarmers Director of Policy, Alan Hill

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Works Cited

Dairy Australia. (2011). *Dairy 2011 Situation and Outlook*. Melbourne: Dairy Australia.

Dharma, S. (2011). *Australian Dairy: Financial performance of dairy producing farms 2008-09 to 2010-11*. Canberra: ABARE.

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