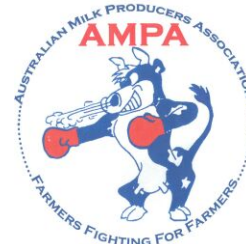


AUSTRALIAN MILK PRODUCERS ASSOCIATION Inc. (AMPA)

~ FARMERS FIGHTING FOR FARMERS ~



29 October 2009

John Hawkins  
Committee Secretary  
Senate Standing Committee on Economics  
Parliament House  
Canberra ACT 2600

Dear Mr Hawkins,

Thank you for the opportunity to provide information to the Senate Economics Committee Inquiry into competition and pricing in the Australian dairy industry.

The Australian Milk Producers Association is extremely concerned that the gap between farmgate milk price and retail price of milk is getting larger and larger. Most dairy farmers are now receiving prices well below their cost of production. Dairy farmers are paid less, consumers are paying more. The dairy farmers' share of the retail price of milk is shrinking.

25 years ago, dairy farmers were receiving 40% to nearly half of the consumer dollar paid for milk, as shown in the following table. This continued to be the case until Deregulation of the Dairy Industry in 2000.

Milk Prices 1984-85 (Annual Report from UDV Central Council in Swan Hill, 1985)

STATE	RETAIL PRICE	FARMGATE PRICE	DAIRY FARMER %
VIC	72 cpl	31.7 cpl	44.02
NSW	72 cpl (max)	30.5 cpl	42.36
QLD	76/78 cpl	34.75 cpl (Brisbane)	45.72
SA	66 cpl	30.79 cpl	46.65
WA	73 cpl	29.68 cpl	40.65
TAS	72 cpl	30.25	42.01

By 2003, the farmers share of the retail price of milk in Australia had dwindled to just 24%. And now, currently, this has halved for many farmers.

The recommended retail price (RRP) for a litre of regular full cream milk at a Milk bar or Service Station, etc, is currently about \$2.40. If sold at the RRP, the Milk bar owner makes 77c.

We believe that the average Australian consumer would be shocked to know that of the \$2.40 they pay, that most farmers are receiving only 20-25c.

Clearly, neither farmers or consumers are benefiting from this!

The failure of the Trade Practices Act and its administration is evident when we see what has happened to both the farmgate price and the retail price of milk in Australia.

From a National Competition Council Press Release "D-DAY FOR DAIRY REFORM – IT MUST BENEFIT THE COMMUNITY" (dated 7 July 2000),

*.....'Mr Graeme Samuel, President of the National Competition Council (NCC), in comments made to the Committee for the Economic Development of Australia, has stressed that the deregulation of the drinking milk market must benefit the community.'*

*..... 'The National Competition Council will be watching closely, as will the price monitoring and regulatory officers of the ACCC, to ensure that the community, as a whole, receives the benefits of reform commensurate with the contribution being made by the dairy farming industry.'*

*.....'It is likely to take some time for the post deregulation dust to settle. However, if we detect a creaming off of the consumer benefits of dairy reform, between the farm gate and the shopping basket, expect it to be the subject of loud comment and appropriate action.'*

NB. Mr Graeme Samuel is now the Chairman of the ACCC.

We thank this Committee for giving us the opportunity of loud comment and hope you will take appropriate action!

Australian farmers operate in one of the richest, most stable, food economies in the world. For over 40 years farmers have posted unmatched, economy leading, efficiency gains. But farmers are not reaping the benefits; they are not even keeping up with inflation!

Deregulation shifted the wealth away from the farmers. The rewards from dairy farmers' productivity, efficiency and cost cutting, are being seized by more powerful players in the agri-food chain. Unless we address this fundamental shift that has and will continue to evolve, then all the rest of the innovations that dairying accomplishes will evaporate and see more farmers giving up the struggle.

On the false assumption that the export market was the most important, successive governments and many farm peak bodies have backed free trade policies, including slashing of tariffs, and deregulation of rural industries. They argued that this would reduce the cost of imported farm inputs, drive competition between farmers, improve productivity, and so make farmers more competitive on export markets.

Economist Dr Mark McGovern (Queensland University of Technology) has shown that governments have wrongly identified the export market as the primary market for most agricultural products. In fact, the bulk of agricultural product is sold into the domestic market.

Dairy Australia Annual Report 2008/09 tells us that 'about 60% of Australia's milk production was consumed on the Australian market and the remainder was exported.'

Australian agricultural policy should be based on the fact that the primary market for most agricultural products is increasingly the domestic market not the export market.

Deregulation has undercut the financial viability of the traditional family farms. Policy recognition must be given to the family farm as the economic way to produce many agricultural products whilst also supporting the rural communities that depend on them.

It is widely recognized that farmers are price takers not price makers.

The Australian Competition and Consumer Commission and the Trade Practices Act have failed to curb the excessive power of the supermarkets, leaving retailers with the power to bargain down prices to farm industries.

National Competition Policy must urgently be revised to protect farmers from supermarkets and dominant processors abusing their market power, as a vital step towards farmers receiving a fair price for their product.

We would also ask that Government:

- implement a pricing system based on Australian domestic cost of production rather than export parity

- strengthen the anti-dumping authority to prevent dumped imports (ie, under their cost of production) undermining domestic producers;
- apply to imported dairy products, the same strict food standards regulations that are applied to our domestically produced dairy products;
- consider carefully any policies that will impact financially on farmers, both directly and indirectly. For example, Carbon Pollution Reduction Scheme (CPRS); even if agriculture is not covered in any CPRS, dairy farmers will be impacted by carbon costs imposed on dairy processing as these costs will be passed on to farmers, ie, further reduced milk prices.
- introduce Price Discrimination Laws as a means of ensuring a fairer price for both farmers and consumers, perhaps with a reasonable predetermined percentage for dairy farmers that reflects at the very least, the average cost of production. (Price Discrimination laws exist in countries such as the United States, England, Ireland, Scotland, Wales, Spain, France, Germany, Italy, Belgium, Switzerland, Norway, Sweden, Netherlands, Austria, Portugal, Denmark, Greece, South Africa, Japan, Singapore, China and India).

Thank you for the opportunity to contribute to this inquiry. We would welcome the opportunity to discuss any of the points raised here directly with the Committee.

Yours sincerely,

Andrea Balcombe

Executive Officer  
Australian Milk Producers Association Inc.