



Hon Tim Mulherin MP
Member for Mackay

Reference: 10910/09

50 OCT 2009

The Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir/Madam

Thank you for the opportunity to provide a submission to the Senate Economics Committee's inquiry into competition and pricing in the Australian dairy industry.

The Queensland Government has an interest in all aspects of the market operations relating to the dairy industry. In particular, the stability of the Queensland dairy industry and the flow-on effects to industry employment and security of fresh milk supply.

Our submission provides an overview of the Queensland industry, drivers for milk prices received by Queensland dairy producers and supply chain relationships (see Attachment 1).

The Queensland dairy industry, while constantly changing, has undergone a considerable contraction in farm numbers after industry deregulation in 2000. In particular, rationalisation in the processing sector and adjustments in supply chain relationships reflect the new market environment.

Queensland milk producers have received higher prices and greater security in longer term contracts than their southern counterparts because of the nature of the Queensland industry. The industry is structured around the fresh milk market and is not strongly influenced by export market fluctuations.

The Queensland dairy industry is important to the Queensland economy, supplying fresh food to consumers and jobs throughout the supply chain – importantly in regional and rural Queensland. Profitability throughout the supply chain depends on fair pricing and contract arrangements and it is essential that this is not negatively impacted by an imbalance of power in supply chain relationships.



**Queensland
Government**

**Minister for Primary Industries
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**Senate Economics
Committee**

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If you require further information please do not hesitate to contact Dr Amanda Parker, Principal Policy Officer, Department of Employment, Economic Development and Innovation on telephone 07 3239 3368.

Yours sincerely

A handwritten signature in blue ink that reads "Tim Mulherin". The signature is written in a cursive style with a prominent initial "T" and "M".

TIM MULHERIN, MP
Minister for Primary Industries, Fisheries
and Rural and Regional Queensland
Member for Mackay

Att

Queensland Dairy Industry – trends and drivers

Queensland's dairy industry accounts for approximately five percent of Australia's dairy production.

The number of milk producers has continued to decline in recent years from 734 in 2006–07 producing 534 ML, to 630 in 2007–08 producing 485 ML. In 2000, prior to de-regulation there were 1530 producers in Queensland. The number of producers has declined by around eight percent annually and this trend is likely to continue in the near future.

Gross value of production (GVP) of the Queensland dairy industry has increased from \$207 million in 2006–07 to \$255 million in 2007–08 due to increased milk prices.

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

Milk prices have a major impact on the long-term viability of dairy farming businesses. Prices dropped considerably after deregulation and have influenced the decline in producer numbers experienced in Queensland. However, the decline in producer numbers is also driven by a range of production and management factors that determine business profitability. Milk prices are not the single cause of attrition in the industry.

While milk prices dropped considerably following deregulation, recent increases in milk prices have improved the profitability of Queensland producers, in combination with more favourable seasonal conditions and reduced feed costs.

Queensland producers receive the highest farmgate prices across the eastern states of mainland Australia. This is a result of the supply / demand balance in Queensland, with around 90 percent of production consumed domestically as fresh milk and local manufactured product. In order to secure tight supply to meet local demand, processors in 2007–08 offered producers higher prices and longer-term contracts, which has buffered Queensland prices from export price fluctuations.

Queensland can be divided into four key production regions, South-east Queensland (excluding Darling Downs and South Burnett), Darling Downs and South Burnett, North Queensland and Central Queensland. These are the regions used by the Queensland Dairy Accounting Scheme, however data for Central Queensland has not been included for two years.

Average prices vary between regions based on some traditional processor pricing arrangements and transport costs.

Table 1: Average prices received in each region between 2004 and 2008

| Region | 2004–05 | 2005–06 | 2006–07 | 2007–08 |
|---------------------------------|---------|---------|---------|---------|
| South East | 35.9 | 37.6 | 40.6 | 54.2 |
| Darling Downs and South Burnett | 34.6 | 36.9 | 39.7 | 53.8 |
| North | 31.3 | 34.6 | 35.5 | 45.2 |

Source: Queensland Dairy Accounting Scheme 2008

Security of supply was a key driver of prices offered by processors in contracts in 2007–08. Securing an even supply of milk throughout the year also influences prices offered in contracts and prices for milk surpluses above contracted supply amounts.

Prices offered to producers will reflect the matching of milk supply to processor fresh milk demands year round, and to a lesser extent prices in the southern milk market which is influenced strongly by export markets. Also, producers may be offered tighter supply contracts by processors.

The longer term trends operating in the Queensland industry have been declining milk production with the reduction in numbers of producers, and increasing milk consumption with increased population growth. This balance has shifted recently with improved prices and good seasonal conditions boosting production, particularly during some months. Consumers have also changed their milk purchases in response to the economic downturn, shifting toward cheaper supermarket branded product, changing the dynamics in the relationships between processors and major retailers.

*Inquiry reference
d) the impact of
concentration of
supermarket supply
contracts on milk
market conditions*

Despite offering higher prices in 2007–08, there could be downward pressure on these prices. The downturn in export markets may see the southern industry redirect product from export to domestic markets influencing prices in northern regions. Renegotiation of processor supply contracts with major supermarket chains will also influence the prices able to be offered in contracts with producers. Also, the growth in retail house branded milk potentially generates downward pressure on prices.

There are three major players in the processing sector in Queensland including Norco Co-operative Limited, Parmalat Australia Ltd and National Foods Limited who recently bought Dairy Farmers Limited. There is also a number of smaller milk processing companies, however they have little power in the market to influence prices paid to producers.

The processing sector has undergone considerable rationalisation, particularly since deregulation. Rationalisation brings with it increased power in supply chain relationships. It is our understanding that industry will be seeking a review of collective bargaining exemptions under the *Trade Practices Act 1974* to ensure that the production sector can operate with a degree of power in negotiations.

*Inquiry reference
b) the impact of the
concentration of ownership
of milk processing facilities
on milk markets conditions
in the dairy industry; and
e) whether aspects of the
TPA are in need of review
having regard to market
conditions and industry
sector concentration in the
industry.*