

tabled by
Department of Agriculture
Fisheries and Forestry
10 March 2011

Opening Statement for Senate Inquiry

The Department of Agriculture, Fisheries and Forestry welcomes the opportunity to appear before the Committee on its enquiries into milk pricing.

The Department is responsible for providing policy advice to the Minister on issues affecting the dairy industry; and through ABARES for providing professionally independent, world-class research, economic, (including socio-economic) and scientific analysis and advice for government and private sector decision-makers on significant issues affecting Australia's primary industries.

The Department would like to make a few opening remarks to put our submission into context.

In the last 10 or so years, there have been a number of structural changes to the dairy industry. These include the consolidation of farm numbers resulting in an increase in the average farm size. Drivers for these changes in the industry include deregulation of the domestic drinking milk market and the impacts of the drought on dairy returns. This has been accompanied by technological advances such as herd genetics, pasture management practices and supplementary feeding regimes which have resulted in increased productivity (as illustrated through higher milk yields per cow).

With the deregulation of the milk market, prices for milk in Australia at the farm, processor and retail levels are determined by a variety of forces in domestic and global dairy markets.

In the case of the recent move by supermarkets to reduce the retail price of home-brand milk there are a number of factors that will influence whether this will be passed through to farm gate prices of milk.

Firstly, there is uncertainty how long the supermarkets will maintain lower prices for home brand milk and, if they are maintained over a long period, whether the major supermarkets will maintain their commitment to the current contract price for home brand milk.

Secondly, it will depend on whether or not milk processors will reduce the price of branded milk in order to compete with home brand milk. The degree to which consumers may switch away from branded to home brand milk and any differences in the milk processors' profit margins between these products will be important in this regard.

Thirdly, the impact on farm gate milk prices is likely to differ between the major milk producing regions. In south-eastern Australia (especially Victoria, southern New South Wales, and Tasmania), the milk price paid by manufacturers for the export of dairy products sets a floor to the extent to

which market milk prices at the farm gate can fall. In these areas market milk processors will not be able to pay dairy farmers less than the price being offered by the major dairy product manufacturers.

In northern New South Wales, Queensland and Western Australia, however, a very high proportion of milk production is used in the market milk sector. Potentially, there is likely to be more scope for milk processors to pass back the effect of the supermarket price discounting to dairy farmers in these regions.

The Committee's terms of reference also refers to the Horticulture Code of Conduct, and the Committee has received a submission from the Produce and Grocery Industry Code of Conduct Committee. Our submission includes information on these Codes of Conduct. The department notes that these are voluntary codes, and that a number of dairy industry organisations have been granted permission by the ACCC to bargain collectively.

With that, we would like to conclude our opening statement and we are now happy to respond to any questions the Committee may have.