



**Submission
to the
Senate Standing Committee on Economics**

on

**Competition and Pricing
in the
Australian Dairy Industry**

Prepared by:-

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The Western Australian Farmers Federation -

The Western Australian Farmers Federation (Inc) (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, horticulturalists, dairy farmers, 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.

Introduction -

WAFarmers welcomes the opportunity to comment on the Competition and Pricing in the Australian Dairy Industry.

The Western Australian dairy industry has undergone significant change since the industry was deregulated in 2000.

The number of dairy farms has changed significantly, declining from 488 in 1999 to 170 in 2009. The number of cows in WA has decreased since deregulation, from 65,000 cows in 1999/2000 to around 53,000 today.

384.1 million litres was produced in 1998/99 (5909 litres per cow) and 340.5 million litres was produced in 2008/9 (6424 litres per cow)

In comparison, the population of Western Australia has grown from 1.4 million people in 1999 to 2.2million in 2009. Approximately 229 million litres of drinking milk was consumed last year, leaving just 111.5 million litres for production of dairy foods, and bulk fresh milk export to Singapore and Malaysia. Only a small proportion of the bulk commodity butter and cheese consumed in this state is actually made here. WA is a net importer of dairy foods.

This situation suggests that the farm gate milk price received by WA dairy farmers should be relatively stable, and insulated to some extent from world price and A\$ fluctuations.

Sadly this is not the case. As the table below illustrates, the milk prices in WA appear to be governed to a large extent, by uniquely local influences. Despite producing mostly for our local market, the average price paid in WA was lower than the Australian average price in six out of seven years.

Typical factory paid prices

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 (p)
NSW cents/litre	32.5	32.8	30.9	32.9	34.3	35.7	48.6
\$/kg milk solids	4.58	4.64	4.29	4.62	4.80	5.02	6.73
VIC cents/litre	33.3	24.8	26.7	31.5	32.9	32.0	50.0
\$/kg milk solids	4.45	3.35	3.57	4.23	4.44	4.32	6.68
QLD cents/litre	34.5	34.8	33.8	35.0	36.6	38.8	51.8
\$/kg milk solids	4.88	4.94	4.72	4.84	4.99	5.38	7.14
SA cents/litre	31.5	30.3	28.2	30.1	32.0	32.6	48.6
\$/kg milk solids	4.38	4.22	3.90	4.19	4.49	4.57	6.75
WA cents/litre	28.8	28.2	27.4	27.2	29.0	32.0	41.3
\$/kg milk solids	4.11	4.04	3.91	3.89	4.09	4.49	5.79
TAS cents/litre	32.7	25.9	27.2	30.9	33.6	36.5	50.2
\$/kg milk solids	4.33	3.43	3.54	4.05	4.39	4.79	6.63
AUST cents/litre	33.0	27.1	27.9	31.5	33.1	33.2	49.6
\$/kg milk solids	4.47	3.71	3.76	4.28	4.50	4.51	6.69

Source: Dairy manufacturers (Australian Dairy in Focus 2008)

2009/10 season milk prices are continuing to falter as the year progresses. Challenge Dairy have just announced a 3c per litre reduction. Most of the other manufacturers have released only indicative pricing schedules for January to June 2010. Yet in some of the eastern states, there is talk of step ups and cause for a little optimism as world prices rally. It is worth noting that step ups or back payments are not a feature of the pricing regime in this state.

Price Discounting –

WAFarmers believes a major contributor to the low farm gate milk prices paid in WA since deregulation, is the routine practice of discounting on the supermarket shelves. It is unclear as to whether this practice is initiated by the supermarkets or by the processors themselves, as they clamour for a greater market share. Interestingly, this practice has continued during periods of both over supply and under supply of raw milk in this state. The fresh drinking milk premium has now been eroded, which makes consumers the winners in the **short term**.

Tier Milk Pricing –

Regulation of the WA Dairy Industry was accompanied by two and, for a while, three tier, pricing schedules. This had the effect of regulating the supply of uncontracted or manufacturing milk that was not of great interest to the processors. It also provided a pricing mechanism which encouraged extra milk production when required. The manufacturers understood that pricing incentives would result in a smaller immediate increase in production through better feeding, and recognised that a larger, sustained increase through herd growth, needed at least a year to eventuate. This enabled farmers to plan ahead to cater for increased demand, or budget for leaner times. The pricing system also allowed some cross subsidisation between categories of milk, as a consequence of the premium on drinking milk, providing a window of opportunity for processors to develop new markets and/or products.

WAFarmers is not suggesting that re. regulation is the answer, rather there is potential for milk processors to use a two tier price structure to better match production to market requirements.

Too many processors?

Since deregulation, the timing of pre-season pricing announcements and contracts has been steadily shortened to the point where many dairy farmers do not know what their milk price schedule for the year will be until practically the day that the new prices commence.

The milk price now appears to be more closely aligned to the average of what the other processors are offering, rather than payment determined by the individual product mix and markets serviced by each manufacturer. This is very disturbing. It becomes extremely difficult for farmers to plan their years production, particularly when the deadlines for joining heifers, sowing pastures, and implementing fertiliser programs have already passed.

Also of concern is the recent reduction of manufacturing activity in WA. National Foods no longer produce their UHT milk in this state, and Fonterra have sold their ice cream making business to Nestle and Bulla.

Despite the reduced processing still has four main manufacturers sharing in the majority of the 340 million litres produced here. One has to seriously question the economics of the low volume throughputs that our processors operate with.

Farm input costs -

Whilst there have been significant reductions in the price, of fertilizer, fuel and some chemical sprays, and likely reductions in grain prices this season, there have been steady, but relentless, increases in other significant costs. Local and State Government rates, taxes and licence fees, veterinary drugs, machinery parts and replacements, increase each year.

Wages have increased in the battle against the mining companies offers of large pay packets. Although the physical labour shortage has eased recently, employment costs have not.

The 25% increase in electricity costs, and the planned 25% increase in 2010, will be significant cost increases in this year's profit and loss accounts.

Dairy Farmers have been struggling to grow their businesses to sustainable and economic levels, in tandem with the low milk prices paid during the first five years since deregulation. It is impossible to recover financially with just two years of reasonable prices, and its certainly not long enough to save for the next downturn!

Trade Practices Act -

The introduction of the Trade Practices Act 1974, under National Competition Policy, was designed to regulate the ability of businesses to enter into

- (a) arrangements that restrict competition between competitors (horizontal arrangements)
- (b) arrangements that restrict the ability of suppliers or customers to trade (vertical arrangements)
- (c) misuse of market power

WAFarmers question the integrity of pricing mechanisms from National Foods, in offering a price dependant on their competitors opening milk price offer.

Conclusion

WAFarmers Dairy Section would like it to be recognised that the state's dairy producers have responded well to deregulation, and that the level of on-farm innovation has been noted throughout Australia.

Despite today's fast and efficient transport networks, WA is still a long way from the other dairying regions of Australia. WAFarmers believes it is vital to retain a healthy, efficient and competitive local dairy industry in this state.

Overall the value of the dairy industry to the Western Australian economy in 2007/08 was \$109 million, employing over 2000 people.

The loss of the dairy industry in WA would jeopardise food security and impact negatively on our regional and state economies.

WAFarmers again thanks the committee for the opportunity to place a submission, and would welcome the opportunity to address the Senate Inquiry, should you be holding formal hearings in Western Australia.