Senator Nick Xenophon
Dear Sir

Thank you for your time in listening to our fears and ideas for the future of the dairy industry in FNQ.

Farmers need to be sustainable and economically viable by

1. regulation of the fresh milk market
2. Strong legislation to protect farmgate prices
3. reinstatement of section 49 of the Trade Practice Act

The market since deregulation has been distorted by the monopolisation on processing and retailing levels contrary to ACCC oversight. These fears were expressed in a report"(ISBN 0 642 40287 6.) which stated The 1999 senate inquiry into the deregulation of the Australian Dairy Industry concluded that 'farmers and regional economies will suffer under deregulation and, at best, the position of the consumer will not be improved. (Parliament, op. cit., p. 169.ty.)". A further reference was made in "Deregulation of the Australian Dairy Industry", October 1999, p. 170.
10 years on these statements are true and FNQ industry is on the brink of complete destruction.

Unlike many industrialised countries around the world, there is no legislative control over the price milk processing companies pay farmers for their milk. Farmgate prices can vary between manufacturers, with individual company returns being affected by factors such as product and market mix, marketing strategies and processing efficiencies.

Most milk prices are based on both the butterfat and protein content of the milk. Payments from processors to individual farmers can also vary marginally, as firms operate a range of incentive/penalty payments related to milk quality, productivity and off-peak supplies. There are also volume incentives in place to encourage milk supply to the processing plant to improve operating efficiencies. The price farmers receive also varies across states, reflecting how milk is used in the marketplace. For example, many farmers in the southern regions receive a 'blended' price, incorporating returns from both drinking and manufacturing milk. However, higher prices are often received for drinking milk under commercial supply contract arrangements in the northern dairy regions, where drinking milk makes up a much larger proportion of the production mix.

In the 10 years since deregulation we have seen a rationalising of processors and the introduction of generic brand milk. At present National Foods account for processing 81% of all the milk in the fresh milk market and the two supermarkets Coles & Woolworths) account for 60% of all fresh milk sales. (ISBN 978-1-74229-192-5 p16) Coles have recently claimed to have increased milk by a further 10% after implementation of their "Down Down" program if this is the case them the duopoly will have 70% of the market

Our belief is that ACCC has failed in a substantial fashion to maintain equilibrium of market share. The fresh milk market is now monopolise by one processor. It is alarming the implementation of the new Coles milk pricing arrangement given answers supplied to the Senate inquiry into the dairy industries in 2010. One can only assume they were somewhat loose with the truth.

It is our contention that serious consideration be given to the introduction and legislation of a regional farmgate price styled on the USA NE milk compact. This sets a farmgate price ands a retail market price of 200% the farmgate price. The farmgate is regularly reviewed and adjusted in line with costs and CPI. At present it is our opinion that farmgate price for FNQ be set at 69.8c/l. The farmgate price needs to be set at a level to sustain production but not sufficiently high enough to attract a need to produce milk excess to market milk requirement. Below is a summary of the legislation in USA North East

Milk Marketing Order http://www.agmkt.state.ny.us/DI/mpg_law.PDF

Nearly all milk produced by New York farmers is regulated under a Federal or State Milk Marketing Order. Market orders are voluntary programs that are initiated and approved by dairy farmers. Orders are enforced by State and Federal governments after farmers approve their establishment through voting in a producer referendum. Milk Marketing Orders enhance the orderly marketing of milk through terms and conditions that provide for minimum pricing, audits of receipts, disposition and payments for milk by handlers, and dissemination of market information. A system of classified milk pricing and market-wide pooling is used for cost uniformity among handlers and to yield an equitable return to all producers for the milk marketing areas. Market orders are periodically reviewed to ensure that they remain appropriate under changing economic environments.

The Division oversees the operation of the Western New York State Milk Marketing Order covering all or parts of 15 counties. The major population centers of Buffalo, Niagara Falls, and Rochester, NY are included in the State marketing area. The rest of the State is covered by the Federal Order that regulates the Northeast Milk Market Area.http://www.fmmone.com/

The Western New York State Milk Marketing Office receives monthly reports of receipts and utilization of milk by regulated dairy plants, computes monthly class and blend prices for milk, verifies the accuracy of dairy plant monthly reports and payments through field audit, and compiles monthly statistics for the market.

Due to the importance and complexity of the regulations, there is ongoing analysis and evaluation of the terms and provisions of the order as they affect or relate to changing conditions in the marketing of milk and dairy products

Milk Price Gouging Law, Retail Milk Price Survey & Oversight

The Division conducts a monthly retail milk price in cities across the state and oversees enforcement of the milk price gouging law 396-rr of the NYS General Business Law. This law protects consumers from excessively high retail milk prices. The Division calculates a "threshold" price each month as a benchmark for evaluating retail prices.

Retail stores that price above the threshold price may be subject to legal action based upon referral by our Department to the Attorney

General if they cannot establish that the prices they charge are justified by actual costs. The threshold price is a price that is 200 percent of the farm price for Class I milk. Monitoring retailer's compliance with the law has been primarily carried out through milk price survey data of supermarkets.

It is our contention that this form of pricing will help remove the price differential between genic branded milk and branded milk. Our reasoning is that for supermarket to try and differentiate their brand from other will require for them to take a lower profit margin as the processing costs for both types of milk is basically the same. It will also reduce waterbedding by processors allowing smaller stores to compete on price with larger supermarkets.

At present FNQ farmers are paid on a two tier bases. Tier 1 price at present is 47c/l with a distinct possibility of reducing to 45c/l. The tier 1 price is paid for fresh market milk. Tier 2 milk is paid on a varying monthly rate ranging from 28c/l to 44c/l with an average 12 month price of 33c/l. This is below cost of production. This milk is not wanted by National Foods and is used to manufacture cheese. Futher demands imposed by National Foods are for a flat supply line with no seasonal variation imposing further cost demands on farmers. With only one processing plant in FNQ National Foods hold the whip hand and dictate terms with very little consultation. **There is no competition in the milk market in FNQ**.

The average dairy farm in FNQ was valued at $3.7m with an average volume of 1.1ml of milk however **return on investment is .7%**. Many farmers do not carry superannuation. Government also needs to recognise that prior to the sale of Dairy Farmers to National Foods farmers and their banks saw the supply of milk as security and equity in their farm. Asset value rose accordingly with farmers intending to use the increase in asset value as superannuation. However with the introduction of 2 tier supply and consequent reduction of 50% in milk allocation farm value has diminished in Far North Queensland by 66% and banks have written down the milk supply value. The reduction of asset value has resulted in banks moving to force farmers to increase their security value to cover the perceived reduction in farm equity ratio. Government needs to realise that many farmers are only paying interest and not principle on their farms and are relying on increase of their farm value as their sole availability to funds for further security for hard times.

There are unconsidered knock on effect that will result in possible cost to government if the dairy industry fails.
James Cook University has a campus on the tableland for large animals as part of their accreditation for their Veterinary science degree. If this large animal access is lost then this section of accreditation will be lost.
Due to the high average age many farmers will be unemployable and social security will be required.
Many farms growing grain for dairy feed will loose their market. They will move to grow another product in competition to existing growers causing an oversupply and distorting another market.

Yours truly,
Allan Baldey/Dan Portegys