TO WHOM IT MAY CONCERN

28/2/11

I write to make the Committee aware of my, and farmers in my area, concerns about the viability of the dairy industry into the future.

The dairy industry in Far North Queensland just before deregulation of the industry on 1/7/2000 consisted of 185 farmers producing about 132 million litres of milk. The milk that went into a bottle was designated "market milk" for which we received 58.9 cents/litre base price. This price was set by the Queensland Government committee after all issues were considered.

Today the industry consists of 60 farmers supplying an estimated 68 million litres of milk. For the quantity of milk going into a bottle we will receive a base price of 47 cents/litre. This price is the outcome of collective bargaining between National Foods and the Dairyfarmers Milk Supply Committee, it was absolutely the best price achievable at the time of the negotiation.

For milk that doesn't go into a bottle, the milk is made into cheese, butter or sold onto another processor. At the moment(and before deregulation) milk is being made into cheese and butter and the return for that is coming back to farmers at what is termed, Tier 2 pricing. In the 2010/11 year the price varies from month to month from 28cents/litre to 40 cents/litre to give a numerical average of 33 cents/litre, but in actual payments, the average is likely to be lower given the lowest price is at the time of highest production and the highest price is at the time of lowest production.

While collective bargaining has been approved and is being implemented, the size of the entities with which collective bargaining groups need to negotiate creates its own problems. Market intelligence (the cost and access to it), the fact that both National Foods and Parmalat (the two major liquid milk companies in Australia) at the moment have an over supply of milk to meet the liquid milk market and a lack of both infrastructure and will to deal with the oversupply create a considerable problem for the collective bargaining groups.

The Queensland industries benchmark of cost of production is a system called Queensland Dairy Accounting Scheme, QDAS, it has been used for many, many years. Last year the figures for Far North Queensland showed a total cost of production of about 55 cents/litre and a return on capital of about 0.7% for those farmers who participated, the farmers who normally participate are the progressive farmers in the area.

Would you invest in an industry that returns less than total costs and returns less than one percent of investment?

At this point of time 55 million litres of the expected 68 million litres production to the Malanda factory will be paid for at Tier 1/market milk price, the balance at Tier 2/manufactured milk price. The indication is that from 1/7/11 the required Tier 1 volume will drop into the low 40 million litre range(has yet to be determined) due to the loss of the Wooworths generic milk contract from National Foods to Parmalat. This milk is being produced and processed in Southern and Central Queensland and freighted into Far North Queensland while the milk produced in Malanda is diverted to cheese and butter. This drop in Tier 1 volume has the potential to threaten the viability of the Far Northern industry.

Has deregulation worked? Farmers are receiving less, milk is being freighted across the State, the supermarkets are using their market position to dictate to processors and through them to the farmers. The industry has shrunk and is on the verge of extinction.

The current price war which was initiated with Coles dropping milk to $1/litre on 26/1/11. They have stated that this will not hurt farmers, that they have paid the processors more. While their press release is correct and true as far as it goes, it is not THE truth.

Coles decision has shifted sales of milk from branded product(even while decreasing the branded price to try to compete with the generic prices)to generic product. It has shifted sales of milk from small corner stores, service stations and independant grocery stores to Coles and Woolworths. As the processors are making less profit(due to the reduced prices for branded product and reduced volume of branded sales) in the NEXT round of farmer contract negotiations, the processors will be forced to offer less price for Tier 1 milk. Coles has steadfastly refused to guarantee that the price offered to processors next time round will not be lower than this time. Coles also offered West Australian farmers(through Peters and Browne- the processor that supplies the generic milk in WA) 5 cents/litre extra- if Coles is not affecting the farm gate price, why did they do this? Peters and Browne have, I have heard, refused to pass this to the farmers as they are not making a profit supplying the milk at the current price they are receiving at the present time.

Coles is saying that milk price to farmers has risen in the past twelve months. This is not true. In the States that produce mainly market milk(mainly Queensland and New South Wales), the price has actually dropped. In the States that produce mainly commodity products, cheese, butter, powders, the price has improved due to a higher world price and the flow on effect of that to the farming sector.

The price war is intended, I believe, to shift sales to the two big retailers at the expense of the smaller retailers in the community. At a time not too far into the future, the big retailers will put pressure on the processors, and so the farmers, to gain back their profit margin.

Milk is a relatively inelastic product, just because the price decreases sales do not rise in relation to that. We are seeing a redistribution of sales into the generic sector, not a growing of the category as a whole.

The Senate Enquiry held into the dairy industry in 2010 came out with some 16 recommendations. Some of these were well thought out and it is believed they would have been beneficial to the industry, some were alright and some are believed to be no help. I don't think it is worth commenting except to thank the Senators, and their staff involved, and the people who put in a submission because not one recommendation has been implemented, not one follow up that was asked for was actioned. Why was it held if nothing was to come of it?

I would ask the Senate Enquiry now convened to accept that our industry is in a precarious position. We are a market milk supplier, an industry that exists in regional areas to supply fresh milk, every day, to the 96% of Australians who use it, everyday. Our production is every day, whether hot, cold, wet, dry, cyclone, flood, frost or drought. Our cost of production is higher than the dairy commodity suppliers in Southern Australia who calve on a seasonal basis to make the most of climatic conditions to produce milk at the cheapest time of production to provide milk to be processed into products that can be stored and sold at an opportune later date.

We ask that a minimum farm gate price be set. The processors can then supply the branded product to the market and the generic product to the retailers to be marketed as they see fit. The processors will be using their business acumen to work out the pricing structure on a farm gate plus margin basis.

A cap on the retail price could protect the consumer. If this was set as a multiple of the farm gate price, as a maximum retail price, the farmers would be protected, the retailer would be protected and the processors and retailers can work out their positions. A win:win:win situation. Cheap milk will still be capable of being in the market but without the retailers pressurising the system using their extreme(and growing) market share in the grocery sector to drive down prices to the processors and farmers.

I ask that the Senate Enquiry work with industry to establish a working group to progress the concept above to save our industry, to write and secure passage of legislation to secure the supply of fresh milk to Australian consumers, to help the communities in which we do business survive and to provide balance in the equation between farmers and the corporate world where the two big milk processors and two big supermarket chains wield their power.

Yours sincerely,

James Geraghty