

Kevin Ashworth

I grew up on dairy farms in and around Warrnambool, Western Victoria.

### **Response to Saving Australian Dairy Bill 2019**

It is with concern that I read Schedule 1 Part VII B 95ZRA, 95ZRB, 95ZRC & 95ZRD of the Saving Australian Dairy Bill 2019.

Whilst I support Government intervention I fear that this document could have some of the unintended consequences listed below

1. If the cost of production + cost of collecting, processing and selling milk is > than the cost of importation of similar products or the importation of ingredients to produce similar products the dairy industry will be seriously compromised.
2. If the cost of production + cost of collecting, processing and selling milk is > than the processors costs of operation then this will force the processor to make economic decisions about their sustainability.
3. No-one is held to account for viability.
4. Over production will eventuate as situations take advantage of milk prices. With no accountability held against the farmer, they will be encouraged to capitalise on this cash-cow.
5. Reference to the New Zealand Commerce Commission as a working example of the concept of calculating the cost based milk price may be misguided due to the logistics of both countries, there is one major processor in New Zealand showing a weighted advantage, where Fonterra processes about 95% of the milk production, compared to numerous processors in Australia who have no weighted advantage.
6. A base milk price for a specified area as calculated by the ACCC would appear to be most difficult given the different business structures of Australian processors. ie: how

is the price to be determined if one specified area is serviced by two processors that market different products.

7. Where will the ACCC source its information? In response to my submission to the Performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000, Dairy Australia has already confirmed that any data collected and published is flawed<sup>1</sup>, as the key data provided by farmers and processors is provided on a voluntary basis.
8. To force a processor to not acquire milk for less than the base price is detrimental to the very concept of free market supply and demand, and sets the precedent for other businesses to demand the same rights.
9. Forcing this cost base in this form will see those products, claimed as 'milk' such as soy and almond, take advantage of the situation.

**Part 95ZRC Commission to consider certain matters in determining base milk price**, is of particular concern.

For some reason it is held, totally false, that dairy farmers and processors are one and the same. To be fair, based on what has been presented by the industry bodies, this would appear to be the case. Over time the lines between farmers and processors have definitely been blurred by those seeking to advance their own career and agenda, allowing the industry bodies to be greatly dominated and influenced by the processor.

This needs to stop, there needs to be a clear distinction between the two concepts, dairy farmers are price takers, they convert plant based products into raw milk, that's it, period, they can no more add value to their product than they can export direct to markets on an individual basis and take no further part in the process chain, processors are price setters, they convert raw milk into different marketable commodities, they have no concerns nor hold any commitment to the farms processing raw milk other than certainty of supply.

### **Resistance to a Sustainable milk price.**

In December 2019 there was the release of the Australian Dairy Plan – Draft for Feedback<sup>2</sup>. The four industry bodies driving this report, Australian Dairy Industry Council Inc., Dairy

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<sup>1</sup>[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Rural\\_and\\_Regional\\_Affairs\\_and\\_Transport/DairyIndustry/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/DairyIndustry/Submissions) Source: Dairy Australia's response, Submission 25, Page 4, point 1.3 Accuracy of statistical data, dated 10 January 2020, Accessed 22/01/2020

<sup>2</sup>[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwjOj-jzgK\\_nAhVT4jgGHYxmCK4QFjAAegQIBRAB&url=https%3A%2F%2Fwww.dairyplan.com.au%2F-%2Fmedia%2Flandingpagebuilder%2Fdairy-plan%2Fdocuments%2Fdraft-plan-dec-docs%2F157521-adp-draft-for-feedback-d5-1206final-version.pdf%3Ffla%3Den%26hash%3DA583F0823241DA9104AC5ABB391CEDFE073FD12F&usg=AOvVaw2EGhl-Rwghu4nOHOKo0ZAK](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwjOj-jzgK_nAhVT4jgGHYxmCK4QFjAAegQIBRAB&url=https%3A%2F%2Fwww.dairyplan.com.au%2F-%2Fmedia%2Flandingpagebuilder%2Fdairy-plan%2Fdocuments%2Fdraft-plan-dec-docs%2F157521-adp-draft-for-feedback-d5-1206final-version.pdf%3Ffla%3Den%26hash%3DA583F0823241DA9104AC5ABB391CEDFE073FD12F&usg=AOvVaw2EGhl-Rwghu4nOHOKo0ZAK) Accessed 07/12/2019

Australia, Australian Dairy Farmers and the Australian Dairy Products Federation held, on page 8, that there is support for the setting of a minimum milk price, all be it, not their intention, by recognising that the processors have limited ability to influence the farmgate milk price.

The Australian Dairy Plan commissioned a Joint Transition Team<sup>3</sup> to provide recommendations on the reform of dairy industry structures. Note: each of the team members are either present or past members of industry and or government bodies, disappointingly, there is no farmer, in the pure sense, representation.

The Joint Transition Team Report<sup>4</sup> was released on the 29 January 2020.

On page 12 the JTT made their position clear, they will not support a minimum milk price.

*'Some ADP consultations and submissions received by the JTT raised the question as to where milk pricing would fit into the new model. The JTT considered this question carefully and believes that decisions about milk price are fundamentally a commercial matter between buyer and seller. Therefore, milk pricing issues are best resolved through negotiations between the businesses concerned.'*

To reiterate, without government intervention there will be no dairy industry. Senator Hanson stated in her explanatory memorandum that the purpose of this legislation is to ensure the viability of the dairy industry, the ones that need to be convinced are the industry bodies themselves.

### **Concept of a Sustainable milk price.**

I propose the same concept as Senator Hanson but from the other direction. Dairy farming is a basic concept that's been corrupted by those outside the business seeking to profit for themselves. It's time for a correction.

For the last three years I have been developing a concept for a bottom-up economic process to calculate a sustainable milk price. This is a concept at the moment open for discussion and are as follows,

- Dairy farmers are held accountable through the use of benchmarks to reinstate best practices.
- Benchmarks for each specified area will be required.
- Information for the ACCC comes from accountants. Dairy Australia, as stated above, has already acknowledged that the information they provide is flawed, this cannot be so for accountants as the data is the basis of tax returns.

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<sup>3</sup> <https://www.dairyplan.com.au/joint-transition-team>. accessed 01/02/2020

<sup>4</sup> <https://www.dairyplan.com.au/key-documents>. Accessed 29/01/2020

- Use the profit and loss report to establish the cost per unit to produce kilograms of solids, fat and protein. This can be as simple as a pro forma spreadsheet that calculates the cost of production per unit.
- Use the operational costs, with the exclusion of any financial costs, and including a profit margin to ensure survival of the industry. This guarantees the base milk price is calculated based on commercial reality.
- Acknowledge that there are farmers who make good profits under the existing system, use these farmers as case studies.
- Those farmers who attain the benchmarks receive only the difference between the government calculated base milk price and the milk price offered by processors.
- Those farmers who don't attain the benchmarks receive only the milk price offered by processors.
- This payment would replace any existing primary producer's government support in the form of assistance, grants, subsidies and or tenders.
- The eventual aim is to not have Government support, excluding extenuating circumstances, as farming practices reach peak efficiencies.

#### Benefits to the farmer,

- security and peace of mind,
- not obligated to be pressured by processor,
- increased spending in rural communities,
- increased employment opportunities.
- processors should offer a higher milk prices in order to secure product when they need it.
- Farmers are still held accountable for their own viability

#### Benefits to the Government,

- stops farmers from taking advantage of the milk price through overstocking, under producing etc
- better utilisation of agricultural land
- farmers still held accountable for their own actions,
- profits and progress can be measured,
- the best level of accuracy is available for ACCC and ABARE
- the information and data collected is not tainted by bias from industry bodies
- relevant information available to support any Government inquiry of processors