Hon Tim Mulherin MP
Member for Mackay

Reference: **CTS 01574/11**

Queensland Government

Minister for Agriculture, Food and Regional Economies

11 APR 2011

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra Act 2600

Dear Sir/Madam

Thank you for the opportunity to provide a submission to the Senate Standing Committee on Economics' inquiry into the impacts of supermarket price decisions on the dairy industry.

The Queensland dairy industry is important to the Queensland economy, supplying fresh food to consumers and creating jobs throughout regional and rural Queensland. The Queensland Government has an interest in all aspects of the market operations relating to the dairy industry. In particular, the stability of the Queensland dairy industry and the flow-on effects to industry employment and security of fresh milk supply.

This submission focuses on the farm gate, wholesale and retail milk prices and the 2010 Economics References Committee report.

Farm gate, wholesale and retail milk prices

The government does not have a role in commercial negotiations between farmers and processors. However, the farm gate prices for milk are of concern to the dairy industry in Queensland.

Queensland's dairy industry accounts for approximately five percent of Australia's dairy production. The Queensland dairy industry in 2010/2011 is producing around 530 million litres of milk, worth some $280 million at farm gate. The majority of milk produced is sold to one of three main processors - Parmalat, National Foods or Norco. In Queensland, a very high proportion of milk production (approximately 95 percent) is used in the drinking milk market. Dairy farms are required to supply milk all year round to meet fresh daily drinking milk market demand.

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Major retailers have reduced the retail prices of their 'private label' milk products to less than half the retail price of 'processor branded' milk products. This move will impact on prices paid to farmers for the portion of drinking milk sold as 'private label' milk. For example, Parmalat has part of their milk payment to farmers linked directly to the sales of the 'processor branded' milk. As a result of reduced volumes of milk being sold as 'processor branded' milk, payments to dairy farmers for the month of February have been reduced. The reduction in milk payments to farmers, coupled with the effects of flooding and cyclones, has the potential to reduce the viability of dairy farming businesses in Queensland. There is a risk that this will cause a loss in milk production within Queensland over the next twelve months and, as a result, place further pressure on the Queensland dairy industry to meet market demand for drinking milk.

'Private label' milk products offer lower margins to processors compared with 'processor branded' products. The rise in sales of 'private label' products over the last decade has affected dairy industry returns from domestic sales of milk products. In Queensland, retail sales of drinking milk are the key influence on the regional market and farm gate prices. Negotiation of processor supply contracts with major supermarket chains will influence the prices offered in contracts to producers. The medium term uncertainty on future prices paid by processors, as a result of the current retail price war, is extremely worrying for dairy farmers. It is anticipated that profitability of dairy farms in Queensland will reduce as a result of lower farm gate prices.

Profitability throughout the supply chain depends on fair pricing and contract arrangements and it is essential that this is not negatively impacted by retailer price decisions relating to the dairy industry. The longer term impact of the current retail price war could lead to a reduction in the overall retail value of drinking milk, which may lead to reduced margins and income for a wide range of businesses involved in the drinking milk supply chain in Queensland. Some farmers and businesses may be forced to leave the industry.

2010 Economics References Committee report

The Queensland Government agrees in principle with the recommendations of the 2010 Economics References Committee report, *Milking it for all it's worth – competition and pricing in the Australian dairy industry*.

Summary

The Queensland government supports referral of the recent decision by Coles Supermarket to heavily discount the price of milk and other dairy products to the Australian Competition and Consumer Commission to clarify whether such a price reduction is anti-competitive. The government is concerned on the impact this activity will have on the long term viability of the dairy industry, which could adversely affect the availability of fresh milk to Queensland consumers.

Yours sincerely

TIM MULHERIN, MP
Minister for Agriculture, Food
and Regional Economies
Member for Mackay