

Chapter 1

Introduction

1.1 The retail market for milk in Australia has become more concentrated and, partly as a consequence, so has the wholesale market. This means that farmers, lacking countervailing market power, are at a competitive disadvantage. The result has been that retail prices for milk have increased while farmgate prices have been subdued, and in some recent cases pushed down to or below the cost of production. Concerns about Tasmanian dairy farmers apparently suffering from abuses of market power led to this inquiry. But while the impetus was the dairy industry, the issues are common to many other sectors of the economy where the retail market is also becoming increasingly dominated by generic products sold by the two main supermarket chains.

Referral of the inquiry

1.2 On 10 September 2009, the Senate agreed to refer the issue of competition and pricing in the Australian dairy industry to the Economics References Committee for inquiry. The terms of references were:

The current circumstances of the varying prices being paid to dairy farmers in different Australian states, including:

- the economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors;
- the impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry;
- the impact of the consolidation of the ownership of the market or drinking milk sector with the manufacturing milk sector on milk market conditions in the dairy industry;
- the impact of the concentration of supermarket supply contracts on milk market conditions;
- whether aspects of the *Trade Practices Act 1974* are in need of review having regard to market conditions and industry sector concentration in this industry; and
- any other related matters.

1.3 The Senate initially asked the Committee to report by 28 February 2010, but this was extended, initially to 18 March and finally to 13 May 2010.

Conduct of the inquiry

1.4 The inquiry was advertised in both *The Australian* and on the Committee's website. The Committee also wrote to a range of stakeholders inviting written submissions. The Committee received 34 submissions. The details of the organisations and individuals who made those submissions are listed at Appendix 1.

1.5 The Committee held five public hearings, in Launceston, Burnie, Melbourne, Perth and Canberra, at which it heard from all sectors of the industry including individual dairy farmers, dairy and retail industry associations, local, state and federal government representatives, academics with particular interest and expertise in dairying and competition policy, processors and the two major retailers. A full list of witnesses is at Appendix 2.

1.6 The Committee thanks all those individuals and organisations who contributed to and participated in the inquiry process for their valuable input.

1.7 Throughout the early stages of the Committee's inquiry, issues of interest were concurrently being considered by the Select Committee on Agricultural and Related Industries in its inquiry into food production in Australia. Their findings in relation to the dairy industry were tabled on Friday 27 November 2009 in a Third Interim Report. The material collated throughout the course of that inquiry and which relates to the terms of reference of this committee has also been referred to in this report.

Structure of the report

1.8 This report is divided into the following chapters:

- Chapter 2 sets the scene by describing the structure of the dairy industry in Australia;
- the pricing of milk, at the farmgate, wholesale and retail levels, is described in Chapter 3;
- competition issues are discussed in Chapter 4;
- arising from this, improvements are suggested to the negotiation processes between farmers and processors in Chapter 5; and
- other matters, including food security and strategic plans, are addressed in Chapter 6.