Australian Dairy Farmers

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

Dear Sir/Madam,

RE: Saving Australian Dairy Bill 2019

Thank you for providing an opportunity for response to the proposed Saving Australian Dairy Bill 2019 and granting our organisation an extension to the 14 February 2020 deadline for submissions. As the peak body representing Australia's dairy industry it is critical the committee understands our position on each of the Bill's schedules.

Schedule 1 - Empowering the Commission to determine a raw milk price for a dairy season by regional area.

This proposal is not supported.

If a minimum price was set above the market clearing rate:

1. it would incentivise producers to increase production to obtain more revenue
2. customers would lose by paying a higher price or dropping out of the market
3. producers would also lose because gains obtained from customers paying a higher price are offset by loss of sales (customers who dropped out will now be purchasing alternatives like cheaper imports) and increased capital costs (debt incurred from production expansion which can no longer be serviced from the loss of customers).

These dynamics diminish incentive to innovate and improve productivity across the supply chain. More importantly they undermine profitability and international competitiveness as consumers and processors source alternate suppliers e.g. NZ dairy and substitute products e.g. plant-based alternatives.

There are a number of market failures that exist in the dairy industry:

1. The ACCC found farmers have a lack of information with regard to contracts and pricing. To address this deficit, it made eight recommendations to improve contract management behaviour and price transparency. The ADF has not only supported all of the ACCC's recommendations it has been leading their implementation. This has been demonstrated in the development of an industry led ACCC Dairy Inquiry implementation plan, mandatory code of practice and other initiatives, in particular the government's $22m Dairy Support Package.
2. Domestic support and other trade barriers are a negative externality. Australian dairy farmers are losing markets due to unfair foreign policy and competition. ADF, through the Australian Dairy Industry Council, released a Federal Election Policy Statement placing a significant focus on resolving these inequitable distortions.
3. Inappropriate setting of prices by Australia's major supermarkets are also a negative externality. This has led to farmers supplying the domestic market all year round having their margins squeezed to the point they are forced out of the industry. The Food and Grocery Code provides an opportunity for government to reposition the retailers towards market led regional pricing and appropriate value distribution across the supply chain.

Delivering these actions alongside other recommendations in the dairy inquiries conducted by parliament and industry over the past ten years is what is required to restore dairy farm profitability and sustainability. Introducing any form of price control is inconsistent with these initiatives. Imposing floor prices by region undermines Australia's international trade obligations e.g. Cairns Group and is inconsistent with some sections of the Australian Constitution, in particular that trade within the Commonwealth is to be free (Section 92) and 'the Commonwealth shall not, by any law or regulation of trade, commerce, or revenue, give preference to one State or any part thereof over another State or any part thereof' (Section 99).

Schedule 2 – Authorisation of a Productivity Commission inquiry into a divestiture regime

This proposal is not supported.

Since the introduction of $1 litre milk in 2011 ADF and its state members have consistently argued that using fresh milk as a discount marketing agent by the major supermarkets to increase sales of their own private label brands is unsustainable for the dairy industry. Retailers and ACCC have consistently emphasised the domestic retail price do not determine the farm gate price. This is disputed by industry on the grounds that having fresh milk set at an extremely low (near cost) price and fixed for almost a decade significantly limits capacity for price increases back up the dairy supply chain. While retailers and a lesser extent, processors, bear the greatest profitability impact, they are able to offset these losses via margin gain on other products. Dairy farmers have no options. They are price-takers and only have a single perishable product to sell.

Over time processors have pushed farmers towards all year-round production to supply more of their domestic than international markets. This has increased farmers' production costs at a time when they are already confronted with increasing costs arising from climate change, drought and other drivers. The 10-cent per litre price increase by retailers to some of their home brand fresh milk varieties in February 2019 (a move from $1 to $1.10 per litre) was intended to provide temporary relief until broader structural reform occurs in the industry. This has had limited effect because:

1. around 10 per cent of dairy farmers supply this product
2. it does not apply to other discounted dairy products on the retail shelf
3. it continues with fixed pricing, which doesn't reflect supply/demand or inflation changes
4. places trust in the retailers to pass the levy through to farmers – a task they, in particular Coles, has demonstrated not to be capable.

The independent review of the Food and Grocery Code said 'the price rise process was contributing to a distinct lack of trust between the parties. However, there is an opportunity for the Food and Grocery Code to set the outer boundaries on retailer conduct during the price rise process to restore trust and confidence between the parties – it is essentially a matter of fair dealing.' Rather than conduct a Productivity Commission inquiry into a divestiture regime amendment to the Food and Grocery Code can resolve this situation. Essentially the wording needs to:

1. Abolish fixed pricing of dairy products; replacing it with prices determined according to demand and supply fluctuations.
2. Establish a universally agreed percentage pass through margin for farmers to remain viable and sustainable.
3. Enshrine the ACCC's 'Dairy Specialist' role as a position of oversight and advocate on the dairy farmers behalf.

As these actions will take time to implement, they will do nothing to resolve the current situation. To stop the farm exists and hardship the retailers need to temporarily increase the price of their home brand retail fresh milk to $1.50 per litre with the increase (50 cents per litre based on the original $1 litre milk) going back to dairy farmers via their processors. This can be implemented immediately and should stay in place until the changes to the Food and Grocery Code are made.

If the committee requires further information on the above please contact Mr Craig Hough, Director Strategy and Policy on (03) 8621 4206 or chough@australiandairyfarmers.com.au

Yours sincerely,

Terry Richardson
President
Australian Dairy Farmers