

9 February 2024

Select Committee on Supermarket Prices
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ADF Submission: Senate Select Committee on Supermarket Prices

Dear Select Committee,

Australian Dairy Farmers (ADF) is grateful for the opportunity to make comment on the Terms of Reference of the Senate Select Committee on Supermarket Prices. ADF is the peak Industry Representative Body (IRB) for dairy farmers across all of Australia's dairy producing States.

After reviewing the terms of reference of this committee, ADF wishes to draw attention to a number of concerns, including a risk of potential unintended consequences/perverse outcomes that could arise if the price of raw milk paid to producers (farmers) inadvertently becomes the casualty when the focus should be on supermarket retailers.

In order to run effective businesses, dairy farmers need a strong, competitive and transparent marketplace to drive greater milk production and ensure milk capacity is fully utilised.

Nutritional Value of Dairy Products

Dairy, particularly liquid milk remains a staple food item in the majority of Australian households delivering one of the highest nutritional benefits to consumers for dollar spent. Numerous studies have demonstrated the health benefits of dairy products, with its daily intake being a recommended component of most dietary standards.

While it is well understood that dairy intake is associated with greater overall health and wellbeing, research continues to emerge demonstrating just how important it is to preserve health and wellbeing across the lifespan.

By way of example, a 2021 study published by researchers at Monash University further demonstrated the importance of increasing dairy in the diet to the minimum national standards, crediting an increase from 2 serves to 3.5 serves per day responsible for reducing all fractures by 33%, hip fractures specifically by 46% and falls by 11% in aged care residents¹.

ACCC Dairy Code of Conduct

Acknowledging the significance dairy plays in a well-balanced and nutritional diet, dairy product prices (and in particular raw milk prices) and other staple household food items are often the focus of the debate in inflationary periods.

ADF is concerned that certain groups are opportunistically endeavouring to utilise recent media surrounding the cost of living and the resultant Supermarkets Senate Select Committee and ACCC Supermarkets Inquiry, to suggest that the ACCC Australian Dairy Code of Conduct (the Code) is a causal effect of higher **retail** milk prices or the cause of the differential between domestic Australian dairy prices and the price of cheaper dairy imports from overseas.

ADF considers this position to be misleading, explicitly misrepresenting and confusing a number of issues, including the purpose of the Code, how milk prices are set and underlying world supply and demand. Despite pressure in recent months to lower the cost of essential items such as raw milk, farmers and the Code are not responsible for setting the prices farmers receive for their product.

¹ Luliano S., et al. 2021, 'Effect of dietary sources of calcium and protein on hip fractures and falls in older adults in residential care: cluster randomised trial', doi. <https://doi.org/10.1136/bmj.n2364>

Efforts by some parties to suggest the Code is responsible for inflating the market and high shelf prices for dairy products is misleading, as the Code does not set prices – the Code adds rigour to contracts.

The Code was introduced after the devastating behaviour of processors in 2016, when payments to farmers were ‘clawed back’, resulting in one of the biggest industry crises and many farmers leaving the industry contributing to a reduced supply. Furthermore, supermarket driven price reductions of raw milk to a \$1 a litre (and the flow on implications to farm businesses) in 2011, also resulted many farmers exiting the industry.

Despite farmers receiving better prices in recent years, a slight decline in the national milk pool remains. Hence, it is crucial that a reactionary or simplistic measures are not imposed that will exacerbate an already complex and multifaceted issue.

Additionally, ADF notes that numerous enquiries have found that the Code has not lead to a lessening of competition, including the Senate inquiry into the dairy industry and the ACCC’s perishable goods inquiry².

Declining Milk Pool – Food Security

As noted above, ADF and the broader industry is concerned regarding the decline in domestic milk production within Australia.

This trend is observed despite strong consumer demand within Australia for Australian products. Figure 1 to the right depicts the downward trend being observed over the past 10 years.

Significant concern for a stagnating or declining milk production was noted by the Standing Committee on Agriculture’s November 2023 report into the food security of Australia³.

It was highlighted the dairy was one of two production sectors that the Committee considers need particular attention from government, recommending that the:

“Australian Government, as part of the National Food Plan, and in conjunction with industry, develop a specific strategy for reinvigorating the Australian dairy industry, one which lifts profitability and production while addressing the economic and environmental sustainability of the industry, and identifies the resources and pathways required to achieve this”³

It is clear from this recommendation that the industry needs to be supported in a pursuit to maintain and grow the domestic milk production. ADF are concerned that a focus on altering the code, or a simplistic focus on retail pricing without regard to the price of raw milk paid to dairy farmers, will have the unintended consequence or perverse effect of exacerbating the decline in Australia’s domestic milk supply.

If such measures are implemented or imposed, Australia run the risk of hastening exits in the industry and further increasing the country’s dependence for what is an essential food item on imported dairy products – and with it an enhanced vulnerability to the vagaries of the international marketplace including demand from large overseas dairy importing countries, such as China.

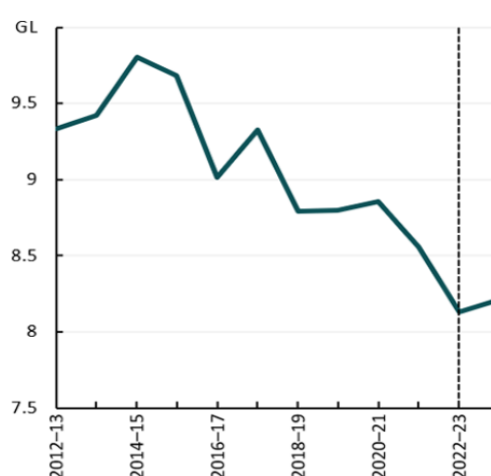


Fig. 1 – Average annual Australian milk production volumes (source ABARES; Dairy Australia). Data to the right of the dotted line indicate forecasts.

² ACCC 2020, ‘Perishable agricultural goods inquiry’, <https://www.accc.gov.au/system/files/Perishable%20Agricultural%20Goods%20Inquiry%20-%20Final%20Report%20-%20December%202020.pdf>

³ Parliament of Australia, 2023, ‘Australian Food Story: Feeding the Nation and Beyond – Inquiry into food security in Australia’, pg. xx, [Australian Food Story: Feeding the Nation and Beyond \(aph.gov.au\)](https://www.aph.gov.au/Australian_Food_Story_Feeding_the_Nation_and_Beyond)

Food and Grocery Code – Mandatory

ADF recommend the focus of the Senate Select Committee should be on ensuring greater transparency and competition in the supply chain. ADF submitted to the ACCC during the Coles proposed acquisition of Saputo in 2023 the risks that would occur should that acquisition proceed.

Chief among these being that it would enhance supermarket retailer Coles already substantial market power through vertical integration and a lessening of price transparency and competition. The key incentive to supermarkets stocking products from competitor brands, such as Saputo, Bega and Fonterra, is the high retail margins earned on these products.

While this competition is crucial to supply chain viability, greater transparency and clarity on how prices are set including farmgate versus retail price disparities, would support greater transparency and competition across the supply chain.

ADF recommend as a result, and importantly support the ACCC's own findings from the 2020 Perishable Agricultural Goods Inquiry, that the Food and Grocery Code should be mandatory not voluntary².

ADF believes there would be multiple benefits to a mandatory code, particularly in the improvement of price transparency and competition within the Supermarkets sector to the benefit of farmers through to customers.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'B. Bennett', with a long horizontal flourish extending to the right.

Ben Bennett
President
Australian Dairy Farmers Ltd