South Australian Dairyfarmers Association
South East Branch
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Productivity Commission
Impact of Competition Policy Reforms on
Rural and Regional Australia

Dear sir,

Underlying NCP is the notion that competition will create incentives for improved economic performance..... Australian dairyfarmer are rated under worlds best practice at 120% Is a farmer who 20 years ago was milking 125 cows for an average of 132Kgs of butterfat (16500Kgs) and is now milking 220 cows with an average over 270Kgs of butterfat (59400Kgs), that is 360% increase or 18% per year, has this farmer not using their incentive and resources better. Would they if the price of milk or the market milk portion did not have a farm gate price structure. Could this improved performance have been possible in a deregulated speculative environment. Even with this production increase the return has not been equal, as the costs to achieve this have risen and the nett return is similar to twenty years ago. The work load has risen and the hours worked have increased which brings us to the following:-

PERSONAL / PHYSICAL / HUMAN COSTS OF DEREGULATION.

Many producers are trying to position their farms for the possible deregulation and lower milk prices that have occoured wherever deregulation has occoured. They are increasing out put at rates of 10 to 50% per year. To do this large amounts of money are being borrowed. Farmers feeling the pressure of the situation are working longer hours - some becoming physical wrecks. Some in this situation are paying interest only with no indication of when they may be able to pay off some principal. In this case the only way out seems to be to borrow more for more cows and with disposable income not likely to rise the luxury of employing staff to improve their life style a dream. If dairyfarmers become unviable, their farms usually become unproductive hobby farms.

ADFF President Pat Rowley talks about the profitless prosperity in the publics perception of the dairy boom : ABARE surveyed 43 SA dairy-farms in 96/97 year. Figures show a 1% return on capital at full equity. Boom is funded through borrowing by dairyfarmers trying to keep ahead of diminishing margins.

Dairyfarming and agriculture in general is the production of commodities and produce from the sun and the soil, not like a mine that can run out of ore, or a factory that only can produce if there are a supply of raw materials.

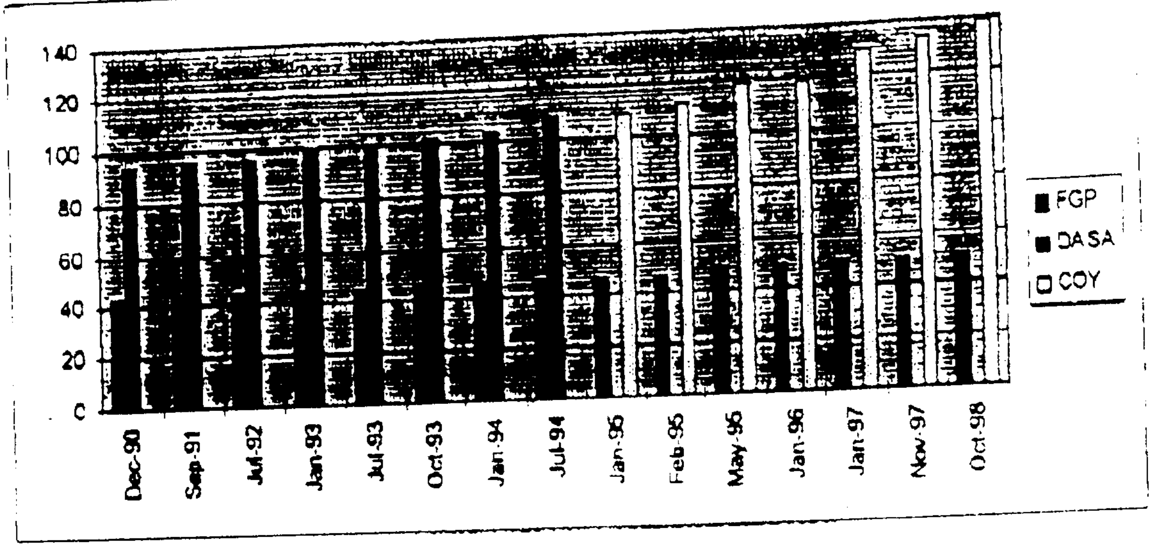

Figure 1

Data provided by Milk vendors Assn of SA, dairy Authority of South Australia)

The graph gives a vivid example of partial exposure of a rural industry and the consumer to the 'deregulatory effect of competition policy.

To June 1994 both the retail and farmgate price was 'regulated' under State legislation. The graph indicates a nexus between the farm gate, processor and retail price for a litre of white milk.

Since post farm gate deregulation this nexus has been broken. The farm gate price has increased from 46.29 cents per litre to 51. 12 cents per litre (4.83 cents). The (deregulated) recommended retail price has risen from 108 cents per litre to 138 cents per litre (30 cents). As a consequence both the producer and consumer appear to have suffered.

This simple example demonstrates the scope for statutory authorities to provide continued countervailing power against abuses of market power at both the processor and retailer sector.

Conclusion

In broad terms it is asserted that the exposure or potential exposure of rural industries to the full range of competitive conduct rules may not be beneficial to consumers and producers and may have a detrimental affect to incomes of producers.

DEREGULATED PRICING.

The retail price of milk in South Aust was deregulated and the graph shows the nexus between farmgate and retail price has been broken. From June 1994 to October 1998 the farm gate price has increased from 46.29 cents per litre to 51.12 cents per litre (4.83 cents). The deregulated recommended retail price in the same time has risen from 108 cents per litre to 138 cents per litre (30 cents) This shows that the producer and the consumer have suffered as a result.

On the 1st July 1998 NSW deregulated the retail price of milk in the expectations of cheaper milk. Since then the price of milk has risen by up to 3 cents a litre. Three months later the NSW Agriculture minister Richard Amery said deregulation of the fresh milk industry was a disaster for all but the supermarkets. who has reaped an extra $60 million profit in that three months.

Dairyfarmers Group Co-operative Chairman Mr Ian Langdon said in the third week of November his co-operative was no longer willing to sit on the sidelines and watch the dismantling of market milk regulations worth more than $400 million a year to the nations dairyfarmers.

This can be seen in the figures in percentage terms that are taken from local dairy farm in the Mount Gambier District if the farm gate price and equalisation of returns for market milk are removed in South Australia.

	96/97	97/98 yr to date
Market Milk income	40%	36%
At risk 1/2 Market Milk income	20%	18%
At risk Domestic Market Support	5%	5%
Total At Risk loss of income	25%	23%

These reductions in income would not be acceptable to the general populace so why should dairyfarmers accept it.

It was stated at a dairy conference in Adelaide this year that factories are up to 40% below worlds best practice. which is sharp contrast to dairyfarmers on 120% mentioned above. It is a known fact that if the [illegible] is having problems then the first place that is looked at is the input costs namely the price of milk from the farm. Regulation is safety net to the farmer and an incentive to processors to improve.

Dr Harm Schelhaas from the International Dairy Federation (IDF) Commission C working groups (Dairy Marketing, Economics and Policies) at the IDF Annual Sessions, held in Denmark in September stated, Sales of food, including dairy products are becoming dominated to an ever-increasing extent by a small number of large multinational supermarket chains. The major supermarket chains have gained in negotiating power towards the agriculture sector. In the US in 1980 37% of each consumer dollar spent on food went to the farmer, by 1997, that share had gone down to 23%.

In the Netherlands from 1992-1997, the dairy processing industry saw its food trade rise from NLG seven to 7.25, while the dairyfarmer share fell from NLG 7.15 to 6.55. In Britain over the past year the retail price of liquid milk has risen by .3%, while the price paid to the farmer fell by 12%.

Financiers from outside the co-operatives have no interest in high milk prices, only in a high return on their investment. This has a destabilising effect of the production of raw product namely milk.

Churchill Fellowship Marie Dilley has recently returned from the United Kingdom to study deregulation on the dairy industry had the following to say. "Across the board, consumers were paying more and producers were receiving less for milk while the profits of both processors and retailers increased. The UK deregulated in November 1994, with farmers managing fairly comfortably until this year when a dramatic drop in prices from 26pence/litre to 17.5 pence/litre occurred"

Such prices won't sustain production and projections show 2000 dairy farmers will leave the industry each year for the next five years.

"Despite the drop in raw product price, the price to the consumer has increased" Mrs Dilley said. "It is now estimated that 80% of all dairy product in UK is sold in supermarkets and that of the profit in a litre of milk , 50% goes to retail, 40% to the processor and 10% to the farmer."

Coupled with concerns for the domestic market are concerns for the fledgling export industry. "If we experience the same problems as UK, any sudden or severe drop in quantity of milk being produced will negatively effect export markets," Mrs Dilley said "It is only through the production of speculative milk that has no home to go to that exports can be developed. Take away a stable financial base, and that speculative milk goes with it."

In conclusion all indicators show that deregulation of the milk industry will not benefit the producer or the consumer, and will remove income regional and rural areas and in turn will effect employment and the much needed export income that Australia requires.