



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



**HOUSE OF REPRESENTATIVES**

**PROOF**

**PRIVATE MEMBERS' BUSINESS**

**Milk Pricing**

**SPEECH**

**Monday, 21 March 2011**

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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## SPEECH

**Date** Monday, 21 March 2011  
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**Questioner**  
**Speaker** Sidebottom, Sid, MP

**Source** House  
**Proof** Yes  
**Responder**  
**Question No.**

**Mr SIDEBOTTOM** (Braddon) (8.55 pm)—The dairy industry in Australia was deregulated by the former Howard government, which means that the government does not have a role in determining prices in the market. However, this government has supported the establishment of a Senate inquiry that will look at the recent changes to milk prices. It is a timely and appropriate way to expose a broad range of issues relating to this matter.

As part of this process, the ACCC is in contact with industry participants and is seeking any evidence that those industry participants can provide on this issue. The ACCC will thoroughly consider any evidence that it obtains. To maintain the independence of the ACCC, the Competition and Consumer Act prevents the government from giving it a specific direction in relation to the enforcement of competition law. The ACCC has advised that it is assessing the current pricing of home brand fresh milk by the major supermarkets, including whether it raises competition concerns under the Competition and Consumer Act.

The major supermarkets have been competing very vigorously on their 'own brand' milk prices recently. However, although consumers will get some price benefit for now, they could well end up in the future with fewer brands, with prices going up and with the possible loss of locally produced product. While strong discounting is good for consumers and is not necessarily anticompetitive, it should not be at the expense of dairy farmers. Indeed, the real effect may well bring fresh milk prices down to benchmark price levels for international commodity markets like skim milk powder.

Although I hear assurances from Coles that lower milk prices will not drive down farm gate prices for dairy farmers, I am very concerned—as are many others—that Coles' discounting has the potential to destabilise the fresh milk market totally and thus drive down incomes and returns to farmers. Coles may not see the farm gate impact immediately but, if it continues, it must flow through if only in the loss of contracts for those supplying other brands in the market which are under threat.

Milk is already undervalued in the marketplace. And why do we pay more for bottled water than we pay for fresh milk? According to National Foods in their Senate submission:

... the average price per litre for soft drink is about \$1.51 and the average price for bottled water is \$1.12.

When you compare the effort to produce a litre of milk this seems unfair. You have to grow grass, cut hay and silage, milk the cows, ensure they get in calf and so on, rain, hail or shine.

In the longer term I fear that this price war will reduce investment and innovation in dairy, because the industry is very capital intensive. Equally, as even Coles have publicly declared, milk processors must also ensure that lower milk prices are not passed on to our farmers.

I worry that what is happening will reduce the competitiveness of small stores in my region. Let's face it: Coles are all about getting market share for its brand, which will significantly drive out the competition. Logically, the whole Coles/Woolworths retail duopoly is against the interests of the food suppliers and farmers in Australia in ensuring a sustainable return comes back to farmers—contrary to claims by them of the opposite. One local milk distributor I have talked to has seen a 15 per cent reduction in milk sales to corner stores in two weeks. Unfortunately, he is now looking to sell his business.

Whilst I strongly support competition, discounting and lower prices for consumers, we also have laws that prohibit anticompetitive conduct, backed up by an independent regulator, the Australian Competition and Consumer Commission, to enforce these laws. Contrary to claims by Coles the milk price war or 'bigger market share war' may well reduce competition from other milk brands. Betta Milk, for example, with around 30 per cent of the local Tasmanian fresh market are a locally owned and operated business. Coles' action could send them to the wall. Is that what we want as a society—for the small processors to go out of business and for us to become totally dominated by large overseas businesses just interested in making a profit, with no consideration for the diverse and regional businesses that support our dairy industry? The fact is that Coles are using their market power to control an essential and basic commodity and push the smaller operators to the brink.

Prospects for the dairy industry in fact are very positive in my region. Only nine per cent of my region's milk goes into fresh milk markets. Tasmania

will be less affected by the fresh milk price discounting impact because we are focused on export products. However, the impacts will be indirect through the viability of the farmers producing milk for the fresh market being squeezed on the margins for other companies and then back to their farmers. But high-cost production areas are most at risk in Queensland and northern New South Wales and, along with others—including the mover of the motion—I am very concerned for their futures.

In Tasmania the dairy industry is very important, and especially in my region. Work at Climate Futures Tasmania and TIAR show that under climate change scenarios Tasmania will be growing more grass and be very attractive for dairy production. Last year Tasmania produced 673 million litres of milk, and 60 per cent of this was in my region—the Cradle Coast region. That is 270 out of 440 dairy farms. This year milk production has grown by around four per cent in the year to date to December—it was the only region to show growth again. Tasmania now produces 7.5 per cent of national milk production, and this share is growing. Tasmania is the only region I know with growing milk production. In the last 10 years Tasmanian milk production has risen by 10 per cent and national production has fallen by nearly 20 per cent. Farm gate milk production income was some \$250 million for Tasmania in 2009-10. That is a considerable contribution to the Tasmanian economy.

Price is dictated by export returns, with Fonterra being the main company. Fonterra's milk price is the same as in Victoria, which is a competitive market with Murray Goulburn, Warrnambool Cheese and Butter and other companies. Farmers have always received a variable price depending on the export market returns at the time. Importantly, Tasmanian dairy farmers are the most cost-efficient producers in the country. However, recent growth and expansion has come at the cost of higher debt levels, and this has created some financial vulnerability for the industry. This makes farmers vulnerable to price shocks, and price shocks are what we are experiencing now in the price of milk in our supermarkets.

I would add a word of caution: of course consumers benefit from price reductions, and certainly most immediately. I have read, in part, the Coles submission to the inquiry now before the Senate. In it they make the case that we should look to, for instance, the milk processors to see what part of their profit margins should be shared more fairly and known more publicly by consumers. But the market power of this massive duopoly that is taking place is extraordinary, and their powers are extraordinary. The fact is that the horse has bolted: that is the problem in Australia. If we had added antitrust laws—something like those in the

United States—then we would not be in this position. I think that the onus of proof has to be on the major supermarkets; that they are indeed not affecting the price of milk to our farmers and to our suppliers.

So to those people who are enjoying reduced milk prices; that is all well and good. But we have to be fairly sure in our own minds that those prices are not going to have a detrimental effect into the future, where they not only affect the price of milk but indeed the quality of milk.

I am happy to support this motion. The government was happy to support the establishment of a Senate inquiry, and we want the ACCC to look into the current pricing of own brand fresh milk by our major supermarkets—particularly including whether it raises competition concerns under the ACCC.