ACCC submission on behalf of Alan and Leanne Pattison, Airly, Victoria.

We have been dairy farmers for nearly forty years and have supplied Murray Goulburn for the entire time.

The dairy industry is in crisis today not just because of the fall in export markets but increasingly because of the inequality in milk price paid to farmers within the same processor.

The areas we are addressing are as follows:

i. **The nature of competition between processors for both the acquisition of raw milk and the supply of processed milk and dairy products.**

Processors pay the same as or very little over the first opening milk price announced, except in the instance of special and confidential deals that some processors will offer larger farms to attract supply.

It should be mandatory for all processors to announce their opening price on the same day, then we may see a true price, reflecting what the market can pay, and not what the processor wants to pay.

ii. **The effect (direct or indirect) of domestic retail and export prices, and level of domestic and overseas demand, for Australian processed milk and dairy products on dairy producers and processors.**

The retail price of $1/litre milk does not and never will reflect the cost of production nor is that cost considered a factor within the processors' or retailers' purchasing system. It is an untenable arrangement that will ultimately see the demise of many Australian family dairy farms.

There is no shortage of demand within Australia and overseas for Australian dairy products but it is the middle man/supermarkets who reap the profits of the hard work of milk producers. Milk is valued highly by those players within the chain, but devalued to farmers. There has to be some correlation between the cost of production and the retail price as there is with any other product. In other words a margin.

iii. **The mechanisms used by acquirers of raw milk to determine prices paid when acquiring raw milk and the transparency of those mechanisms. AND**

iv. **The availability, transparency and accessibility of market price information, and its effectiveness for forecasting movements in farm gate milk prices. AND**

v. **The terms on which raw milk is acquired from dairy producers and the means by which such terms are agreed.**

vi. **Any other factors affecting farm profitability.**

Increasingly we have seen an inequality in milk price paid to different suppliers within Murray Goulburn. This is not compatible with the ethos of a co-operative, where all farmers are treated equally and paid equally. There was a time when all suppliers received the same price per kilogram milk solids (butterfat/protein) and the only difference was how far into winter a farmer milked. The further into winter the more it costs to feed cattle and the price paid, reflected the extra cost to produce the milk during that time.

In June every year an opening price would be announced which applied to every supplier. All farmers then knew what those prices were and ran their business accordingly. The opening price was always a conservative percentage of what the factory expected to achieve for the end of year price, and as product was sold, step ups were paid to suppliers. These usually occurred in December, March and June. It was extremely rare to ever have a step down except in recent times and never has there been a claw back at MG until the 15/16 year.

Now we have a "weighted average milk price" which appears to be another word for a deceptive milk price. There is such a large variation in price paid for **identical milk**.

Prices are not transparent, many large farms have special and confidential deals which reap them a larger price per kilogram milk solids than the average farm.

It must be noted here that their milk is not set aside and used for the more expensive products that Murray Goulburn sells, but goes into the mix with milk from all other farms. The money to fund a higher price for those farms has been taken off the price the smaller farms should have received.

In addition to those special deals Murray Goulburn also pays a hefty production incentive to the largest farms and a meagre production incentive to small farms. That production incentive again must come off the smaller farms price per kg/milk solids in order to give it to the larger farm.

Currently the largest incentive is 38 cents/ kg/protein and 19 cents/ kg/butterfat with the smallest farm receiving only 4 cents/kg/protein and 2 cents/kg/butterfat. (1).

In reality as all milk goes into the same pool, all farms should receive the same amount in production incentives as their milk is **identical**.

In practical terms equality in production incentives and price is impossible, as the market does not support the higher price, and it is only because money is taken from the smaller farms who then receive less, that allows the larger incentives to paid.

The notion that the larger farms are more efficient is a fallacy, they are never expected to survive on the price per kg/milk solids that small farms have to cope with. If large farms are achieving such efficiency in scale then they should be able to operate on less money, not more.

Murray Goulburn asserts that these large farms save MG dollars on transport, but MG doesn't pay the transport costs, the farmer does. In addition milk quality on larger farms is often a problem for the processor as you rarely see a large farm in the milk quality awards.

Many large farms are also paid on a fortnightly basis rather than the monthly policy that the majority of farms are paid by.

The implementation of these strategies has had a detrimental effect on the average dairy farmer. Small to medium sized farmers are disadvantaged by the system that is in place, which robs Peter to pay Paul.

The role of collective bargaining in the dairy industry and its effectiveness.

In the interests of equality in milk price there should be a small farms collective in each area. If small farms operated a collective bargaining system whereby groups of 2, 5, 10, 20 or more farms dealt with MG as one entity and received the higher incentive payment, the price paid to the large farms would then need to be rationalised and a fairer system for all suppliers would come into being.

Small farms have traditionally been the pathway to farm ownership for young people. Young farmers will never be able to enter the industry as the farms they can afford can't pay the price they need to pay off a mortgage, but the large farms that receive the higher prices are too expensive for them to purchase. The average age of a dairy farmer is 51 according to Dairy Australia figures.

(1). Murray Goulburn suppliers hand book Southern Milk Region milk pricing, page 25.