Submission No 3

INQUIRY INTO SUSTAINABILITY OF THE DAIRY INDUSTRY IN NEW SOUTH WALES

Name: Mr Murray Sowter

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MURRAY SOWTER

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1. Introduction

As a fourth-generation dairy farmer, currently based in Moss Vale, I have never seen the state's dairy farmers with such financial hardship. Many people may say this is due to current drought conditions, but I am of the opinion that deregulation in 2000 was the starting point for the decline in farm gate returns. In the last 18 years farm gate returns have declined to the point where continuation in the industry is unstainable. Since the commencement of $1 per litre milk in 2011 farm gate prices have been stalled and coupled with the impact of drought it is only a matter of time before daily milk intakes in NSW will be less than daily demand.

In a good season with a fair and equitable return, the industry would be able to reinvest, positioning itself financially to deal with hard times like drought. When in drought like this period we fall further behind and go further int debt. This is simply unsustainable. This drought is unique because our rival livestock industries, beef and lamb are receiving near record prices and allows them to be more aggressive in the fodder market.

Without question, when quota existed in NSW, we were far better off as dairy farmers. However, under Section 92 of the constitution, it is impossible for NSW to re-introduce quota.

Although quota can never be re-introduced without agreement between states, unless something changes soon, the Dairy Industry in NSW will become extinct.

2. A Farmer's History of The Dairy Industry In NSW

"In 1992, Australia still had one and two-cent coins in circulation. A stamp was 45 cents, petrol was 62 cents per litre, and milk was $1 per litre" (Tessman, 2011). Today, a stamp is $1, petrol is about $1.60 per litre, but milk is still only a dollar.

During the 1960s, farms of 60 cows, could supported up to 4 families (the owners, their share managers family, and two workers), today 600 cows are needed to support the same number of families. During that same time, the Southern Highlands had approximately 150 dairies, all milking 40-60 cows and employing 1-2 people. That was 300-500 jobs. Today there is less than 10 dairies, and there would be less than 40 jobs.

Costs of production have increased substantially - water, electricity, land rates, feed costs are all up. All of our input costs have gone up since 1992, the only cost not to increase is our farm gate price.

3. A Farmer's Take on The Current State of The NSW Dairy Industry

How is it that milk costs the same today as it did in 1992? How is that fair and equitable? No doubt, many will say this is all caused by an oversupply, but those same people will tell you that markets work on speculation.

Professor Bruce Muirhead (2018) stated "…Australia's share of the global market is decreasing over time, despite the best efforts of Australian dairy organisations and farmers, and the number of farms continues to decline. Perhaps Australia will end up with a system resembling a supply managed one through market mechanisms".

Leduc (2015) stated "According to Mr. Noel Campbell, chairman of the Australian Dairy Industry Council and president of Australian Dairy Farmers, deregulation of Australia's dairy industry in 2001 helped the country double its milk production." So he has told Canadian media, including the Globe and Mail. A quick look at Australia's historical milk production statistics is sufficient to suggest the above statement is extremely misleading.

In fact, milk production in Australia increased significantly before the country deregulated its market. From the mid-1980s and through the 1990s, annual production increases were the norm. The market was deregulated in 2001. The highest peaks of production were in 2000, 2001 and 2002.

Since then, Australia's milk production has decreased and is running at half of ABARE's long term forecasts of 15 – 16 billion litres. Deregulation evangelists promise great things in dairy exports from a deregulated market, but the Australian experience has been anything but. Between 2002 and 2011, Australian dairy exports dropped from 6.1 million tonnes to 2.9 million tonnes."

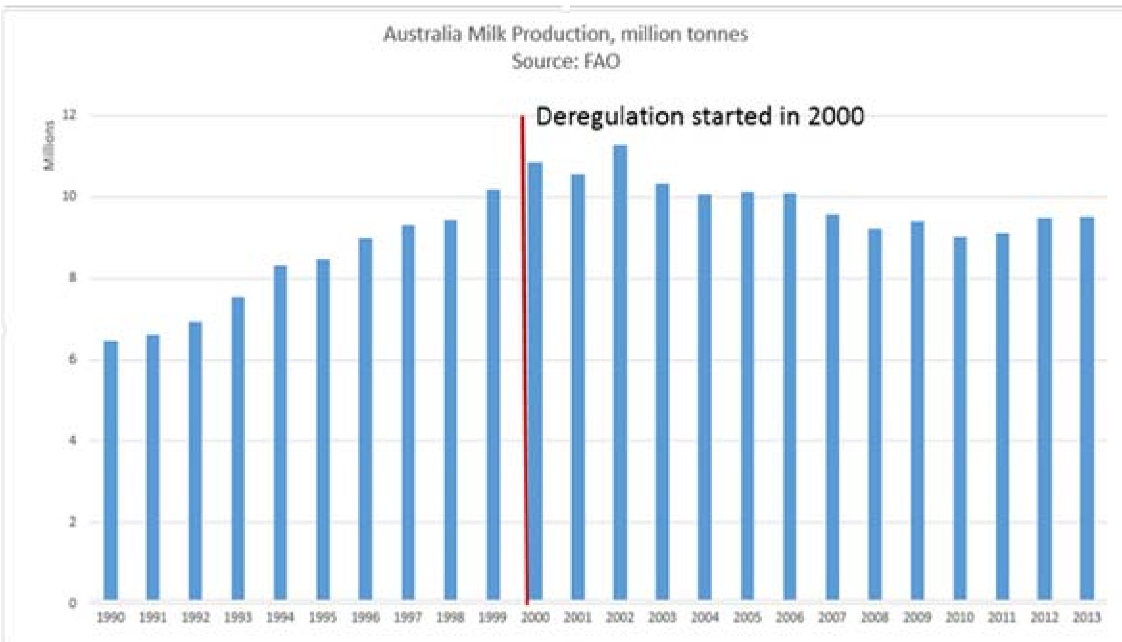

Figure 1. Australia's Milk Production (Leduc, 2015).

Economic theory supported deregulation in NSW, then the question is – why is milk production declining in the manner it is? When do economists think we will hit market equilibrium? And what is their answer for a looming milk supply shortage in Australia?

The reality is this decline will continue to occur unless something changes, and the change must be the price paid to farmers. We can't pay debt with goodwill and more inquiries, action must occur now.

4. Supermarkets and Milk Processors

When Coles initially started the $1/litre milk back in 2011, they said this was aimed at assisting Australian families cost of living (Wilson, 2011). Woolworths soon followed. There have been many claims from other sources such as Mortimer & Grimmer (2018) whereby Coles and Woolworths were more interested in undercutting one another for market share, rather than actually helping Australians. This is a claim that has gone unchallenged by Coles or Woolworths.

Figure 2. Australia's Milk Production (Leduc, 2015).

Our question on all of this is, if Coles and Woolworths want to reduce people's cost of living, or carry out a price war, why do we as farmers have to carry the burden? We are the ones who have carried the burden, and what about our rising costs of production? What are Coles and Woolworths doing to try and reduce our cost of living/cost of production as dairy farmers? Why are we the ones losing out? If Coles and Woolworths want to continue this kind of behaviour, they should pay for it, not us. Given both Coles and Woolworths both claim to utilise corporate social responsibility, where do their suppliers such as us fit into their corporate social responsibility? What do they do for us, whilst we get paid to produce a product below it's cost of production.

There are also many questions to be asked of processors. Firstly, why was there so much resistance to a mandatory code of conduct? All the proposed code aims to do is ensure a fair and even playing field between farmers and processors when negotiating contracts, yet very few processors support it, why is that? Are they against an uneven playing field? If so, why? Does this help them?

Chung (2018) states that there is no direct correlation between the price to farmers and the $1/litre milk, "almost all contracts for the supply of private label milk allows processors to pass through movements in farmgate prices to supermarkets". Chung (2018) also stated that "processors would still not pay farmers any more than they have to secure milk". The question is, if it doesn't hurt the bottom line of the processors, why are they not prepared to pay more? What is the catalyst to increase farm gate milk price? Why are they resisting?

There has also been discussion of a Royal Commission into the dairy industry. I welcome the Federal Agriculture Ministers openness to the idea, and the concept that it wouldn't just cover dairy but all fresh food sectors. My question to both the supermarkets and processors is do they support it? If not, why not?

Bosca (2016) has already stated that Australians will not be happy if they are unable to buy fresh Australian milk in supermarkets. Given the downward trend of milk production in NSW and Australia, what is he plan when we don't have enough milk for domestic supply?

5. Previous Inquiries into Dairy Industry within Australia

Already, there have been inquiries into the dairy industry within Australia. Without doubt, these were aimed to create a sustainable dairy industry, but at this point they have failed to deliver a sustainable farmgate price and balance in negotiations with processors.

Again, we can only be a sustainable industry if we are paid a sustainable farmgate price which enables us to reduce debt and invest in the existing businesses. If we are unable to do this, more and more dairies will close, and the industry will continue to be unsustainable.

6. Co-Ops

Many people often say how much better things were when co-ops existed. What coincides with success had by farmers under co-ops was the existence of quotas. Since the deregulation of the industry in 2000, you only need to look at what has happened with co-ops. Dairy Farmers Milk Cooperative was the first to slash farm gate price, with the rest of the industry following soon afterwards. The recent Murray Goulburn milk scandal whereby price claw backs occurred. Both cooperatives have now been sold.

Norco is one of the more successful co-ops. Farmers may be getting some of the highest prices in Australia, but, given we need a sustainable price of between 80-90 cents per lite with a 5 cent per litre pay rise year on year, it's still no where near enough.

7. How Other Countries Have Created Sustainable Dairy Industries

Some of the biggest countries in the world, including the home of free markets, the United States still provide subsidies to their dairy farmers.

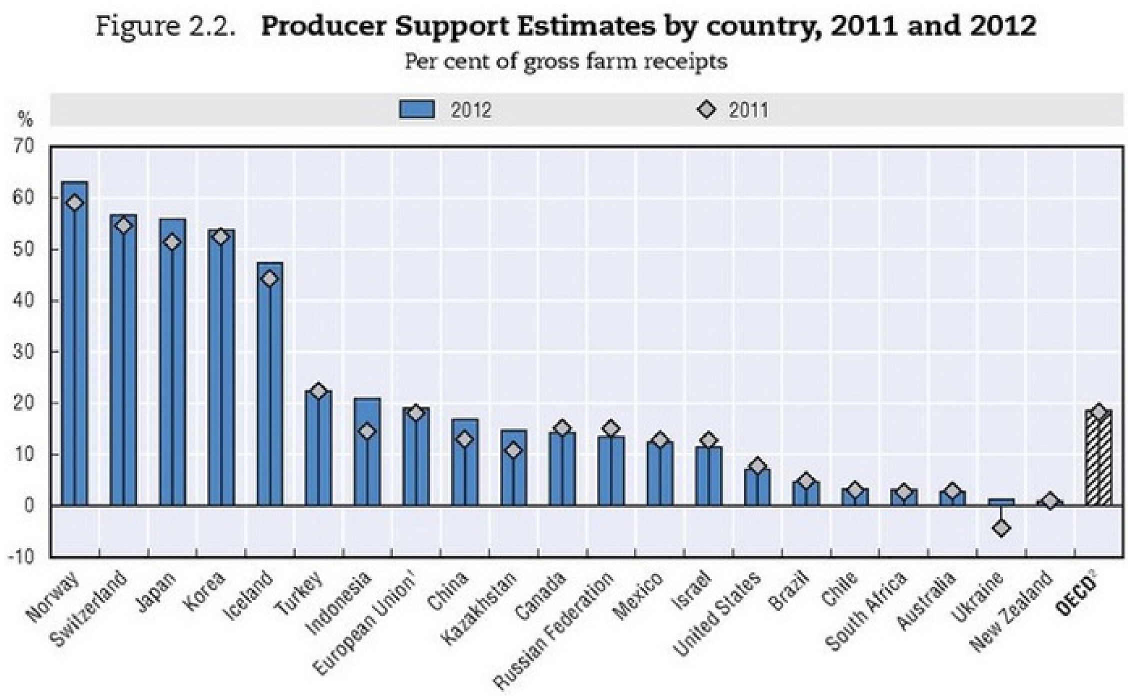

Figure 2. Farm Subsidies by Country (ABC News, 2014).

7.1. United States of America

"Comparing government support for Canadian versus American dairy farmers is not a simple black and white process. While Canada's dairy sector operates under a regulated supply management system, the U.S. government's support for its dairy farmers is less direct. Support, in its various forms, equalled 73 percent of U.S. dairy farmers' market returns in 2015, according to a report published by a Canadian trade consulting firm on Thursday. The 588-page study by Grey, Clark, Shih and Associates — commissioned by Dairy Farmers of Canada (DFC) — says the American government contributed around $22.2 billion in direct and indirect subsidies to the dairy sector in 2015" (Real Agriculture News Team, 2018).

7.2. France (European Union)

La Hamaide (2018) stated that earlier this year, the European Commission floated the idea of removing subsidies to farmers, yet the move was labeled by France as 'unthinkable'.

7.3. Canada

"Under supply management, a national marketing agency determines production amounts for each commodity and then sets production quotas for each province. In order to sell their products, a farmer must hold a quota — basically a license to produce up to a set amount. The quota prevents market gluts that would cause prices to dip and disrupt farm incomes” (Tasker, 2018).

8. Current Government Assistance

8.1. Current Assistance to Australian Dairy Farmers

ABC News (2014) stated Australia’s farmers are some of the least subsidised farmers in the world.

As stated in ABC News (2014), this low level of support makes Australia’s agriculture sector ‘efficient’. I am yet to have it explained to me how this claimed efficiency has improved the industry when the facts are that milk production has decreased, job losses have increased and reduced investment in new technologies and upgrades are due to a lack of sustainable income.

Economists tell us that subsidies are unacceptable in a free market but renewable energy receives $2.8 billion per year until 2030. Ludlow (2017)

To me, food and energy are as necessary as each other. As a developed nation, we need to have affordable, reliable energy and clean, healthy, fresh food. So why is it the government subsidises energy companies, who are making record profits (Waters, 2017), whilst we as farmers, who struggle to pay our debts, get nothing?

8.2. Current Drought Assistance Measures

The NSW Government’s drought package is available for dairy farmers across the country, thanks to the transport subsidies. However, it is still not enough for dairy farmers. From February to July this year, I was able to claim up to maximum of $20,000 in transport subsidies, yet my actual transport cost for the same time period for hay alone was $87,000. When feeding dairy cows approximately 37-40kgs of feed per day, $20,000 doesn’t go too far. Don’t forget to add the actual cost of hay on top of that $87,000.

The Farm Deposit Management scheme sounds good, but we never make enough during good times to put anything into it, so it’s pointless.

Loans are also pointless, most dairy farmers have existing debt during the best of times with low milk prices, I fail to see how going into further debt during a drought can help.

9. Conclusion

Although quota will never be reintroduced, change is required in NSW for a sustainable and viable dairy industry. With our export competitors such as the EU and USA subsidising their dairy farmers, we cannot compete as it is not a level playing field. If we are to remain sustainable, we need to be on a level playing field. Comment is that subsidies and quotas are economically detrimental in the long term, but without government intervention the NSW dairy industry will retract to the point where many thousands of small businesses reliant on milk will have an unknown future. These small businesses have no contractual arrangements with the processors leaving their businesses very vulnerable, unlike the supermarkets.

Below is a list of recommendations involving a range of options to try and address the current crisis in the NSW dairy industry.

10. Recommendations for A Sustainable Dairy Industry In NSW

1. Reintroduce subsidies.

Quota can never be reintroduced as it would go against the constitution, however subsiding our dairy industry would not restrict trade. Subsidies can come in many forms and don't necessarily need to be cash payments. Subsidies such as assistance with LLS fees, Water NSW fees, Council Rates, vehicle registration and Safe Food NSW licensing and associated fees could be ways of providing assistance.

2. Energy assistance.

Given the government subsidises the energy sector by $13.8 billion per year, why not look at heavy government subsidies for methane digesters to be installed on dairies. Given cow manure is always there, and given the energy crisis in this nation, perhaps if dairies could generate energy from their effluent systems, and sell excess energy back to the grid, massively reducing the cost of production for dairies and creating a separate revenue stream for dairy farmers in a sustainable and environmentally friendly manner. For something like this to work, given the economic hardship farmers currently endure, government assistance for this would have to be around 90-95% of total costs.

3. Irrigation Grants

Australia always has been and always will be a country affected by droughts. Given the low milk prices, drought puts huge economic strains on farmers and forces many to leave the industry. Although the current drought loans from the NSW Government do cover upgrades to irrigation infrastructure, many dairy farmers are unable to take on already mounting debt. If farmers were able to apply for grants instead of loans to either upgrade pre-existing infrastructure, or new infrastructure, on their farms, this would reduce their reliance on bought in fodder when prices are at the highest.

4. Introduction of a Dairy Commission Board of NSW

Many of the dairy farmers in NSW have individual contracts with processors. These contracts are prepared by the processors and presented to the farmers for signing with no negotiation or consultation on the terms and conditions. If you fail to sign the processor will accept your supply but will withhold a percentage of the existing farmgate price for non-compliance.

We have also seen from the ACCC that processors have not always been truthful in their dealings (ACCC, 2018). If the NSW Dairy Commissioner is to review/single desk negotiate all contracts with processors on behalf of farmers, then this process would help to bring balance to the negotiations.

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