

**Submission  
No 16**

**INQUIRY INTO SUSTAINABILITY OF THE DAIRY  
INDUSTRY IN NEW SOUTH WALES**

**Name:** Mr Phil Ryan  
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05/11/2018

The Hon Robert Brown MLC,  
Chair, Portfolio Committee No.5, Industry and Transport,  
Parliament House, Macquarie St,  
Sydney NSW 2000

Re: Inquiry into the sustainability of the dairy industry in New South Wales

Dear Mr Brown, and Committee Members,

Thank you for inviting to make a submission to your inquiry into the sustainability of the NSW dairy industry. My name is Phil Ryan, I am a dairy farmer, milking 200 cows near Bega on the NSW Far South Coast. I represent the 5<sup>th</sup> generation of my family to be involved in dairying in NSW. My farm has been a dairy since the 1860s, and was an inaugural member of the Bega Co-Operative Society, continuously supplying Bega Cheese since 1899. My family is just the third family to own this property.

I am happy for any details in my submission to be made public, any personal information is provided to illustrate issues faced by the industry as a whole, as my situation is not unique.

My farm has doubled production from an average of 670,000L/year from 2007-2010, to over 1.4 million L in 2017-18, growing from 120 cows to over 200 cows in an effort to remain competitive and achieve an economy of scale. I have invested in more land, better pasture, improved soils, water infrastructure (over 40 troughs), feed storage (grain/pellet silos and silage pits), and machinery to enable me to make silage during times of surplus pasture. A majority of these improvements were not funded by the farm, but through external income/resources, as milk price does not provide for such improvements.

A sustainable dairy industry requires dairy farmers to not just make a small margin over the cost of labour, energy and purchased feed and other operating costs. But to enable refurbishment/upgrading of the dairy every 20 years, replace tractors every 10 years, capital improvements such as sheds for machinery, solar or wind power generation, irrigation infrastructure, improved cattle handling facilities as improvements in animal welfare standards come to the market, and many other 'hidden' costs. There needs to be enough put aside in good years, that there is a cash reserve for the inevitable droughts, as well as a fodder reserve.

The price received by farmers in NSW does not currently provide for this sustainability. That farm gate price needs to improve is evident by the number of farms going broke, being forced to sell off cows or otherwise struggling financially. This is not simply a drought issue. If the long term price received by farmers was sustainable, we would be able to have cash reserves in Farm Management Deposit accounts from our good years. However, in those good years our surplus is not that large – we can upgrade the tractor we need perhaps, but not put \$200,000 away for a non-rainy day. This

year \$200,000 would have bought 400t of hay delivered to the Bega Valley. My 200 cows eat 4t/day. If you have no feed at all, \$200,000 feeds them for 100 days. I only had to buy 40t of hay this year, I survived this year because I had silage preserved as a drought reserve – this is now gone.

My milk price is historically high, and Bega Cheese (the processor I supply) says they have little margin to work with, and are paying us as much as possible (yet I am still considering closing the farm, or working off farm, as my input costs mean this price is insufficient). They have invested in Vegemite, and peanut butter and other non-dairy assets because the margin is better on those grocery products. I know the ACCC has stated that supermarkets are not to blame for low farm gate price. That processors pay farmers, not supermarkets. With respect to the ACCC, I say this is not quite right. Supermarkets set an artificial ceiling on the value of dairy products – not just milk, but cheese in particular.

Coles and Woolworths sell equivalent products for the same price. I would call this price fixing. The ACCC says it is ok. If farmers set a farmgate price, then the ACCC would call it price fixing. This is a market imbalance of power, where our Competition regulator, is backing the holders of that market power, the supermarkets over processors, who hold it over farmers. Both Coles and Woolworths sell a 1kg block of Bega cheese for \$11. Woolworths advertising shows this product was \$13.19 on 27/06/16. The cost of producing this cheese has not gone down. It has gone up. At 10L to the kg of cheese, the supermarket has stripped \$0.20/L from the value chain. If that \$0.20/L was paid to farmers we would be sustainable.

Australia is set to produce roughly 8.5 billion L of milk this year, down from 9.2 billion. We consume 6 billion L of that domestically, import I believe just under 3 billion L, and export just over 3 billion L. We are set to become nett importers of dairy THIS YEAR, for the first time. As such our domestic market is now critical to farm prices, in a way it was not just 10 years ago.

In short, in relation to part (a) of the committee's terms of reference, "The nature of, and relationship within, the value chain between farmers, processors, logistics companies and retailers and their respective influence on price":

- 1) Supermarkets dictate retail price – this is the only place value can be added into the chain – consumers cannot support farmers directly, or via processors. Even on \$1/L milk or \$6.60/kg cheese the retailer makes a small margin. At current farmgate prices farmers are not guaranteed to make a margin. The retailers have all the power. Competition law should prevent supermarkets abusing their market dominance, but it does not. Consumers have consistently shown in surveys and petitions that they are willing to pay more for dairy products if it reaches the farmer. The supermarkets are not willing to make this happen.
- 2) Processors are desperate for supermarket business, as it is critical to their domestic market. Some processors have irresponsibly sold product too cheaply to the supermarkets. They then dictate a farm gate price to farmers which guarantees a margin for the processor. Competition law prevents amalgamation of the processors to allow one or two the scale to dictate terms to the supermarkets.
- 3) Farmers have community good will, but no way to capitalise that. They have all the risk associated with producing milk, but the lowest margin. No means of affecting the retail price, which would allow an increase in the overall value chain. Competition law prevents farmers collectively bargaining a price for their milk.

In relation to part (b) of the terms of reference, "The impact of external influences on the dairy industry, including but not limited to drought, water, energy, and price-setting":

- 1) Drought relief, would in my opinion, be far less relevant, if broader issues facing the industry regarding retail pricing and flow on to farm gate, free trade agreements which place us at competitive disadvantage with other exporters, and importing of cheap/subsidised products were addressed. If retail prices were improved, flowing on to farm gate, and export competitiveness was improved for product surplus to domestic consumption, and imports were reduced, then farm gate price can improve to a sustainable level, reducing the need for future drought support. I do not want charity or subsidy to be the means of making our industry sustainable. I want reform that increases farm gate price to create a vibrant industry again.
- 2) In the current drought package, the freight rebate for fodder has too low a ceiling. It needs to be much higher than \$20,000. My farm was eligible for \$20,000 almost as soon as the rebate was announced.
- 3) Energy prices have an independent means of increasing them. They are a major input costs to dairying. They have doubled, while my milk price is largely the same. Why can't a similar means be applied to increase farm gate milk price? (Yes I know this means re-regulation – it works in Canada – it worked here, supermarkets and processors abusing their market dominance is killing our industry – they won't change voluntarily).
- 4) Price-setting – only supermarkets and processors currently have the means to set pricing. They are doing it at the expense of farmers. If farmers set pricing we would run into issues with the ACCC.

In relation to part (c) of the terms of reference “The impact of previous policies, in particular, the deregulation of the dairy industry”:

- 1) The only way farmers benefitted from deregulation was by realising the value in their shares in co-operatives. This allowed some substantial on farm improvements on some farms and for some to exit the industry. This can be shown by the drastic and continuing decline in farm numbers. This is clearly not a means of maintaining a sustainable industry – rather it created a false sense of security for the industry, as overall production did not fall as drastically as farm numbers did.
- 2) Processors, and perhaps supermarkets (and consumers) were the primary beneficiaries of deregulation. If this ultimately comes at the expense of the farmers, there will be no industry. We can always supply Australia with fresh milk from Victoria, but we will likely have no industry left in NSW (or QLD) without reform.

Critically, part (d) of the terms of reference “The role of government in addressing key economic challenges to the industry”:

- 1) Increasing retail pricing. I suggest by means of a levy, forcibly applied to all dairy products at a rate of 10c/L or equivalent thereof (e.g. 10L of milk in 1 kg of cheese, so increase \$1/kg). Alternately this could be applied at a rate of 45c/L of liquid milk, and distributed to all farmers, resulting either way in 10c/L at the farmgate. The Dairy Australia levy process, which takes a levy off all milk produced in Australia, could be relatively easily reversed to distribute this levy. It can be managed as an insurance policy, if you will, to manage free trade issues. The means to do this exists, the will to do it is lacking, as shown by recent drought levy shenanigans by retailers. This simple step likely makes the NSW industry sustainable – it needs to be applied nationally, for all farmers. Supermarkets and processors have shown they will not make this happen.

- 2) Higher priority for dairy in free trade negotiations – New Zealand has lower tariffs for dairy into China, Japan and Korea. We need to be competitive with New Zealand in these key export markets.
- 3) Addressing EU and US subsidies for their dairy industries – again enabling us to compete effectively in the international marketplace. Also critically, this enables us to compete effectively in our domestic marketplace. Domino's Pizza and Aldi import their cheese from the US cheaper than it can be supplied locally because of US government support for their dairy industry.
- 4) Mandatory and effective country of origin labelling legislation. Woolworths Hillview \$6.60/kg cheese from New Zealand is sold in green and gold packaging – it looks Australian, it is packaged in Australia, but it is produced in New Zealand. Mainland cheese from New Zealand is sold in our supermarkets at a premium price beyond that of our Australian equivalents (\$18/kg vs \$11/kg).
- 5) Possibly some form of "food miles" labelling legislation – cheese imported from the US, as a bulk commodity just doesn't seem right, or even Victorian milk trucked to Northern NSW and QLD. Something that says, this cheese was made in the USA, and was flown/shipped 14,000km might provide a consumer reaction that supports Australian products, while saving on fossil fuel consumption.
- 6) If nothing else is working, re-regulate the industry. Look to Canada's Supply Management system.

My submission is rushed, and I apologise. Like many dairy farmers, I work long days. I have had less than 7 days off this year (I think it is actually 4). Many days are 12-16 hours long. I have lost money working that hard this year, along with most of my NSW colleagues. We mostly love what we do, and are proud of what we do. We simply cannot continue to lose money doing it, because of factors outside of our control. If I worked these hours (80+/week, every week) in a cheese factory, or as a check out operator in a supermarket I would make a good living – in fact it would go close to being illegal. Dairy farmers deserve better.

Thank you for instigating this inquiry. I hope to appear before you in person in Moss Vale, but may be unable to.

Kind regards,

Phil Ryan