

# **PRODUCTIVITY COMMISSION 2004**

## **REVIEW OF NATIONAL COMPETITION POLICY REFORMS**

**DISCUSSION DRAFT  
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**Submitted to – The Productivity Commission**

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## **Background of the Milk Industry Liaison Committee**

The Milk Industry Liaison Committee (MILC) was formed by a group of Western Australian dairy farming women in 1978. Over the last twenty six years, our members have been extensively involved at all levels of the Dairy Industry.

Through MILC, members have informed and educated themselves about their industry, have been involved in voluntary marketing and promotion of dairy products at a State and National level, been active in the education of consumers, and have strongly encouraged fellow dairy farmers to be involved with their industry and product, beyond the farm gate.

Such historical experience and involvement has delivered significant benefits to members' individual agricultural enterprises, the Dairy Industry and local associated regional communities.

The current critical state of the WA Dairy Industry has been well documented, <sup>(1)</sup> particularly in relation to prolonged low prices, sudden changes in milk supply agreements and the numbers of Dairy Farmers who have and will have to exit the industry. The continuing unsustainable prices and losses of farming families in regional areas are having significant negative impacts on our families and communities.

Our members continue to be extremely involved at various levels of the industry and the community, are all active dairy farmers, and it is from this basis that we contribute.

It is from this position of direct involvement and knowledge that we focus our submission on the social and regional impacts.

(1) The Sustainability of the Dairy Industry in WA

*To have a strong, viable future.....*

*The WA Dairy Industry needs to be economically, socially and environmentally sustainable, functioning as an integral part of vibrant, independent, small, rural and regional communities*

**It should be noted that no social impact studies were conducted prior to or during deregulation of the Dairy Industry.**

***The Milk Industry Liaison Committee (MILC) believes that the Draft Report is a seriously flawed document.***

It is statistically and economically-modelled *only* which in no way details the very real, direct and tangible effects felt at the individual dairy producer, family, local and wider community levels.

It is also patently clear that as a result, the Commission has no understanding at all of the multitude of factors which contribute to how vibrant, healthy, small rural and regional communities function in reality, and indeed, how the individuals and families within these same communities contribute not only to those communities, but to Australia in so many varied and valuable ways.

The Report itself acknowledges that:

***“modelling cannot replicate reality” and “modelling provides only a partial perspective of the impacts of NCP and related reforms”***

When assessing complete change as significant as NCP reforms, this methodology is simply too narrow, and in no way provides a complete or accurate assessment. A **partial perspective** is therefore erroneous and is not a factual, true finding.

The whole picture is absolutely critical to accurately evaluate the true impacts of NCP, particularly when it has clearly and often adversely, affected how small rural and regional communities actually ‘work’.

Further, CoAG (2000, p.B.1) agreed that:

**“Governments should give consideration to explicitly identifying the impact of reform measures on specific industry sectors and communities, including expected costs in adjusting to change.”**

Where in the Report is the *explicit identification* of industries and communities requirement covered?

Throughout the Report there are constant references to significant negative impacts, losses, costs and distributional impacts imposed on small rural and regional communities – it is blatantly obvious in this scenario that explicit details are crucial:

- To recognise that small rural and regional communities *are* indeed important in Australia and should be valued as part of the fabric of the Nation
- To detail exactly what those impacts were, are, will be and how they have, are and will contribute to the demise or breaking-down of small regional communities
- To document why such impacts and pressures in small regional communities are significantly exacerbated because they are small communities including;
  - Financial, social, physical, environmental, cultural impacts
  - Impacts on rural community service organisations, emergency services, sporting groups, schools and various volunteer organisations
- To quantify and understand the value of *numbers* of small businesses and individuals in small regional communities

- To quantify and identify what the human costs to farming families and their businesses are:

**Their jobs**

**Their livelihoods**

**Their properties**

**Their place in the community**

**Their pride and value of themselves as individuals**

**Their health**

**Their family breakdown**

**Their lives**

- To quantify how the effects of NCP reforms are adding to other pressures in rural and regional Australia
- To quantify the compounding annual costs of direct losses of farm gate dollars and the multiplying component in small community economies
- To document how dollars generated in the dairy sector circulate directly within the local rural community or region, changing hands from one family or business to another many times, providing significant benefits to the local economy
- To document the clear relationship between the social needs of rural communities and their economic viability
- To document as part of the Review that the total reduction in milk income to dairy farmers in Western Australia resulting from deregulation of the domestic milk market is estimated to be \$24 million per annum <sup>(1)</sup>
- To document that dairy is one of the highest value-adding rural industries in Western Australia <sup>(1)</sup>
- To document how the NCP has driven the dairy industry through a period of unmanaged, unplanned change which has clearly come at a huge cost
- To enable sound and detailed assessment of impacts by those accessing and relying on complete reporting methods

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- To document the public value of farming including diversity of farm systems, various landscapes, culture and traditions
- As a benchmark and reference for potential further reform processes
- To ensure that prior to progressing further change, total regional cost/benefit analyses and social impact studies are conducted by independent and objective sources to minimise negative impacts
- To communicate the results of such studies to stakeholders and the wider community prior to progressing further change
- To ensure more direct, efficient and targeted provision of support mechanisms when implementing change processes
- To assess whether appropriate and adequate forms of rural and regional assistance have been provided to date and where additional or alternative needs are required
- To provide ongoing monitoring of impacts in small rural and regional communities
- To demonstrate why ‘**transitional assistance**’ methods are short-term band-aid measures only in small regional communities which in no way address the core long-term issues of self-reliance
- To identify the ‘real’ costs of NCP reform by quantifying not only the farmgate dollar losses and local and regional community multiplier costs, but also the costs of health care, social security, various support mechanism and regional assistance programmes in the short, medium and longer term

**In spite of the Commission’s extremely casual dismissal of the significant impacts on rural and regional Australia, it should be noted that no associated policies can replicate the economic and social fabric of financially independent small communities.**

***MILC members, from the perspective of their roles within their own businesses and associated communities are absolutely appalled and grossly offended by the following callous, utterly obscene statement from the Report:***

**“additional competitive pressure on small businesses, whether in regional or city areas, or the ensuing demise of some of these businesses, should not of itself be a significant public policy concern”**

**Contrary to the Commission’s conclusions, it is and should be, a significant public policy concern to State and Federal Governments, rural, regional and urban Australia**

This statement clearly demonstrates the lack of research into, or understanding of, the complete picture of how and what makes small communities function independently, as well as a gross miscalculation of the value of small business right across the physical and economic spectrum in Australia.

**The majority of the workforce in Australia is employed by small business. <sup>(3)</sup>**

**In Western Australia, small business employs over half the workforce. <sup>(3)</sup>**

<sup>(3)</sup> Source: WA Retailers Assoc. Inc



More critically, numbers of small businesses are absolutely essential to the social and economic structure of small communities, accurate research would have indicated very clearly and concisely how the loss of even three to four community-minded farming families constitutes a major ongoing problem for some small communities.

**Contrary to the Review, the NCP should not be the sole arbiter driving State and Federal Government policy.**

**Economic factors are only one part of a broad range of policies which reflect the rights of Australians to live in a total society, one which encompasses social, cultural, environmental and economic elements.**

According to the Report:

**“In assessing NCP impacts and reporting on opportunities for further reform, the Commission has been guided by the operating principles and general policy guidelines contained in the productivity Commission Act 1998. Like the terms of reference, they require the Commission to consider impacts on overall community welfare, as well as on specific industry and community groups.”**

It is widely acknowledged, that the dairy industry specifically, has suffered major, continuing negative impacts by the progression of NCP.

Given that the Commission was required to consider impacts on specific industries as detailed above, and given the well documented dairy industry experience, where in the Report are the dairy industry and producers' impacts fully explained and detailed?

The Report also states that;

**“prices will generally promote economic efficiency if, over the medium to longer term, they reflect least cost production and are sufficient to cover all costs, including a commercial (risk-adjusted) return on the assets employed.”**

Given that progression of NCP reforms has delivered significant increases in market power to the two major retailers in Australia and placed the producer in an absolute price-taking position, do dairy farmers in Western Australia receive prices which not only cover all costs but also include the commercial return on assets and if not, how will the NCP address the total imbalance in market power in an ongoing capacity?

Figures quoted by Ross Fitzgerald in The Australian on May 13<sup>th</sup> 2004, “The NCP’s gift to the major retail chains and others can be summed up neatly: Eggs, \$416 million a year; Sugar \$334 million; Milk \$1.13 billion – conversely farmers, workers and consumers are every year \$1.879 billion poorer”.

The two major retailers now have direct access to all margins in a staple food chain from producer, processor and consumer, with a direct and demonstrated opportunity to have ultimate control of industry and the marketplace. Retailers move the prices up or down at will and do so regardless of the detriment to growers, processors and distributors, with likely consequential future impacts on consumers.

For example; the Australian domestic white milk market is now dominated by the two major retailers conducting a tendering system for generic branded drinking milk, a process which appears to more closely resemble a Dutch auction. The major milk processors are jostling for home brand and accompanying individual processor ‘branded’ product shelf space. As a result of this process, dairy farmers are relegated to the bottom rung of the ladder as nothing more than absolute price takers.

More and more milk and dairy products are being forced into generic production to the benefit of multi-national retailers.

The market power dominance is highlighted in the Report;

**“In some instances – such as sugar and dairying – the consumer price benefits from SMA reforms have often been smaller than the reduction in farm-gate prices. However, some sharing of benefits between different parties in the supply chain – such as processors and retailers – is a feature of most reforms.”**

***This statement is a clear indictment of how NCP actively and directly encourages and endorses the exploitation of producers.***

The blatant promotion of the obvious weak and inequitable position of both producer and consumer to the significant profit-taking advantage of multi-national companies requires Commission and NCP answers to the following:

- Why has the NCP facilitated processors and retailers increased profit margins in the supply chain, at the expense of producers and consumers?
- How is this consistent with the NCP public benefit factor of:  
**‘promotion of equitable dealings in the market’?**
- Is it the intention of the NCP to create shortages in the dairy industry?
- Is the wider NCP economic rationalist reform intention to import the majority of food and fibre to Australia?
- Why is it that the retail sector in Western Australia is unique and appears to be the most aggressively competitive in Australia? <sup>(1)</sup>
- How will the Commission and NCC address the fact that this has been a significant cause in Western Australian dairy farmers receiving Australia’s lowest farm gate milk price? <sup>(1)</sup>
- How do producers recover their increasing costs of production due to external uncontrollable factors? (eg; fuel price and resultant input increases)
- Are producers expected to continually improve efficiencies and lower their costs of production as the only method of staying profitable?

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- Are producers expected to continuously absorb input-cost increases?
- Why is it that farm gate prices stay static or reduce while other supply chain participants continue to pass on cost increases?
- Why is it that processors and retailers are not required to achieve the same level of efficiency as producers, to the consumer benefit?
- Why is it that the only one in the supply chain which is subject to proving their competitiveness, is the producer?
- Why is it acceptable that;

**“businesses have benefited more than have households”**  
and  
**“real prices for some infrastructure services have increased”**

These outcomes are totally inconsistent with NCP reforms

- How and where does the Commission acknowledge the associated environmental costs of ever-increasing productivity and intense farming methods necessary for dairy farmers just to stay ‘efficient’ in an absolute price-taking market?
- What strategies have been identified to address the above issues, how and when will they be progressed?
- Has the Commission fully assessed the real cost to dairy farmers, communities, the Health, Social Security and additional support mechanisms and compared this with the supposed 5% decrease in milk prices to establish the actual cost/benefit ratio?

**To achieve any credibility this Review must:**

- Explicitly identify the impact of reform measures on specific industry sectors, small businesses, individuals and small rural and regional communities
- Conduct complete regional cost/benefit analyses
- Explicitly identify the economic, social, community and cultural impacts in small rural and regional communities
- Address the NCP related recommendations from the Western Australian Economics and Standing Committee Report No 8 ‘The Sustainability of the Dairy Industry in Western Australia’

- Assess and plan for actual numbers of dairy farmers who will, or have to, continue to exit the industry. The time frame, the subsequent social (including health) and regional impacts, including those highlighted in the social impacts, and the appropriate support mechanisms must be identified and implemented
- Quantify NCP impacts on dairy farm succession planning and flow on effects on a local and regional economic, social and industry related basis
- Factor into purported NCP 'benefits' the costs of the 'run-down' (age and disrepair) basic dairy infrastructure and equipment, detailing resultant environmental and work-place safety issues
- Address the utter and clearly demonstrated vulnerability of producers as absolute price-takers through the Trade Practices Act and ACCC avenues to strengthen profound weaknesses exposed by recent Collective Bargaining processes. Collective Bargaining must have the ability to deliver positive, tangible, continuing indexed results.
- This process must enable farmers to negotiate/receive on-going sustainable prices and equity in the food chain recognising:

That supply and value chain management is effective only if *all* parts of that chain are making a profit

That the single most critical component to the survival of farms is the price received for the product produced, therefore ensuring numbers of dairy farming enterprises are active and viable across regional areas

That under the current scenario more and more milk and dairy product will be forced into generic production to the benefit of multi-national supermarkets

That competitive, fair and open markets are fundamental to the sustainability of dairy farmers, and greater transparency needs to be introduced into the producer/processor/wholesaler/retailer chain through an open, accountable assessment of all levels of the existing supply chain.

Answers must be provided for these fundamental questions:

**Where and what are the checks and balances for NCP reforms?**

**How does NCP address the issues when progression of NCP reforms do not produce the anticipated results or delivers greater costs than benefits to small regional communities which cannot be eliminated by short, medium or long term support mechanisms?**

**Given the content and tone of this Review, those who have borne the brunt of NCP reforms both individually and collectively, ‘the victims’, can rightly deduce that they are expendable, immaterial and basically merely ‘collateral damage’ in the NCP process.**

**To progress any further NCP reforms without completely examining, documenting and detailing the full extent of NCP impacts, particularly on rural and regional Australia, would be an absolute farce and nothing more than a bureaucratic and political whitewash of the true position.**

*Australia needs an economically, socially and environmentally sustainable Dairy Industry to guarantee the supply of the high quality, fresh dairy products for domestic consumption and export markets, and to underpin the stability and independent growth of many rural communities.*

*The Milk Industry Liaison Committee strongly believes that rural and regional communities need numbers of dairy farmers and families with sustainable financial returns, in order to thrive.*

