

ECONOMICS AND INDUSTRY STANDING COMMITTEE

Sustainability of the Dairy Industry in WA - Eighth Report

MR A.D. McRAE (Riverton) [10.57 am]: I present for tabling the eighth report of the Economics and Industry Standing Committee on the sustainability of the dairy industry in Western Australia.

[See paper No 1904.]

Mr A.D. McRAE: I am pleased and proud to bring this report into the sustainability of the dairy industry to the Parliament. The committee believes that the dairy industry is absolutely essential to the social and economic fabric of many districts in the south west of Western Australia. The committee notes with some pride that Western Australia's dairy farmers deliver one of the finest dairy products in the world; it is internationally regarded and we understand the quality of the product.

Before deregulation, it is fair to say that the Western Australian dairy industry had a higher level of protection than that in any other State in Australia. This inquiry was focused on the effects of and the opportunities that are available following deregulation if the industry is to be sustainable into the future. This report is about taking steps that improve market opportunity, and, as a result, enable fair pricing of produce. There is a need for further efficiency to be achieved in this industry and the Government must be a partner in delivering further support for these ongoing reforms. The deregulation of this industry, which had been protected for more than 30 years, was implemented, in our view, without sufficient consideration of the dramatic change that would result for not only farm businesses but also farming communities, and, indeed, districts throughout the south west.

The committee's August 2003 report set out that this inquiry was looking forward to a future-sustainable industry, not backwards to a regulated and sometimes inefficient past. Our objective has been to ensure that the Parliament put proposals to Government that would assist and promote the industry. Western Australia must guard against losing not only the critical mass of its industry economically, but also the historical and social structures that exist in the many communities that rely to a significant extent on the dairy industry in Western Australia.

Since the Legislative Assembly referred the matter to the committee at the end of June, we have held 22 deliberative meetings, received 74 submissions and held 41 hearings or briefings with 87 people. This included farm visits to the south west, meetings with dairy farmers and meetings with the four major dairy processors and three major grocery retail groups in Western Australia. Although many people have contributed, some deserve a special mention. Peter Radford assisted the committee on its visit to Bega in New South Wales; Peter Wilson from Dairy Australia, and Steven Adams from Peters and Brownes Group have provided a steady stream of relevant data to the committee, which has assisted the timely delivery of the report. Madam Deputy Speaker, it is also important to mention that present in your gallery today are members of the Milk Industry Liaison Committee. I pay regard to them and thank them for their contributions and continuous lobbying on behalf of not only their businesses and their industry, but also the communities throughout the south west of Western Australia. They include Helen Cox from Busselton, Jenny Fry from Benger and Nola Marino from Harvey. These three women are typical of people throughout rural communities, where women in particular are taking a lead role in maintaining the fabric of communities, driving the changes that are necessary and giving support to members in the community to deal with those changes. I commend each and every one of them.

The Assembly also agreed to allow the secondment of two other members - the members for Warren-Blackwood and Bunbury - and I acknowledge their significant contribution to the inquiry. Of course, other members of my committee will also be making comments. The critical thing was that the level of cooperation among members of this Chamber when participating as committee members in some ways reflects the kind of behaviour that we now need to see in the dairy industry. It is true that the Western Australian dairy industry has historically become probably more fractured - if not fractured, then certainly more individualistic. People, particularly in the regulated scheme, were able to operate without the need for great levels of cooperation or collaboration with their colleagues and peers in the industry or the district. That has changed. The demand on farmers in the dairy industry in Western Australia is for a greater degree of collaboration and cooperation. Therein lies the single greatest path for success and sustainability for not only these farm businesses, but also the districts that rely on them.

I also pay particular mention to the staff: Dr Ray Wills, the principal research officer; Ms Jovita Hogan, research officer; and in the early part of this inquiry, Ms Liz Kerr was also involved. These staff members are the most professional, supportive and dedicated that one could come across and I give them my personal thanks. I also thank and acknowledge Dr David Windsor who was seconded from the Department of Agriculture. David's contribution was extraordinary. His level of expertise, enthusiasm, compassion and professional interest in this

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matter deserve public mention and accolade. In talking about the support staff, I also take a moment to record my sadness at the passing away earlier this year of a member of staff of the Parliament who also worked with this committee, Mr Alf Opie. I know that we miss him. He was an important member of this institution and an important member of the framework of the Parliament, and I give my regards to Alf's family and friends.

I shall touch on a couple of findings and recommendations of the committee, but I will not deal with them all. The first thing that members and the public will notice is that any inquiry into the dairy industry in Western Australia in a deregulated environment reveals that this industry is complex, its challenges are diverse, and the responses to those challenges and the need for action are not simple. There are no simple answers for the future sustainability of the dairy industry in Western Australia. It requires an array of responses that are coordinated, that involve all the stakeholders, and that involve partnerships between government, industry representatives, farm business operators and district leaders to really make change that will take this industry forward.

I shall touch on a couple of the findings and recommendations that I think describe what this inquiry observed about the industry and what this committee is saying is necessary for the future. First, I will run through a couple of the statements about the findings. The dairy industry is one of the most highly value-adding rural industries in Western Australia. Many south west Australian dairy farm businesses are among the most efficient in the world, although others are not economically sustainable in the current dairy market. More than 25 per cent of Western Australian dairy farmers have left the industry since deregulation of the domestic market in July 2000. The industry has gone from somewhere around 400 farmers to fewer than 300, and that number is still falling. Milk production in Western Australia has dropped by about five per cent since 1999-2000, with most of the reduction occurring in the first year following deregulation, and in the following years there has been a pick-up of that loss in production.

Western Australian milk is recognised for its exceptional quality and it is preferred in Asian markets because of its superior flavour. There is real potential to capitalise on the whiteness of WA milk, and the Western Australian industry needs to use those elements of a critical mass and efficient dairy farmers in the industry, combined with the uniqueness of the product and its value for its future. Those are the characteristics that we see in the industry today. The effects of deregulation might also be characterised by a number of observations. The total production of milk income to dairy farmers in Western Australia resulting from deregulation of the domestic milk market is estimated to be \$24 million per year. The retail sector in Western Australia is also important in this dynamic, because the retail sector sets the consumer price, which then supplies that price back through the whole of the industry chain. The committee's finding is that the retail sector in Western Australia is unique and appears to be the most aggressively competitive in Australia. This has been a significant cause of Western Australian dairy farmers receiving Australia's lowest farm gate milk price. Indeed, this report also collects data and displays it in charts that show that Western Australian dairy farmers are receiving the third lowest farm gate milk price in the world among exporting countries. That is extraordinary. Allegations that the industry is not efficient are dismissed when one sees the cost of production and pricing schemes in Western Australia.

The committee takes real issue with some of the administration of a deregulated market. The committee believes that it is the Australian Competition and Consumer Commission's responsibility to monitor the use of market power by retailers in pursuit of market share and margin. The Trade Practices Act 1974 has failed to protect dairy farmers during the adjustment following deregulation. Why does the committee say that? It is clear from the data collected by the committee that retailers have used milk as a lead market share leveraging item -

Mr B.K. Masters: A loss leader.

Mr A.D. McRAE: It can be a loss leader if it is actually being sold for less than they pay for it, but it is also true that driving retail prices and the wholesale price down, depresses all margins and all prices to all stakeholders through the chain in the industry. It sometimes can be a loss leader for market share, but because of the power of the retailers within the industry and the marketplace, they can actually reduce prices and margins all the way through the chain. I say this very unequivocally and clearly to this Parliament and to the people of Western Australia: it is my view that retailers have acted unconscionably in their retail pricing and they have used their aggressive market behaviour to gain market share or market position, and they have used dairy farmers as one of the sacrifices in the pursuit of that.

Mr B.J. Grylls interjected.

Mr A.D. McRAE: That is a very interesting comment. The data reveal some very interesting facts about retail pricing in Western Australia. Prices in Western Australia for branded milk are consistently lower than those on the eastern seaboard, and the price gap is widening. That tells us that the retail sector is the most competitive in Australia. The Western Australian Labor Government's pursuit of a managed reform of retail trading hours to get rid of the uncertainty is absolutely correct. Any further concentration of market power resulting from

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absolute deregulation of retail trading hours would increase the losses incurred by dairy farmers in this State. The member for Merredin needs to be careful when saying that sort of thing in this place, because it will be recorded.

The industry in Western Australia has a bright future if it is based on a number of key principles. Firstly, there needs to be greater collaboration and collective bargaining by dairy farmers in their price negotiations. It is no longer possible for individual farmers, in the context of the vigorous and sometimes aggressive competitive behaviour of processors and retailers, to successfully negotiate long-term sustainable prices by themselves. This is not a unique situation. In many producer markets throughout Australia and the world, producers really need to band together to have some market power in the negotiation of produce price. That is one of the key principles that must be pursued by the industry. The committee is recommending that the Government facilitate the development of either a single desk or a number of cooperative negotiating teams of dairy farmers, so that they can together pursue and secure greater farm gate prices and the sustainability of their businesses. Through that security they will be able to contribute as essential elements of the districts, regions and communities in the south west of Western Australia. In the absence of price negotiation based on more collaboration and cooperation, they will be picked off, as has occurred over the past three years, and people who would otherwise have survived if a decent and sustainable price had been available will continue to be squeezed out of the industry.

The second key change needing to be embraced is that the dairy industry in Western Australia needs to focus on value adding and export markets for growth. As I have already acknowledged, Western Australia is producing some of the highest quality milk in the world. It has a very low bacteria count at the dairy. In some cases, the bacteria count at the dairy in Western Australia is lower than that after initial pasteurisation for some of the producers in the eastern States and New Zealand. We have a unique product with a taste recognised in Asia as one of the finest, and a colour that is superior to that of any other Australasian product. The product clearly has market advantage, which is demonstrated by the very high profile presence of the local producer Peters and Brownes Group in the ice-cream market in Japan, one of the most difficult markets to crack. Peters and Brownes produces in Western Australia, and is the largest single exporter of ice-cream into Japan. That is a demonstration of high value-added, niche-market and growth-market potential.

It is also clear that the Government, industry stakeholders, processors and retailers have a role to play in changing the dynamic of this industry. The committee is recommending that the Government, in the next Loan Bill, provide a loan for the development of cooperative dairies in this State. We believe that a cooperative dairy sector, occupying a proportion of the industry in this State, is essential to the future of the industry. We are also saying that retailers and processors, together with stakeholders and the Government, need to understand that product development, research and development, and proper retailing are collaborative efforts. The committee recommends that the State Government initiate a research and development partnership, aimed at the development of new products and markets, and that the industry investigate the new model for a dairy industry transport company successfully emerging in South Australia. The committee also recommends that the Government direct Western Power to undertake different costings when changing infrastructure based on the request of one customer, when it is quite clear that a number of customers in the same locality will also be doing upgrades in the short to medium term, so that the cost of infrastructure development is not borne by a single customer but is amortised across a number of customers over a number years.

There is no single-answer solution for the industry. It is not possible to re-regulate in the old terms and come up with an answer. The answer for a sustainable dairy industry in the future requires collaboration, cooperation and intelligence. We have the capacity in this State for all those things, and I am very confident that, with a united vision and with a collaborative effort between the Government, industry and farmers, the Western Australian dairy industry will survive and prosper into the future. I commend the report of the inquiry to the House.

MR B.K. MASTERS (Vasse) [11.17 am]: Of the three inquiries conducted by the Economics and Industry Standing Committee to date, the inquiry into the Western Australian dairy industry has been the most difficult. The dairy industry in Western Australia has a long and complex history, made far more complex as a result of the deregulation that occurred on 1 July 2000. In addition, genuine financial disadvantage is being suffered by a significant number of dairy farmers as a result of current milk prices and other factors. Major adverse impacts are being felt by a number of south west communities as a result of the reduced disposable incomes of dairy farmers. The potential for the industry to suffer further major adverse impact is very real; firstly, because of the high value of the Australian dollar and, secondly, if the Chinese joint venture entered into by the Challenge Dairy Cooperative does not work out. The greatest difficulty has arisen because of the emotion surrounding the whole issue of the future of dairy farms, farmers and the dairy industry in Western Australia. Some farmers see no light at the end of the tunnel and are facing financial ruin. Other have borrowed six or seven-figure sums of money to expand their dairy farms, and they are now at greater financial risk than they were before deregulation.

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Many of the smaller farmers have limited financial resources and limited ability to expand any of their farming activities to a degree sufficient to make them financially sustainable in the short, medium and long term. For all those reasons, this has been the most difficult inquiry conducted by this committee.

Sadly, the recommendations in the committee's report are unlikely to result in significant and immediate increases in the price of milk being paid to dairy farmers, unless all people and businesses in the supply chain agree to lift prices so that farmers can become, in some cases, viable, and, in other cases, more viable than they are at the moment. The dairy industry chain starts with the consumers, who have to be prepared to pay more for their very high quality drinking milk. I believe the consumers will accept modest increases in the price of fresh milk in exchange for dairy farmers' sustainability. That message needs to be sold to the consuming public of Western Australia, but I believe it will be an easy message to sell to them. The second part of the chain is retailers. Retailers must be prepared to pay more to processors for milk. I must advise that I have less confidence that the two major retailers - Coles Myer and Woolworths - will be prepared to play their part by lifting the price of milk so that the benefits will flow through to all sections of the dairy industry. The third part of the chain is the processing companies, particularly National Foods and the Peters and Brownes Group. Based on my assessment of the financial position of those companies, I do not consider them to be significantly profitable. I believe their returns on capital invested are relatively modest by modern standards. I commend both National Foods and the Peters and Brownes Group for their willingness in the past to support the dairy industry as best they could, taking into consideration their obvious need to put the needs of their shareholders first and foremost. I have confidence that both of those companies, together with Challenge Dairy Co-operative and Harvey Fresh, will try to keep the dairy industry sustainable in Western Australia if they are allowed to do so. The final link in the chain is, of course, the dairy farmers themselves. As the report states, there are many things that farmers can do to improve their viability. Sadly, however, as Dr Glenys Hough advised the committee, some of the smaller dairy farmers are risk-averse and cannot, or will not, take the necessary steps to improve the viability of their farming businesses. I believe that because government should never be able to force a private businessperson, farmer or otherwise, to do something against his or her free will, the sad reality is that more dairy farmers will close their doors and exit the industry over the coming months and years. Should this eventuate, both the federal and State Governments must take appropriate action to support these farmers and assist them in a number of ways, as has been indicated in the committee's report.

I need to direct some criticism against certain parties involved in the dairy industry in Western Australia. I make these criticisms not in a gratuitous way but to challenge them to lift their game, accept their responsibilities and take actions and make decisions that will benefit the entire dairy industry in Western Australia. First, I express my disappointment at the failure of the Australian Consumer and Competition Commission to involve itself more forcefully in the Western Australian dairy industry at the time of deregulation in July 2000. One of the greatest fears, and hence one of the greatest motivations, of dairy farmers in determining their vote in support of or against deregulation at that time was the fear that Victorian dairy farmers would dump their milk and milk products in Western Australia after deregulation so as to destroy the dairy industry in this State. Western Australia enjoys a freight advantage for fresh milk produced and sold in Western Australia, yet Western Australian dairy farmers receive the lowest farm gate price for milk of all the Australian States. If the ACCC had told farmers in the lead-up to deregulation in 2000 that it would seek to protect the interests of farmers as well as the broader interests of consumers, I am convinced that we would have had a far better outcome after deregulation than we are now experiencing. If I have one message to the ACCC it is this: consumers are important, but communities are more important. The ACCC seems to direct its total attention towards consumers rather than communities. The ACCC and the National Competition Council should take note of this statement.

My second criticism is directed towards Coles Myer and Woolworths, the two large supermarket chains in Western Australia and, for that matter, Australia. There is a trend in the retail sector for these two retailers to form allegiances with the suppliers of particular products and to put a greater effort into selling their products in preference to goods supplied by other manufacturers. Because of this, after deregulation came into effect in 2000, Woolworths was able to effectively force National Foods to supply milk at a price that was, in the short-term at least, unsustainable to many of the dairy farmers in Western Australia. This was an abuse of market power and was probably the worst action that was taken in the immediate period after deregulation; and the consequences of that are still being felt today.

The most important thing that needs to happen in the dairy industry in Western Australia is for the farm gate price to go up. This will probably need to occur by agreement between processors and retailers. The ACCC must ensure that those higher prices flow on to farmers. I encourage farmers to take direct action, where appropriate, against Coles Myer and Woolworths, because it is my view that if they can gain some media coverage for their plight and turn that into a publicity campaign against those two retailers, embarrassment will

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cause those two companies to pay higher prices to the processors, who I am confident will, in turn, pass on those prices to farmers.

In conclusion, I thank my fellow committee members, particularly the chairman, who has worked very hard in producing this report, and also the member for Warren-Blackwood, who was a coopted member of this committee, and who should take the credit for having raised this issue to such a high profile. I also offer my significant thanks to the staff of the committee, Dr Ray Wills, Jovita Hogan and Dr David Windsor. They have done an excellent job, and considering the membership of the committee, including myself, that was no easy task. The report makes many important findings and recommendations, all of which are predicated on the belief that the Western Australian dairy industry should, and must, have a strong future in Western Australia.

MR M.P. MURRAY (Collie) [11.28 am]: I also want to thank the staff of the committee, including the chairman, and the other coopted member, the member for Warren-Blackwood. The report of the committee certainly highlights the direct impact of deregulation on dairy farmers. However, the deregulation of the dairy industry has had a bigger impact than just that. It has also had an impact on communities. Having been through a downturn in industry in my own community, I certainly sympathise with the smaller towns along the south coast, such as Harvey and Brunswick, that are also suffering from the impact of deregulation. When the dairy farmers cannot pay their bills, of course there is a collapse within the community and people feel the real sting of deregulation. The social structure of the town falls away. The football clubs close. The people who donate trophies to the football club and other clubs tighten the purse strings a bit, and people then really start to feel the impact of not having those spare dollars that go around and keep those small communities together. The breakdown may start at the top with the dairy industry, but it goes right down through the social structure of the community.

I see some ladies sitting in the Speaker's gallery at the back of the House today. I went to a couple of meetings along the way. I will not go into the details of those meetings, but one of the meetings was in Boyanup, and it consisted mainly of men. It was a very subdued meeting, with a bit of head-nodding and grandstanding, to say the least. I then went to a meeting in Harvey, at which there were quite a number of women. It certainly showed that when things are tough, the women come forward and we need to stand back, because it is on for all. I think that was good, because the people at the Boyanup meeting just went along with the flow, but the women at the Harvey meeting - the wives of farmers, and also community members - got up and said something needed to be done.

Mr P.D. Omodei: It sounds like they had your measure.

Mr M.P. MURRAY: That was probably it. I took a step backwards and sat over on the side. However, the meeting opened my eyes because I was unaware of the division within the community and the dairy industry. I am happy to say that the meeting came to a consensus that the dairy industry would remain wallowing around and could not go forward until the people in the industry got together. There has been some movement on that consensus this week through developments in the South West Development Commission towards a single bargaining unit, or for at least some unity within the community, to make decisions that will ensure everyone gets a fair go, not just small units or individuals who are allied to one producer or one group in the dairy industry. That is a major change from the way things were headed. To be quite honest, the change was led by the women at that meeting. I take my hat off to them because, although some of them were small in stature, they took the fight to anyone who was willing to listen. I congratulate them for that.

The committee visited other areas of the dairy industry. It was obvious that the industry had changed in Tumut and Bega, New South Wales - although I did not visit Bega. Farms there with a small number of cows are not being used as dairies. The industry has changed from a small scale to a larger scale industry. Unfortunately, there is not a lot of room left in the industry for farms with small numbers of cows, and that is probably the way the industry is headed. Producers must get bigger and stronger to absorb the ups and downs of the market along the way. I could not give some farmers, some with as few as 40 cows, who called my office a great deal of hope that they would survive in the industry, and not become part of a side market. In some ways that is not good for the industry. Unfortunate though it may be, I believe that is the future of the industry in Bega. Then again, there are herds of 1 000 cows on Western Australia's south coast and the people there are happy with deregulation. However, those farms operate to the detriment of farms in towns further north where people with 120 or 130 cows are pushing for a reasonable price for their milk.

A measure I was keen to see put in place was a levy on the retail price of milk to help the dairy community get through the downturn. The levy would probably have been about 10c reducing over a few years. Unfortunately, the State Government is not allowed to do that as it is a commonwealth government responsibility. That is disappointing, to say the least. The member for Vasse spoke about the major retail chains. I do not believe they are giving the industry a fair go. As we know, multinationals answer to their shareholders. They appear to have

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forgotten that there will be no milk if in the long run no-one is producing it. It would be a disaster for Western Australian if people had to live on powdered milk in the future. We need to support the dairy industry as it is now in many ways, but it may also have to become more efficient and more relevant to today's times. I say that with no disrespect to the farmers in the industry. I know many who are in the 50-plus age category. Younger people do not want to get into the industry because there is no certainty of a future for them. Why would they follow that line if there is no certainty of a future and if they are likely to end up out of a job? They would be better off going through school, scraping their dollars together and considering another employment area. That is another side issue.

It is very important that sustainability - the buzz word of the moment - in the industry be maintained. Sustainability is not about sustaining only dairy farmers but also people who live off the dairy farming industry in one way or another. The committee's report refers to people who lay roads for cattle tracks through farms. Most people do not know about them. One guy's turnover was reduced to half of the previous year's turnover because he was no longer making roads for farmers, as that is an expense that farmers have been able to cut out. Other people who provide superphosphate and grain to farmers get some sort of living from the dairy industry. We must be mindful of the impact of deregulation on those people and, of course, on families. We have heard of suicides and of people just walking off their farms. That is the last thing we want to happen to the industry in Western Australia. With those remarks, I commend the report to the House.

MR J.J.M. BOWLER (Eyre) [11.34 am]: My electorate takes in the goldmining and pastoral regions of the State, so before June this year I knew very little about the dairy industry. Like everyone else, I have followed the reports in the media about deregulation. Being a father of five sons who consume an inordinate amount of milk, I am probably well versed to speak for the consumer end of the market. My local storeowner reckons that my boys must pour milk down the sink, as they use so much of it.

Mr P.D. Omodei: You are obviously a Catholic, milk-drinking family.

Mr J.J.M. BOWLER: Exactly. The member for Warren-Blackwood can see from my own "Marie Corelli" that I drink too much of it myself.

This issue was raised by the member for Warren-Blackwood, who initially moved to appoint a select committee to investigate it. I recall that I said that we had standing committees and that the Economics and Industry Committee should examine it. I recall the member for Warren-Blackwood's concern about the impartiality of that committee. I said that there were three government and two opposition members on the committee and I gave him my assurance that the committee would be impartial. I told him that I had seen no evidence of bias in the past when the committee had conducted other inquiries and I gave him my promise that I would show total impartiality. I would like to think that in the past two months the committee has shown the member for Warren-Blackwood that it has been impartial, that its 56 findings and 22 recommendations are impartial and that it has done what it thinks is best for the industry. I must say that the member for Warren-Blackwood has helped me personally in this matter. As I said, I came into this inquiry knowing nothing about the dairy industry. When I wanted to find out something about the industry, I invariably sought advice from the member for Warren-Blackwood, and the member for Collie, who also knows a bit about the industry. The member for Warren-Blackwood has been a great help. I also praise the committee staff, our principal research officer, Dr Ray Wills, who is sitting at the back of the Chamber today; Dr David Windsor, who was co-opted from the Department of Agriculture; and Jovita Hogan and Liz Kerr, who have also done a wonderful job. I thank them all publicly.

Members may find, on reading the 56 findings and 22 recommendations in the report, that farmers, processors, retailers and consumers are not totally satisfied with our report. My experience in life tells me that we have probably got it right if every side is not totally satisfied; in other words, the committee did not come down totally on one side. We looked at a balance of all parts of the industry and tried to do what was best not only for the dairy industry - because it must be viable - but also for the people in the process, including consumers at the far end of the market.

The chairman of our committee has already spoken about the common thread that runs through the recommendations; that is, farmers must get together. There is no doubt that in the past, before and after deregulation, farmers have been picked off, if not one by one, at least group by group. That will happen again if they do not show some unity. When I have asked why they find it difficult to get together, I have been told that they have tried to do that but always one or two have broken rank. I say to them now publicly that they must get together if they want to see progress in their industry and to have a say in and some control over their own destiny. If the industry cannot achieve a single desk, it should at least try to work through cooperatives. Our investigations have shown that there is no doubt that farmers get a better deal through cooperatives, such as those in Victoria. The dairy industry there is supposedly bigger and more efficient. One would think therefore that prices would be lower, but the opposite is the case; prices are higher. Farmers are getting a better deal in general

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in the eastern States than in Western Australia. Historically, the eastern States have had smaller, less efficient farms, so one would think that the opposite situation would apply. I am also told that the Australian Competition and Consumer Commission will not allow farmers to band together, which annoys me a bit because I believe that occurs in the Australian retail sector with Woolworths and Coles. The ACCC allows Woolworths and Coles to be virtually -

Mr N.R. Marlborough: A duopoly.

Mr J.J.M. BOWLER: Yes. The ACCC allows them to control the market, but I am told that farmers are not allowed to do the same thing. Why not? Earlier the member for Merredin interjected and said that he is worried - I can see his concern - that if we allow longer trading hours for Woolworths and Coles, they will have a greater control of the market, which will further deprive farmers of their ability to compete. I showed the member for Merredin page 44 of the report on which there is an amazing graph illustrating the price of milk in New South Wales and Victoria. It shows virtually a straight line at about the \$1.30 a litre level. Below that a huge squiggle represents the Western Australian price of milk, averaging about \$2.50 and having huge price gyrations. God forbid that there should be a higher market share for Coles and Woolworths, but it might give Western Australian farmers some stability and they might end up in the same position as those in New South Wales and Victoria.

I will not talk about all the recommendations. I have no doubt in my mind that there is dumping into Western Australia. I hope that the ACCC will follow through on our recommendations in this regard. If dairy farmers in Western Australia can show some guts and solidarity and get together, and if we can get the ACCC to investigate what I believe is dumping into Western Australia by processors, I am sure that we can get Western Australian dairy farmers a reasonable and fair price. We do not want to screw the consumers or the farmers; we want to make sure that everyone has a fair price. If we do not do that, we will end up with an industry in Australia that is not viable. Once we end up with that, retailers will start bringing milk from the eastern States and consumers will be drinking fresh milk that has been trucked 4 000 or 5 000 kilometres. We will then lose more jobs in Western Australia. I look forward to the future and hope that these recommendations are carried through.

MR P.D. OMODEI (Warren-Blackwood) [11.43 am]: The report has been a useful exercise. I thank members of the committee for their cooperation and hard work. I also thank Dr Ray Wills, Dr David Windsor and Jovita Hogan, the staff who supported the committee. This is one of the first inquiries of its type and I believe it is not before time. The *Countryman* has the headline in large print: Dairy on the brink. Farmers pin hopes on dairy inquiry. That just goes to show how trusting farmers are, how hopeful they are about the future and how they put their trust in the Government. I hope that the Government reacts to that.

The report contains 56 findings and 22 recommendations, all of which are important. The report should be compulsory reading for every dairy farmer, processor and retailer. I would like to think that a lot more people will read the report. People should also read the attachments to the report. What the Government does about the report will be important, so I call on the Government to implement its recommendations immediately. Members can see from the headline in the *Countryman* that dairy farmers in Western Australia are suffering. The State has lost 25 per cent of its dairy farmers. I am very fearful that the next step down could irreparably damage the industry. It is therefore very important that the recommendations are implemented straight away.

This might sound a little provocative: I do not think that we should rule out re-regulation. In the last week Challenge Dairy, which supplies the manufacturing and export industry, has dropped its price by 4c a litre. It has had to do that because of market forces. If the value of the Australian dollar continues to rise against that of the American dollar, we may see yet another reduction in price by players in the industry. That could be the death knell of the dairy industry in Western Australia. The reason I say we should not rule out re-regulation is that we need to have something to hold over the heads of retailers in Western Australia. If we reached the point where the industry in Western Australia might collapse, the Government would have to take some precipitous action. However, if we implement all the recommendations in the report, it will go a long way towards improving the industry in Western Australia.

If I may provide a few brickbats, I wonder where we would be had we not moved for the establishment of this committee. I wonder what would have happened had I adopted a totally different point of view and wanted to produce a minority report. As a coopted member, I could not do so. We could have had a select committee with more farmer representation that would have produced a similar report. I note with interest that members of the National Party were not coopted onto the committee. As members know, the member for Stirling was a former Minister for Agriculture and presided over the deregulation of the industry. He would have had an important part to play on the committee. At least the committee could have had representatives from the country party -

Several members interjected.

Mr Tony McRae; Mr Bernie Masters; Mr Mick Murray; Mr John Bowler; Mr Paul Omodei; Mr John Bradshaw;
Mr John Day

Mr P.D. OMODEI: The National Party is a country party, like the Liberal Party. I know that we have twice as many members as it has.

I thank the member for Eyre for his speech. I will circulate it to all the Labor voters in my electorate so that they can see what a good bloke I am and they will probably change their vote.

Page 10 of the report refers to the impact of the dairy industry on communities and indicates that for every \$1 earned at the farm gate, the additional economic activity represents \$2.10. Page 35 of the report sets out the districts that have been impacted upon. For example, the Harvey district, which has probably experienced the greatest impact, will have an estimated reduction in turnover per annum of \$8.33 million. The dairy structural adjustment package allocated \$32 million over eight years or \$4 million a year. Over the whole State there has been a reduction of something like \$23.5 million. The 11c levy was put in place to cover the DSAP. Pundits say that that is being paid for by the consumer. The consumer has paid for the whole lot, but when consumers buy the product at the retail outlet, that part of the price has to go back down through the chain. Farmers' costs of production vary across the State. Every person in business is entitled to make a profit. The current price of milk to the consumer in Western Australia is about the same as it was prior to deregulation. Who is suffering and who is gaining? The dairy farmer is getting somewhere between 15c and 20c less per litre. I put it to members that an extra 11c has not been added to the retail price, but that levy is coming out of the farmers' pockets. That is something that has not been put in this report, and I believe it should have been, so that it could be picked up by other States. The dairy farmer is paying for his own package, and he is paying tax on it. The federal Government has reaped a \$400 million windfall. What has it done for it? It has not even administered the DSAP in a sensible way that benefits farmers. One of the recommendations in the report - it is a good recommendation - suggests that the federal Government should put some of that money back into the industry. The member for Eyre mentioned the very important graphs, which farmers should read. The graph on page 44 indicates a price of \$3.25 in the eastern States for both NSW Pura milk and Victorian Pura milk and that the Western Australian retail price is about \$2.50 a two-litre unit. The graph line is all over the place, like it is off the Richter scale in an earthquake. The problem is that Western Australia has inordinate competition between retailers. I agree with members who say that the National Competition Council has not done its job. It should look at this matter, as the report recommends. Page 45 outlines that products brought into Western Australia from the eastern States by companies with sister companies here are at a price way below the price for the same products in other States. Undoubtedly, it constitutes dumping. Something should be done about it. People who make these rules - like those at the NCC - should come into the real world. The deregulation that happened too hastily had a massive impact on small communities in rural Western Australia. As it has a multiplier of \$2 generated for every \$1 in production, one is looking at tens of millions of dollars coming into those communities. A structure is needed to assist the farmers to get back to productive levels. If that means re-regulation is an option, it should not be ruled out.

I have 10 minutes to speak, although I could speak for two hours on this subject. Everybody, especially farmers, should read the report and give feedback to members of Parliament. Ultimately, one has the Australian Milk Producers Association option, with a 66 per cent positive response from farmers, of re-regulating the industry in Australia. I do not say that suggestion is absolutely right. Nevertheless, without significant movement in the viability of dairy farmers, we could see the collapse of the dairy industry in Western Australia.

MR J.L. BRADSHAW (Murray-Wellington) [11.57 am] - by leave: I thank members for their support in granting leave for me to speak. The dairy industry is very important for my electorate of Murray-Wellington. It has been a trying and stressful five or six years for the dairy industry. It was important that the member for Warren-Blackwood got the standing committee inquiry into the dairy industry up and running. Without having read the report, and flicking to its conclusions, I have some problems with the report if its recommendations are as good as its conclusions. One conclusion reads -

Dairy farmers need to ensure that their businesses are structured to be competitive in the international and domestic marketplaces and that they have the capacity to respond to increasing competition.

The most efficient dairy farms in the world are in Western Australia, so I find that conclusion difficult to handle. The second conclusion reads -

Dairy processors must continue the shift away from commodity production into high value export markets.

They would have done that years ago if it had been possible. No high-commodity markets are available to be grabbed. We could try. People like those at Challenge Dairy are trying to get into some new markets. I am a little worried about the report's recommendations, even though I have not had time to read them yet.

Mr Tony McRae; Mr Bernie Masters; Mr Mick Murray; Mr John Bowler; Mr Paul Omodei; Mr John Bradshaw;
Mr John Day

It is important to give a fair price and a fair go to dairy farmers, or any primary producer in Australia or the world for that matter. After deregulation, dairy farmers are certainly being screwed, and not necessarily by manufacturers like Nationals Foods and Peters and Brownes, which are in the unfortunate situation of having to competitively quote prices to Coles and Woolworths. The retailers can give a bit in the prices charged. I visited England earlier this year and met the president of the farmers for action group in the United Kingdom. After deregulation, their prices went to rock bottom and dairy farmers struggled to survive. The group met the retailers of Sainsbury's etc in England, and decided they needed more money to be viable and stay in the industry. They asked for more money to make their operations viable. Initially, the retailers said no. The farmers cut off the supply warehouses so they could not get commodities out of the warehouses - not just milk, but everything - to the retail outlets. People then started to talk turkey and two pence a litre was added to the price paid directly to the dairy farmers. This person indicated that if he had not got the extra money from the retailer, he would have gone broke. He was receiving summonses for non-payment of bills at that stage.

I realise that before deregulation took place, dairy farmers faced difficulties. A problem was the federal package. If the federal package had not been offered as an incentive with deregulation, everybody would have said no to deregulation of the dairy industry in Western Australia. I said at the time that I would go down the route wanted by dairy farmers. Some dairy farmers said we needed to deregulate and others opposed it. Pat Riley from the National Dairy Farmers Association came over from the east telling us what would happen and telling farmers to prepare for it. The state leaders were saying much the same thing. It was a difficult situation. In the end there was a vote at which 58 per cent of dairy farmers said yes to deregulation; I guess this was influenced by the federal package. Also, the dairy section of the Farmers Federation wrote to the Government asking for deregulation. I thought: who am I to tell them not to deregulate? As I said in my speech when the deregulation legislation came to Parliament, I reluctantly supported the measure. Looking back, I wish I had opposed the legislation and kept the former system. The only way to get a fair deal for dairy farmers is to re-regulate in some form. I do not say that we should go back to the old system. Re-regulation would state in legislation that a fair return must go to dairy farmers. One must ensure that overproduction does not occur, otherwise milk will be poured down the drain. That would be a difficulty that would need to be managed with that proviso placed in legislation. Figures were released earlier this year by Dr Glenys Hough indicating the cost of milk production in Western Australia. Therefore, mechanisms are in place outlining a fair return to dairy farmers. It is time to look at that possibility. I have no faith in retailers, and little faith in the manufacturers, although some have shown sympathy for dairy farmers - they are in a difficult position. It is important to keep as many dairy farmers in the system as we can. It is not only dairy farmers who are hurting, but also people who provide stock, goods and services. This has a flow-on effect with the money spent in rural towns. It is very important.

I will be interested to read the report's recommendations. Ultimately, the only thing that will fix the situation is some form of re-regulation. Governments are loath to go down that path. Regarding the National Competition Council, it is time the States ran themselves and did not worry about Canberra's dictates. It is important to get States' rights back and that we run the State how we want to run it, not how we are told to do so from the eastern States. I hope the report has some good recommendations. I have problems with its conclusions, as I pointed out, because dairy farmers in Western Australia are very productive and efficient. Somehow we need to ensure a reasonable return for a very good product.

MR J.H.D. DAY (Darling Range) [11.59 am]: I am pleased to speak as a member of the committee in support of this report. Among the findings and recommendations, it contains a large amount of useful background information about the recent past and the current state of the dairy industry in Western Australia. A number of aspects came through as the committee inquired into this issue, in particular, as other members have said, the need for cooperation among members of the dairy industry and especially primary producers in this State. It is clear that a significant degree of division exists among members of the farming community in the dairy industry and that they would probably be able to achieve more if they acted in a more cooperative manner. There is also a need for further innovation in the industry in this State. The committee was made aware of a significant amount of innovation that has occurred in recent times and our visit to the dairy of the Peters and Brownes Group brought home to us some of the innovative steps that that company has taken. Export markets also need to be further developed and whatever assistance we can reasonably provide in that area would clearly be in the interests of the dairy industry in this State. It was also made clear to the committee that Western Australia has relatively low-priced milk at the retail level, which one or two witnesses who appeared before the committee explained is for historical reasons. As indicated in the report, it is not viable to consider the re-regulation of milk prices in this State. It became apparent to the committee that some primary producers using the current farm gate prices were managing to do reasonably well, but, on the other hand, other primary producers were not doing so well with the current prices. Perhaps some assistance or advice needs to be given to them to ensure that they can be efficient and competitive.

Extract from *Hansard*

[ASSEMBLY - Thursday, 4 December 2003]

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Mr Tony McRae; Mr Bernie Masters; Mr Mick Murray; Mr John Bowler; Mr Paul Omodei; Mr John Bradshaw;
Mr John Day

A lot of good information is contained within this report and I commend my fellow committee members in completing this inquiry. In particular, I thank the staff of the committee - Ray Wills, Jovita Hogan and David Windsor, who has been on secondment from the Department of Agriculture - for their very industrious work in producing a report and assisting us with the inquiry in a relatively short space of time.