Australian Citizens Party

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MEDIA RELEASE

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Former Woolworths chairman calls for urgent dairy re-regulation

The deregulation experiment that drove thousands of Australian dairy farmers out of business and many to suicide is a complete failure. Now an Australian business leader of great experience, John Dahlsen, is calling for dairy deregulation to be reversed, and has backed up his call with an in-depth report, *The Dairy Industry Crisis: The Case for Government Intervention* .

The significance of the Dahlsen report cannot be overstated. John Dahlsen is a former chairman of retail giant Woolworths, a former director of the ANZ Bank, and a former Councillor of the pro-free market Institute of Public Affairs. Thus he does not come at this subject from the standpoint of a so-called “agrarian socialist”, and his experience with the industry is more from the side of the retailers, not the farmers. But he is calling for re-regulation for the undeniable reason that deregulation hasn’t worked: “The market has failed and market intervention is required”, he states in his report.

The strongly worded report calls the behaviour of the giant retailers that Australian dairy farmers have had to endure, “unconscionable and un-Australian”. Mr Dahlsen identifies the problem as the structure of the industry, specifically the “huge power imbalances between the retailers and processors, and the processor and the farmer”.

“The retail oligopoly is doing very well with profitability and return and are capturing an unfair amount of the rent”, the former Woolworths chairman declares.

Milk price

The nub of the issue identified in the Dahlsen report is the price of Australian milk, which is among the cheapest in the world, and far cheaper than our close neighbour New Zealand. It notes:

“You can currently purchase one litre, regular milk in Australia for approximately $1.20. In comparison the equivalent milk price in Canada is $2.58, and $4.28 in Hong Kong. The average world retail milk price is $1.70 and in the developed world is $2.40. In NZ, milk is $2.51 a litre—an extraordinary difference.”

Milk is now cheaper than the $1.37 per litre at the time of deregulation in 2000, 20 years ago! “It is curious”, John Dahlsen observes of milk prices, “they still produce good profits for the retailer.” Milk is currently retailing for less than filtered water. Meanwhile other dairy products like butter, cheese and yoghurt have increased in price considerably. In the years 1980, 1999 and 2010 the price of butter was 1.5-2 times the price of milk; today it is five times.

While the price of milk has fallen, the cost of farm inputs has soared. The cost of energy is up 60 per cent in five years, and dairy farmers who have to buy water can at best afford $200 per megalitre, but now face charges of more than $1,000.

Since deregulation in 2000 the number of farms has fallen by 60 per cent, to 5,213 registered dairy farms as of 2018-19. Milk production has declined 19 per cent, from 10,847 million litres to 8,795 in 2018. In Victoria, the best state for dairy production, the number of cows is down by 34 per cent. Post-deregulation the average dairy farm profit has been approximately $22,818, compared with the national minimum wage of $38,000.

“The industry is in a price/cost squeeze from which, in the current structural circumstances, there is no escape”, John Dahlsen warns. “The squeeze will, in the absence of government intervention worsen.

“There is evidence that many dairy farmers are reducing equity with bank loans to meet on-going operating costs. *This means that consumers and milk processors, are being subsidised by the extraction of equity from the dairy farms. The processors and particularly the retailers are all making money*.” (Emphasis added.)

“Some consolidation of dairy farms is desirable; however, the current crisis has catapulted the dairy industry way beyond desirable and advantageous consolidation. Without ‘consolidation’ this will continue to eat into farm equity. Their blind faith in ‘better times ahead’ will take them to the bank manager for further loans, and then eventually a forced sale. The government has a moral obligation to put a stop to this unconscionable, un-Australian and grossly unfair state of affairs which is no fault of the dairy farmer."

Proposal: extra 40 cents per litre paid to farmers

The major recommendation in the Dahlsen report is for a 40 cents per litre levy, or transfer price, on the retail price of milk, to be paid to the farmers. "This should go straight to the farmer without deduction by the processor", he insists. This is a 31 per cent increase, which is small compared to the common variations in prices of vegetables of 100 per cent, and meat and seafood of 50 per cent. He is confident Australians will support this modest increase that will make a big difference to dairy farmers.

The extra 40 cents would be paid to all farmers, no matter where they are, based on the volume of milk they deliver to the processor, so the production advantage of Victoria over other states is not an issue. He proposes an independent intermediary should receive the payment from the retailers to distribute to the farmers.

John Dahlsen is adamant there is no way the dairy industry can be restructured without regulation. "The retail oligopoly is too powerful for both the processors and indirectly the dairy farmers", he explains. "This justifies intervention."

"The market has failed and no code of conduct or government jawboning will work. With drinkable milk, the problem can only be solved by price regulation. … *Adam Smith, the father of capitalism and the free market, would support market intervention and the reasons for it*." (Emphasis added.)

The former ANZ director emphasises the problem is structure, comparing the need to break the structural dominance of the Coles-Woolworths duopoly with the need for a Glass-Steagall separation of retail banking from investment banking to protect depositors from speculators.

As farmers were already leaving the industry at the rate of 2-3 per week before the bushfires that caused immense damage in dairy regions, which has since risen to a rate of 9-10 per week and now threatens to rise more following another price cut to farmers, John Dahlsen emphasises the urgency: "Action is required within weeks, not months", he says. Australians should get behind this call and demand Parliament act on it, for the sake of dairy farmers and the Australian economy.

Click here to sign the petition: *Fast-track Australia to economic recovery and prosperity—expand the CEFC into a national development bank!*