Citizens Electoral Council of Australia

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Independent Political Party
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'Free market' smashes milk producers

By Ann Lawler

Australian dairy farmers sit at the bottom of the trickle-down profit line with no bargaining power, often forced to accept milk prices that are below their production costs. This is again the devastating reality for farmers who supply Murray Goulburn and Fonterra, after both dairy co-operatives recently slashed their farm-gate price for milk solids. Dairy farmers are not victims of the processors, however, but of the "free market" dogma that Australian agriculture has been forced to swallow over the past three decades, which has sabotaged the entire industry.

The roots of this crisis lie in Paul Keating's 1992 National Competition Policy Review, chaired by Macquarie Bank executive Professor Fred Hilmer. Macquarie is the spawn of City of London investment bank Hill Samuel, which was set up in Australia to be a corporate battering ram for free market "reforms" such as deregulation and privatisation. Hilmer's report was used to deregulate the dairy industry in 2000, which John Howard's Coalition government forced through. The Coalition badgered, coerced, and bribed dairy farmers to accept deregulation because it was "going to happen anyway" so "take this compensation package" and either "get bigger, or leave the industry". The result of this "competition" reform has been fewer competitors: *Dairy Australia* reports that over the last 30 years the number of dairy farms has fallen by two-thirds, from 19,380 in mid-1985 to 6,128 in mid-2015. The survivors have been forced to get big: over the same period the average herd size has increased from 93 cows to an estimated 284, and is trending upwards to very large farm operations of over 1,000 head of cattle. Under competition policy, what's happened to dairy farmers has happened right across the agricultural spectrum.

There is also less competition overall, as evidenced by the growth of the Wesfarmers (Coles)-Woolworths duopoly. In their fake milk-price war, which drove milk down to $1 per litre, they are warring not with each other, but with the farmers and processors who are forced to wear the cost. Driving down the farm-gate price increases the duopoly's bottom line; and if some manufacturers and farmers are forced out of the industry? "Tough", shrug the free-trade-brainwashed journalists and economists, "that's how competition works".

The free market plans of bankers and farmers …

The specific troubles of Murray Goulburn, Fonterra and their suppliers are a symptom of this free market fraud imposed upon them. Always desperate for new margins—"lean and hungry" as the economists approvingly say—Murray Goulburn and Fonterra were driven to "innovate" with new products and chase foreign markets for sales, exposing them to volatility in commodities markets, currencies, interest rates, and the predatory speculation associated with each. Forced to raise capital for expansion and to hedge against the uncertainties of the global market place, first Fonterra in 2012, and then, following Fonterra's lead, Murray Goulburn in 2015, took the extraordinary step of abandoning the core principles of a co-operative to list on the stock market, in order to raise capital by selling unit shares to outside investors to whom they promised a predetermined rate of return on investment.

The essence of the crisis now is that, with sales this financial year well down and farm-gate price reductions backdated to last July, the farmer shareholders have to put their hands into their pockets to meet the returns that Fonterra and Murray Goulburn promised to the outside investors, and to also meet the remuneration owed to the board members who set all this up.

As it happened, both co-ops took the step of floating on the stock market under the influence of a number of unelected, appointed or special members sitting on their boards, who have little or no background in the dairy industry, but years of experience in leading positions in accounting, banking, equities, capital raising and other fields of corporate management. The list of board members reads like a Who's Who of the predatory world of finance. Both boards boast bankers from Australia's Big Four banks and/or their New Zealand subsidiaries. Both boards are also connected to leading global accounting firms, which like ratings agencies are part of the permanent infrastructure of global finance—just four firms audit the books and sign off on all of the speculative schemes of all of the world's multinational banks and corporations. Past and present members on Fonterra's board are partners or former partners of PricewaterhouseCoopers—the same firm Fonterra's competitor Murray Goulburn appointed in 2013 to replace Deloitte as their external auditors. Another global accounting firm, Ernst & Young, also represented on Fonterra's Board, was appointed by Murray Goulburn to approve the remuneration of now former CEO Gary Helou, who locked Murray Goulburn into its $1 per litre milk contract with Coles and pushed through the stock market float (Helou walked away with $10 million, or the value of 10 million litres of Coles/Woolies milk). Interim Murray Goulburn CEO David Mallinson, who replaced Helou, previously worked for the ANZ bank, and was Fonterra's chief financial officer for six years.

Australia (and New Zealand) should heed the advice of Henry C. Carey, the American System economist who was an adviser to Abraham Lincoln, who wrote *The Harmony of Interests* to define the stark difference between the industrial protectionism known as the American System, and the British System of "free trade":

"The object of free trade is proclaimed to be the increase of commerce, but commerce withers under it", Carey wrote. "We thus have here, first, a system that is unsound and unnatural, and second, a theory invented for the purpose of accounting for the poverty and wretchedness which are its necessary results …

"The object of protection has been, and is, to restore the natural tendency by which industrial manufacturing takes its place by the side of the producer of food (national self-sufficiency), thus reducing substantially transportation fees and middle men sales costs and bringing about the stabler self-sufficient communities and nations."

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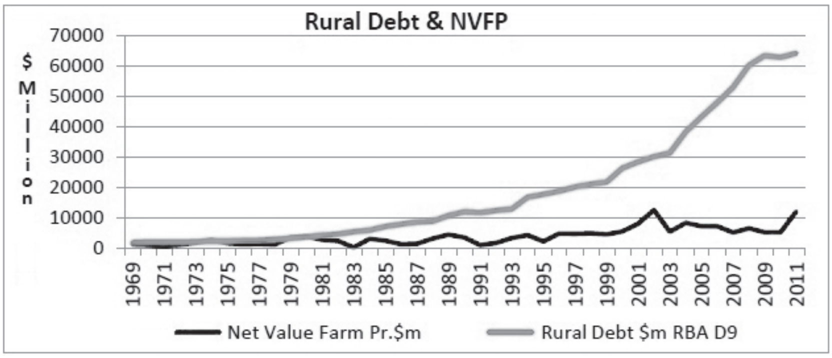
23 May 2016

Statement from CEC candidates Chris Lahy for Mallee and Jeff Davy for Murray:

Dairy emergency—
Australia needs parity pricing for agriculture



Source: NVFP from ABARE Agricultural commodity statistics, 2011, Australian farm returns, costs and prices, P 14; RBA Rural Debt Table D9.

The essential nature of agriculture, especially fresh milk production, means that it is not just another industry—the government has the same duty of care to ensure the nation's food security by keeping family farmers in production as it does to ensure a clean water supply.

It is urgent, therefore, that Australia implement a system of parity pricing for agricultural products, so that family farmers are never forced to wear prices that are below the cost of production.

The present crisis in the dairy industry among suppliers to Murray-Goulburn and Fonterra, who have suddenly suffered steep price cuts to well below their production costs, is a symptom of the disastrous free market ideology that has sabotaged Australian agriculture over the past three decades. Australian farmers were thrown to the free trade wolves, forced to "compete" on local and global markets that are anything but "free".

Locally, under the misnamed "competition policy" enforced by the ACCC, the Coles-Woolworths duopoly has been able to expand to the behemoth it is today by devouring all in its path and giving take-it-or-leave-it prices to suppliers who have had nowhere else to go. The power of this duopoly is such that the two retailers have been able to stage a fake price war over milk at $1 per litre, which has had no connection to the actual and varying costs of production; the farmers, not the retailers, have worn the cost of this price war.

Globally, the commodities trade is distorted by speculation and cartels. Farm prices are exposed to rapid currency shifts on the foreign exchange market, which is dominated by speculation—less than one per cent of transactions relate to actual trade in goods; in 2014 a number of London banks were caught rigging the global forex market. Speculation in commodities futures also distorts the market. Financial deregulation since the year 2000 has allowed Wall Street and City of London banks, led by Goldman Sachs, to funnel a massive volume of speculative money into commodities trading, which disconnected prices from any relationship to the cost of production and real demand. Farmers are also at the mercy of giant multinational food conglomerates, which have cartel powers to dictate low prices.

The toll that this free trade fraud has exacted on Australian agriculture was documented in a paper by economist Ben Rees presented to the 2012 Rural debt Roundtable entitled *Rural Australia: Crisis 2012*, which illustrates the essence of the crisis with a graph showing the relative growth of total Rural Debt and total Net Value Farm Production (NVFP) since 1969. That year, more than 200,000 family farms in Australia collectively produced an annual output with a value of around $1 billion and carried a combined debt of $1 billion. By 2011, the value of farm output was $12 billion, while combined farm debt had soared to around $65 billion. Worse, the number of family farms carrying that debt collapsed to less than 40,000! The debt is even greater today.

Parity pricing

The long-term solution for dairy farmers, and all Australian agriculture, is parity pricing, as it operated in the US during and just after WWII, when by legislation farmers were guaranteed a price that covered their cost of production. The Congress legislated parity pricing to help the war effort, in two ways: to guarantee food security; and to boost national income. The architect of the scheme, Carl Wilken, proved that every dollar earned on farms generated $7 in national income—the highest multiple of any sector. Parity pricing worked so brilliantly that farm borrowing dropped dramatically, because the farmers were able to finance their crops and production from farm income; this is known as the Golden Era for US agriculture. The Wall Street banks, unhappy that farmers were not having to beg them for loans, lobbied Congress to end the scheme in 1952.

Parity pricing removes the volatility in agriculture pricing, which is good for producers and consumers. Only speculators desire market volatility, because they look for extreme price fluctuations as opportunities to extract profits.

The CEC is fighting to revitalise Australia's productive industries, which are the backbone of a prosperous economy. Along with parity pricing, the CEC will achieve this through a Glass-Steagall separation of banking that services the real economy from speculation, which will keep investment in the productive sector; and a government-owned and -directed national bank to create masses of new credit for investment in infrastructure development and production.

To save Australia's industries, support the CEC:

1) Vote for CEC candidates in the 2 July election
2) Join the CEC as a member