



**Australian
Competition &
Consumer
Commission**

Dairy Inquiry Farmer Forum: Bunbury, WA

16 March 2017

This document is not a verbatim record of the forum but a summary of the issues raised by forum attendees.

The views and opinions expressed are those of the attendees and do not reflect the ACCC's views or position on the issues summarised here.

16 March 2017 from 12.00pm to 2.00pm
Mercure Sanctuary Golf Resort
100 Old Coast Road, Pelican Point, Bunbury WA

Attendees

Australian Competition and Consumer Commission

Mick Keogh, Commissioner

ACCC staff: Amy Bellhouse, Sophie Mitchell, Stephen Kinnersly, Brenda Banister-Jones.

Interested parties

Approximately 30 interested parties attended the forum.

Introduction

Commissioner Mick Keogh welcomed attendees, outlined the purpose of the forum and invited the attendees to contribute comments in response to the topics of interest to the Inquiry.

Attendees were informed that the matters discussed at the forum would be recorded and a summary placed on the ACCC's website, but that this summary would not identify or attribute comments to individuals.

Summary of issues

Attendees discussed the following issues during the forum:

1. COMPETITION FOR MILK

- Farmers find it difficult to switch processors. Reasons include:
 - lack of processor demand for new farmers due to an oversupply of milk in WA
 - the timing of contract renewals are not aligned between processors, so farmers are reluctant to give notice to or leave one processor and face the risk of not finding another buyer
 - farmers are worried about breaching contract terms if they start negotiating with alternative processors
 - it was submitted that processors will not negotiate with farmers while they are under contract with another processor.
- It was submitted that the number of buyers has reduced over the years. The example was provided that where there used to be two UHT plants in WA, today there is only one.
- Growth in milk supply coupled with WA's geographic isolation has caused problems for the WA dairy industry due to the high cost to transport milk interstate for processing, a lack of facilities to absorb excess milk during peak production, and a downturn in the export market.
- Farmers stated that processors gave them signals to increase milk production when the industry was growing and now their milk is no longer required due to oversupply.
- Farmers perceive that processors lack bargaining power relative to supermarkets (their main domestic sales channel), and that this has negative effects further down the supply chain.

2. CONTRACTING AND PRICING

2.1 Contracts and handbooks

- Farmers commonly sign supply contracts.
- Unlike some other States, contracts are for an agreed price for a set period.
- Termination clauses were raised as a significant concern, as in some cases the notice period is longer for the farmer than it is for the processor.
- Farmers submitted that contracts are written to favour the processor and farmers cannot negotiate the terms. Some terms are seen as unreasonable or unfair.
- Exclusive supply arrangements are seen to limit farmers' opportunities to manage risk.
- It was noted there is one WA processor which offers loyalty payments.
- Farmers stated that the price cuts in Victoria have flowed on to WA, as prices offered since the step-downs in Victoria have been lower.

2.2 Collective bargaining groups

- Farmers submitted that processors hold significant bargaining power and negotiations are only possible when milk production is low.

- Processors are more likely to negotiate with a collective bargaining group if there is an alternative processor that the group could go to.
- Farmers want more clarity around ACCC collective bargaining processes and want to be able to have discussions with processors to find solutions to the milk supply issues in WA. Farmers submitted that processors will not engage in collective discussions because of a fear of collusion or breaching competition law.

3. TRANSPARENCY AND PRICE SIGNALS

- Farmers submitted that without signals about the future of the market, they cannot be confident that they can grow their business. Farmers want more information from processors on a regular basis so they can better manage their business.
- Some farmers find the pricing systems of particular processors very complex.

4. RETAIL PRICING

- Low retail prices of all dairy products, and the pressure this places on the farm gate price was a prominent concern raised at the forum.
- Farmers consider that despite a spike in sales of branded products during promotions, low price generic products are the bigger seller.

5. GLOBAL MARKETS

- Some farmers submitted that global prices do not affect WA farmgate prices, as the price revolves around the domestic market.
- It was also submitted that the price drops in Victoria have had flow on effects for WA farmers, with international buyers unwilling to accept higher WA prices in light of the Victorian cuts.

6. OTHER ISSUES RAISED

- The [Food and Grocery Code](#), a voluntary code intended to govern certain conduct by grocery retailers and wholesalers in their dealings with suppliers, was seen by some as ineffective.
- Concerns were raised about the lack of transparency in milk testing:
 - Testing is performed by the processor (buyer)
 - Farmers have to trust what the test results say about the milk quality
 - Farmers are not satisfied that adequate re-testing or dispute resolution mechanisms are in place
 - It can be difficult to obtain test results.

Commissioner Keogh closed the forum by inviting farmers to make a written submission or to phone the ACCC if they had further comments to contribute. He invited attendees to remain for informal discussions and refreshments.