



**Australian  
Competition &  
Consumer  
Commission**

## **Dairy Inquiry Farmer Forum: Burnie, Tasmania**

**22 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.

22 March 2017 from 11.30 am to 2.00 pm  
Burnie Golf Club  
47-49 Scarfe St, Camdale, Tasmania

### **Attendees**

*Australian Competition and Consumer Commission*  
ACCC Staff: Amy Bellhouse, Sam Campbell, Lavinia de Havilland.

*Interested parties*  
Approximately 25 interested parties attended the forum.

### **Apologies**

*Australian Competition and Consumer Commission*  
Mick Keogh, Commissioner (unable to attend due to a flight cancellation)

### **Introduction**

ACCC Agriculture Unit Assistant Director Amy Bellhouse 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 submitted there are more supply options in the North West of Tasmania than in the North East.
- It was suggested that historically, in order to attract adequate milk supply, processors offered farmers unsustainably high prices. These have had to drop (in recent years) in order for processors to continue operating profitably.
- The emergence of corporate processors (which have generally replaced co-operatives) has resulted in farmers bearing the majority of risk and sustaining the biggest losses.
- It was alleged that there is limited competition between many processors as they tend to follow the price of the leading processor.
- Milk swaps occur frequently in Tasmania, but can be beneficial to farmers in terms of transport efficiencies, or when a processor needs to manage temporary fluctuations in their milk supply requirements.
- Farmers find it difficult to switch between processors. Reasons for this include:
  - farmers are paid final season step-ups six weeks into the new dairy season, which they will forfeit if they do not commit to a further 12 months with the same processor
  - farmers are only able to switch when a processor is short of supply
  - following the price step-downs in 2016, a number of Tasmanian farmers have borrowed significant sums from processors, which will be immediately payable if they switch away.

### 2. CONTRACTING AND PRICING

#### 2.1 Contracts and Handbooks

- Farmers can either sign a fixed term contract, or supply milk under a short term supply agreement governed by a processor's milk supply handbook. Fixed term contracts vary in duration and can have one, three or five year terms.
- Most supply agreements are exclusive. However, it was suggested that if a farmer owns two or more farms incorporated as separate entities, the milk from the separate farms may be sold to different processors.
- Farmers receive incentives from processors to exclusively supply their milk.
- It was stated that after giving notice to terminate, farmers may be required to continue supplying milk for a period of three months.

#### 2.2 Collective Bargaining Groups

- Farmers submitted that processors are more likely to negotiate with collective bargaining groups (CBG) when there is a milk supply shortage.
- It was suggested that individual farmers should be required to be members of a CBG if they are experiencing flow-on benefits of a CBG's negotiations.
- CBGs can be successful when they represent a large majority of the farmers supplying a particular processor.
- It may be desirable for farmer representative organisations to act as CBG representatives, but this rarely occurs.
- It was suggested that farmers should engage in collective boycotts to put pressure on processors and retailers to raise their prices.

### **3 TRANSPARENCY AND PRICE SIGNALS**

- Farmers submitted that for two of the past 20 years, the opening price has been announced after the commencement of the new dairy season.
- Following the price step-downs in 2016, farmers are not confident that the opening price can be relied upon as their minimum price for the year. This affects farmers' ability and confidence to make future business plans.
- Farmers advised that they cannot rely on advertised opening prices to estimate what they will receive. Rather, farmers should calculate their own individual anticipated income, taking into account quality payments and growth incentives. Farmers must be aware that calculations are estimates only and should consider alternative scenarios to minimise risk.
- It was suggested that processors should bear the consequences of their bad decisions, and not place the risk entirely on farmers.
- The milk price offered in Tasmania is generally consistent with the national average.
- Farmers do have some ability to individually negotiate prices, as not all farmers receive the same milk price or incentives.

### **4 RETAIL PRICING**

- Farmers submitted that private label \$1/L milk and \$6/kg cheese devalue dairy products and imply to consumers that milk is worthless.
- Farmers speculated that supermarkets use private label \$1/L milk as a loss leader.
- Like any other business, supermarkets are profit driven and make cost savings where possible. Some farmers suggested it is the responsibility of farmers to rejuvenate the industry and lobby for higher prices.
- It was proposed that if retailers raised the price of fresh milk, the Australian fresh milk market would not be threatened by international milk supply as transport costs make it inefficient. However, attendees suggested that consumers may turn to UHT milk, which may be imported into Australia cost-effectively.

### **5 OTHER ISSUES**

- Dairy farmers in many competing countries (not specified) receive subsidies and higher prices than Australian dairy farmers.
- Regulation was negative for the dairy industry as it supported farmers who were operating unprofitably and in regions that are not conducive to dairy farming.
- Immediately following the price step-down in 2016, farmers experienced significant uncertainty as some processors changed their price multiple times in a short period of time. This negatively impacted farmers who had already taken measures to decrease their milk production.
- It was alleged that processors' opening prices as advertised in the media do not correlate with what farmers get paid, and are therefore misleading.

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