



**Australian
Competition &
Consumer
Commission**

Dairy Inquiry Farmer Forum: Hahndorf, SA

20 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.

20 March 2017 from 11.30am to 2.00pm
Hahndorf Football Club
Pine Ave, Hahndorf SA

Attendees

Australian Competition and Consumer Commission
Mick Keogh, Commissioner
Sarah Court, Commissioner
ACCC staff: Amy Bellhouse, Sophie Mitchell, Sue Tucker.

Interested parties
Approximately 50 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 for this include:
 - a lack of clarity regarding contract terms and penalties if they leave their processor
 - farmers forfeit their right to 'step-ups' if they switch: they won't receive these additional amounts for milk already supplied if, at the time payments are made, they no longer supply to that processor
 - farmers must remain with their processor into the new season to receive loyalty payments on milk supplied in the previous season
 - farmers who borrow from processors (for example, to purchase hay) are locked into supplying to that processor until the loan is finalised
 - the financial penalties for early termination are viewed as disproportionate and as frequently outweighing the potential benefits.
- Nonetheless, switching between processors does sometimes occur where farmers can get better prices elsewhere or where processors alter pick-up routes.
- Farmers are concerned that they carry the majority of the risk in the supply chain.
- Milk swaps between processors was a significant focus of farmers at the forum:
 - farmers submitted that milk swaps are reducing competition between processors in acquiring milk
 - milk swaps are seen to distort price signals and decrease farm gate milk prices
 - farmers suggested that removing milk swaps would reinstate fairer milk prices.

2. CONTRACTING AND PRICING

2.1 Contracts and handbooks

- Supply contracts vary in duration from 12 months to five years, however a majority of contracts are for three years.
- Certain farmers consider key contract terms are sometimes unclear. For example, how retirement provisions apply if a farmer exits the industry, the repercussions for failing to meet supply commitments or early termination, particularly if they have engaged in financing with processors.

2.2 Collective bargaining groups

- It was submitted that there has been some success with collective bargaining in the past where groups have been able to bring together sufficient volumes to encourage processors to compete for their milk.
- Farmers submitted that presently, collective bargaining groups do not have the power or resources to negotiate with processors and therefore are unable to get a better deal for local farmers.
- Farmers were concerned that collective bargaining groups are not negotiating in the best interests of suppliers, and rather take the price the processor wants to pay.

3. TRANSPARENCY AND PRICING

- Some farmers find processors' pricing systems difficult to understand and compare. As a result they are uncertain how offers will actually apply to their farm from month to month.
- Farmers felt there is not enough information provided about the prices they will realise before they have to sign a contract.
- Farmers submitted that processors should have to provide their opening price before the season commences. It was stated that in some seasons farmers have supplied milk for several weeks before knowing the price they would receive.
- Farmers were concerned about processors using their competitors to benchmark prices.
- Farmers would like to see more accountability and transparency in prices set by processors and suggested that an independent body should oversee pricing.
- Farmers wanted more information on the method by which the weighted average price is calculated by processors.
- Farmers were concerned that productivity and growth incentives create inequity in milk payments between larger and smaller farmers.

4. RETAIL PRICING

- The retail price of all dairy products, including \$1/L milk and \$6/kg cheese, was a prominent concern raised at the forum. There is concern that private label pricing is putting pressure on the farmgate price.
- Farmers submitted that processors sign private label supply contracts in order to get preferential shelf space for branded products. Farmers are concerned that private label contracts place significant (in some cases unsustainable) downward pressure on farm gate milk prices.
- Farmers submitted that too much milk is going into private label products. Farmers would like to see an increase in branded sales to restore value in dairy, which will flow through to the farm gate.
- Farmers were concerned about the length of time supermarkets take to pay processors which has an impact on the whole supply chain.

5. OTHER ISSUES RAISED

- The role and powers of the ACCC were discussed at the forum, including:
 - the outcomes of the ACCC's Dairy Inquiry—specifically, what happens after the Inquiry report is provided to Government
 - the types of issues that may warrant investigation and potentially breach provisions under the Competition and Consumer Act.

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.