



**Australian
Competition &
Consumer
Commission**

Dairy Inquiry Farmer Forum: Shepparton, Victoria

28 February 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.

28 February 2017 from 6:30pm to 9.00pm
Shepparton Golf Club
15 Golf Drive, Shepparton VIC

Attendees

Australian Competition and Consumer Commission
Roger Featherston, Commissioner
Mick Keogh, Commissioner
ACCC staff: Amy Bellhouse, Gabrielle Ford, Sophie Mitchell.

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 include:
 - lack of processors available who are willing to take suppliers' milk; farmers in the northern region of Victoria are predominantly tied up with two main processors
 - farmers who take financial loans from processors (for example to purchase fodder) are subsequently locked into supplying to that processor
 - farmers forfeit their right to loyalty payments, various other incentives, and 'step-ups' if they switch – in particular, they won't get paid for the milk they have previously supplied if, at the time loyalty payments are made, they no longer supply to that processor.
- Some farmers have been able to switch processors in recent years due to poor weather conditions leading to lower milk supply, or if they were not tied up in financing arrangements with their processor.
- The entry of Australian Consolidated Milk (ACM) into the northern region and increased demand from Tatura have been positive developments in the last ten months, increasing options for farmers.
- Concern that further processor consolidation will remove too much competition from the market.

2. CONTRACTING AND PRICING

2.1 Contracts and handbooks

- Contracts are long and confusing.
- Farmers can sign a fixed term contract or supply according to a milk supply handbook.
- Contracts may have fixed or variable prices and generally have a term of one to three years.
- Even where a fixed term contract exists, conditions of supply are governed by the milk supply handbook.

2.1 Collective bargaining groups

- Farmers have little bargaining power and are therefore price-takers.
- Collective bargaining groups (CBGs) can help farmers bargain together and negotiate as an industry to help achieve a better farmgate milk price.
- Benefits to the farmers in the CBG come at the expense of those who are not part of the group.
- Farmers were also concerned that unless a CBG is large, processors will retain power and will play CBGs off against one other. Farmers will still be price-takers.
- Some CBGs may offer security of offtake, fixed pricing options, prices that meet or exceed competition on a regional basis and independent experts who can assist with details of contracts or suggestions for contract alterations.
- Some processors don't like CBGs and therefore are unlikely to negotiate with them.

3. TRANSPARENCY AND PRICE SIGNALS

3.1 Transparency

- Lack of transparency in prices makes it difficult to interpret and compare offers.
- The only information available to farmers on future prices is what they hear at regional meetings held by their processor: this is not sufficient to make informed decisions.
- Processors put out an opening price at the start of the year, but the formula used to calculate that 'average' price is unavailable or unclear, particularly as regards:
 - the inclusion of bonuses or deductions
 - how the formula varies between processors
 - how very large suppliers to the processor impact the average.
- The transfer of information from the opening price schedule to income estimates is not transparent or reliable.
- Processors impose a volume charge on suppliers per litre of milk collected. Farmers would like more transparency on how the charge is calculated and what it is used to cover.

3.2 Pricing signals

- A majority of forum attendees submitted that they generally received less than the advertised ('average') price; those who receive this price or above attribute this to volume incentives (large suppliers receiving a higher price) and timing of supply (seasonal bonuses or autumn calving).
- A majority of forum attendees agreed that pricing arrangements have become so complex no one can understand them.
- Farmers want a minimum price guarantee and stated that a price setting mechanism would assist the industry.
- Farmers feel that they are carrying all the risk regarding commodity price fluctuations.
- Farmers who operate an autumn calving schedule submitted that they might make different business decisions if they were on a separate pricing announcement schedule to spring calving herds.

4. RETAIL PRICING

- It was submitted that since deregulation, margins in the domestic market have become unreasonably low. This is unprecedented and they must be returned:
 - \$1/L milk and \$6/kg cheese are particular problems.
 - Imports of US and NZ cheese at low prices are unfair for Australian farmers.
- Some farmers suggested a body should oversee and regulate supermarkets' shelf space, margins, home brand products and country of origin regulation and labelling.

5. GLOBAL MARKETS

- International markets are a significant influence on farmgate prices, and this exposure drove last year's price step downs.
- Farmers submitted that they are concerned about the level of imports of processed dairy products into Australia.

6. OTHER ISSUES RAISED

- Farmers noted difficulties accessing Centrelink assistance schemes.
- Concerns were raised regarding milk testing:
 - It was stated that about 75 per cent of raw milk in Australia is tested through one organisation.
 - Farmers are paid according to these results, hence small variations are important.
 - Concerns about the organisation having a monopoly over the market.
 - No dispute resolution system, no samples retained for re-test.
- Attendees asked about the Government's and ACCC's involvement and powers, including:
 - the extent of the ACCC's ability to regulate the behaviour of supermarkets
 - the outcomes of the ACCC's Dairy Inquiry – specifically, what happens after the Inquiry report is provided to Government.

Commissioner Keogh closed the forum by inviting attendees to remain for discussions and refreshments.