



**Australian
Competition &
Consumer
Commission**

Dairy Inquiry Farmer Forum: Warrnambool, Victoria

27 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.

27 February 2017 from 11.30am to 2.00pm
Warrnambool Golf Club
Younger Street, Warrnambool, VIC

Attendees

Australian Competition and Consumer Commission

Rod Sims, Chairman

Mick Keogh, Commissioner

ACCC staff: Gabrielle Ford, Amy Bellhouse, Linley Johnson, Daniel McCracken-Hewson

Interested parties

Approximately 65 interested parties attended the forum.

Introduction

Chairman Rod Sims welcomed attendees. Commissioner Mick Keogh 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 between processors. Reasons for this include:
 - Some farmers are tied to their processor due to financing arrangements
 - Farmers forfeit their right to loyalty payments and productivity payments if they switch
 - Farmers may be charged an exit fee if they terminate a fixed term contract
 - Farmers often have long-standing relationships with their processors and may find switching confronting, for example having to understand the contractual requirements and pricing mechanisms of a new processor.
- To improve competition, farmers submitted it is necessary to look at payment structures and incentives—it is impossible for an average person to work out what's going on and compare offers.
- Farmers suggested there is little competition between processors (e.g. processors set very similar opening prices and release them around the same time as each other despite manufacturing different products).
- Farmers suggested that the transport system from farm to processing plant, and then sometimes to a further plant, is wasteful and inefficient. Further that there is a lack of transparency about what the collection charge which is deducted from milk payments covers. It was suggested that processors should bear the collection charge, not farmers.
- Farmers raised concerns that their farmgate price is depressed by supermarkets wanting to use \$1/L milk as a 'loss leader' all over the country, even in regions remote from dairy production. The example was given of \$1/L milk being sold in Darwin, despite there being no dairy farms in the Northern Territory.
- Farmers noted their productivity bonuses from processors are not negotiated.
- Processors swap or trade milk between each other, which farmers speculated has a negative impact on competition.

2. CONTRACTING AND PRICING

2.1 Contracts and Handbooks

- Many farmers are subject to terms of supply governed by a supplier handbook, and are deemed to have accepted these terms if they supply milk to the processor in a given season, regardless of whether they have a signed agreement.
- Farmers submitted there is an imbalance of bargaining power and a general lack of fairness in contract negotiations and terms. Farmers perceive that the perishability of milk undermines their bargaining position. Some farmers asserted that the milk price structure leads to low cash flow which makes it hard to invest to improve their production costs and ultimately achieve better returns.

2.2 Collective Bargaining Groups

- Some farmers believe that processors choose not to deal with collective bargaining groups (one factor may be that processors manage milk purchases through a broker instead of through suppliers, removing any incentives to deal with collective bargaining groups).
- Farmers stated that in the past, processors had allowed groups of farmers to pool their milk supply in order to access productivity incentives. However, this no longer occurs.

3. TRANSPARENCY AND PRICE SIGNALS

- Farmers with autumn calving herds feel that they are disadvantaged as they find out their milk price halfway through their milking season. It was submitted that processors should make a separate price announcement applying to autumn calvers on 1 January each year.
- Farmers stated that all processors should have to provide their opening price for the season before it starts.
- Farmers raised concerns that complex price structures make it difficult to compare their likely income for *future* milk production between processors.
- Farmers suggested that Dairy Australia should introduce an online price calculator which farmers can enter their production statistics in to help compare prices they could receive from different processors.
- It was stated that the industry would benefit if there was an independent price body to provide farmers with information so they can better understand their milk prices.
- Farmers submitted that they are not provided with the formula by which the quoted weighted average milk price is calculated. Farmers stated that there should be an industry agreed formula which processors use to calculate this price.
- Farmers questioned fat and protein prices, and noted a decline in the fat price relative to protein—it was submitted that this is due to lack of bargaining power.
- Farmers noted there is a variation between processors' approach to dealing with large and small scale farmers and there can be a large difference between prices offered to them.

4. RETAIL PRICING

- Farmers argued that cheap dairy imports due to free trade agreements lead to serious pricing issues in the industry.
- Farmers feel that \$1/L milk has negatively impacted the industry and now home brand cheese and ice-cream are also devaluing the industry.

5. OTHER ISSUES

- Farmers raised concerns about governance in the dairy industry, including conflicts of interest, and a lack of diverse and appropriate skill sets on Boards.
- Farmers argued there is no assistance available for people wanting to enter the industry—there was a submission that the Federal Government should set up a rural bank to help young farmers.

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 discussions and refreshments.