

## ACCC Dairy Inquiry Interim Report ( Keogh Report)

### Alex Arbuthnot – Summary & Comment, Dec 2017

191 pages, plus appendices. 9 Chapters. VG glossary of terms (4 pages)

#### Executive Summary.

The Treasurer Hon Scott Morrison issued a notice requiring the ACCC to hold an inquiry into the competitiveness of prices, trading practices and supply chain in the Aust. Dairy Industry.

- Late – season changes to the farmgate prices (step-downs) paid by Aust. two *regional pressures motivated the Govt to establish an ACCC inquiry. Govt to be congratulated in appointing Mick Keogh as Chairman and Commissioner.*)
- Although the detail, issues etc will be very familiar to most aware dairyfarmers the Report is an excellent read and reference report for administrators and other industry readers.
- However I note that the dairyfarmers are in change and certainly in my part of Victoria (Gippsland). ACCC need to be aware of this change that is shaping innovative value adding new dairy product development & marketing. eg; Gippsland Jersey (and establishing their own supply farm network).
  - . large size herd enterprises ( from 2000 – 12000) in my area that will also shape future agribusiness.
  - . note new production management systems can double or triple per cow production, including feeding, multiple milkings (*AA had cow doing 90L/ day on 3 times a day milking*)

#### Interim Findings

- Dairying primarily undertaken in Australia in 9 distinct district regions ( 3 in Victoria)
- ‘ farmers face considerable uncertainty in milk & in input costs’ ( *as in nearly all farm commodity’s ) ‘I eliminated one risk by buying an irrigation farm.’ AA !*
- Note comment that Processors can vary prices .
- Farmers (*some*) do not understand milk price setting. *Farmers do need to employ top dairy consultants. AA*
- **Note;** ACCC “ There is no evidence to suggest that Murray Goulburn (MG) or any other processor set an Opening Price that others followed. *Probably raise some eyebrows !*
- Competition for milk – VG comment. *A free market and competition at farm & retail / export will ensure the best future market platform.*
- *Australian dairy industry operates in a global market and presents exciting opportunities but does require our industry to be Asian competitive!*

- Contracting Practices – *probably do disadvantage farmers but as mentioned above employing top Farm Consultants is a must. And AA always operated with a minimum contract that allowed me to ‘move’ to another processor.*

#### Recommendations (8)

- 1,2 & 3 cover contracts (support), *noting words ‘should’ ‘simplify’ & flexible.*
- 4. Cover dispute resolution; *strongly support.*
- 5, (legal issues), 6, (transparency) – support
- 7. Voluntary industry Code strengthened; *support and incl. Carbon neutral practices!*
- 8. Mandatory Code – CCAct – **Note:** *AA does not support.*  
 .regulation involves institutional arrangements that may become ‘complex & political’  
 .a free market is the best test!

#### Chapters (9)

##### 1. Industry Background.

- Deregulation.
- Milk production moved to efficient production areas. Vic has 64% and 80% exports
- Gross value raw milk, \$4.1 billion, 1.5 million cows, (75% Friesian),6,000 farms.
- 90% of drinking milk (incl.UHT) consumed in Aust.
- VG summary Page 40 on ‘milk swap’ arrangements supported by industry.
- And VG para’s on processors . *Saputo offer VG news for regional Vic & farmers AA, & international investors I believe should be welcomed!*
- Note – imports \$1.7 billion from NZ
- Exports; 25% drinking milk (bigger than cheese!)
- Aust. is a low cost producer of raw milk; Note: *processing costs erode this !!*
- Average rate of return for farmers (ROI) – 2.2 %

##### 2. Bargaining power & risk allocation.

Thousands of Dairyfarmers, 6 major processors & 3 national supermarket chains.

- Farmers have little bargaining power. *Maybe right but changing (note changes mentioned 3<sup>rd</sup> dot page 1)*
- Transparency – improve – *suggest that DA publish auction prices !*
- *Support Aust. Govt procuring a milk price index.VG.*
- *Is there a typo on line 11 under 2.6 page 61 ?*
- Supermarkets have limited risks. *Maybe right but changing with new supermarkets, e- commerce and note Lino Saputo comments re \$1 milk !*
- *I cannot understand why Australian Infant Milk Powder was not priced at what the China Markets were selling it for!*

- *And 2.7.2 – note my early reference to using top consultants>*
- 3. Farmgate milk prices

Note, competition a key factor as indicated in previous comment.

  - Introduction.
  - Severe ramifications of step-downs. (note new to an old hand)
    - people were not listening to the industry experts and believing paper headlines (even Gary H. MG said their price was aspirational). Note AA submission to ACCC
    - *\_note concerns with the establishment of the ‘ MG Unit Trust’ – but was successful in NZ and personally saw it as a future model for cooperatives which can be constrained in capital raising.*
  - Impact of Global Commodity Prices. GTD Price Index graphs page 75, positive!
  - VG information on Company price Case studies and pricing graphs in this chapter.
- 4. Competition for raw milk.

Note 80% of raw milk comes from 150 km of the processors plant. And Victoria has considerable more options than other States. (*free market working* )

  - VG factory info in the 9 key regions
    - Note examples of loyalty payments & net farm inc. (page 110)
    - Good discussion on ‘milk swaps’ and appear not a risk to softening competition.
- 5. Other Competition in the Dairy Industry.

May be constrained by major supermarkets but ACCC note my comment on ‘ future changes’ in page 1. (*and comments by Lino Saputo*)

  - And para ( page129) on milk brokers.
  - Competition from imports- cheese largest! *the global market working ! and the benefits of FTAs*
- 6. Supply Chain Profit Analysis.
  - Major concerns on private label milk & products.
    - Note impact on processors varied. Note graph page 157 & esp. graph on premium branded cheese. *Industry should consider a modern day ‘ Big M milk marketing promotion!’ certainly a China Big M promotion would be a winner AA.*
    - *Note challenges in WA & parts of Queensland but isolation should be a ‘marketing ace’.*
- 7. Contracting practices
  - note many real concerns with historical contracts.
  - The Voluntary Code started in June 2017.
  - ACCC looked at UCT laws and some uncertainties. note MG & Fonterra had considered UCT laws in their contracts.
  - Dispute Resolution. Support.

8. Collective Bargaining & Boycotts.

note always an option but challenging (*my personal observation is that farmers are very strong headed individuals and difficult to 'unite' as one voice*)

- *Also aware of the option to establish a cooperative structure and aware of failures in this model. However Norco stands as a beacon.*
- *Note comment page 182, 'some processors refuse to negotiate with CBGs ( and comes as no surprise)*
- *Boycotts- I have been aware of the talk, and some actual events but alas many end results are not good for either party.)*  
*And agree with ACCC comment.*

9. Potential responses to dairy industry issues

Chapter looks a mandatory industry code. Outlines a way forward & seeks comment.

*AA views of 'no support' are covered earlier and strongly recommend a free market approach and support 'let the farmers and market identify the best industry codes.' AA would recommend codes that support comprehensive environmental and sustainability outcomes (landcare model).*

And the Report contains some excellent data in the appendices.

Well done ACCC