



Leon Bignell MP

A3078312

Mr Rod Sims
Chairman
Australian Competition and Consumer Commission
Level 20, 175 Pitt Street
SYDNEY NSW 2000

Dear Mr Sims

I support the current inquiry the ACCC is conducting into the dairy industry and welcome the opportunity to provide input.

South Australia's food and wine industries are a vital part of the state's economy, our largest export sector and a major employer. In 2015-16, food and wine generated \$18.6 billion in revenue, accounted for 45 per cent of the state's merchandise exports, and employed about 147,400 people - one in five working South Australians. South Australia's dairy industry generated \$937 million in gross food revenue in 2015-16 and has a long history of producing high quality products including fresh drinking milk, yoghurt, cheese and butter.

As a snapshot of the South Australian dairy industry, as of 30 June 2016:

- There were 244 dairy farms, with around 80,000 cows producing 544 million litres of milk, equating to approximately 6 per cent of the nation's total milk production.
- More than half of South Australia's production is sold as fresh drinking milk with the remainder manufactured into cream, cheese, yoghurt, dairy desserts, cream cheese, dips, ice cream, milk concentrates, whey powder, butter and pharmaceutical products.
- In the past 40 years, the size of South Australia's dairy herd has remained constant, but production per cow has more than doubled.
- There are 54 accredited processors located in South Australia.
- There are three principal dairy regions in South Australia; the South East region, the Central region and the Mid North region.

The actions of processors in 2016 relating to pricing and the use of retrospective milk contracts created significant financial implications for the affected dairy farmers and appeared to be aimed at supporting shareholders not farmers. Farmers faced not only a significant reduction in payments but also a requirement to repay monies already received.

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of South Australia

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Food and Fisheries

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Minister for Tourism

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Minister for Racing

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The Australian Dairy Farmers submission to your inquiry has provided a clear picture of the unacceptable implications for farmers of these decisions and actions. The price reduction was unexpected, particularly as the Managing Director had signalled price rises, and it occurred at a time when farmers had no opportunity to respond or adjust their input costs.

It is essential basic business elements including supply, demand, price signals and contractual arrangements provide a stable and fair platform to underpin long-term investment in the dairy industry.

It should also be acknowledged dairy farmers are not only impacted by decreases in milk prices, they are also impacted when local processing plant operations are lost.

This is illustrated by the situation faced by farmers and local communities in Murray Bridge and Jervois in South Australia in 2014-15. At this time the parent company of a local cheese and other dairy products processor appointed external administrators.

It is understood there were up to 100 local jobs lost, late payments were received for milk already supplied and 37 farmers lost the delivery point for their milk. This was a serious concern to both the government and the regional communities involved. It necessitated rapid action by the government and the industry association to assist farmers to find alternative processing facilities.

This was further exacerbated when a key brand and a significant item of cheese processing equipment was sold to an interstate dairy producer and local cheese manufacturing was stopped. While these processing facilities have now been purchased by another company, the Jervois cheese plant has not reopened. It is understood removal of the cheese processing equipment from this facility has made it more difficult to re-establish operations.

The circumstances in 2016 have had implications beyond the businesses directly involved, negatively impacting the community more broadly and necessitating government support to deal with the financial, emotional and social impacts.

The support provided by the South Australian Government included:

- A \$60,000 funding package to match funds from Dairy Australia to deliver the 'Taking Stock' program of one-on-one business review sessions between dairy farmers and industry consultants. This program includes an assessment of the physical farm practices and mental health issues in addition to business practices.
- An additional \$60,000 grant to the South Australian Dairyfarmers' Association to deliver the 'Do Dairy' program to encourage consumers to purchase South Australian milk and dairy products. This program was kicked off with a very successful event in the heart of the Adelaide retail precinct – Rundle Mall. Eight South Australian dairy producers participated in this high profile event, which also involved local media and sporting identities. Significant social media

Significant social media attention was generated throughout this campaign, reinforcing the importance South Australian consumers place on our local dairy industry.

- I have previously committed \$300,000 to Rural Business Support (RBS) to design a financial literacy program to underpin the preparedness and resilience of farm businesses to shocks such as a drought and, in this instance, a significant drop in milk prices. Rural Business Support has been working with 35 dairy farmers in a pilot program, providing both strategic planning workshops and one-on-one on-farm business analysis support which complements the Taking Stock program.
- The Government's on-going \$260,000 annual commitment to the Rural Financial Counselling Service is also enabling Rural Business Support to prioritise critical financial counselling resources to the dairy industry at this time.

This inquiry provides an important opportunity to establish reforms which ensure fair trade conditions for dairy farmers and facilitate sustainable growth for both the industry and regional communities who rely on a successful primary production sector.

I note the new Australian Government legislation (*Treasury Legislation Amendment (Small Business and Unfair Contract Terms) Act 2015*) on unfair contract terms is intended to protect small businesses from unfair terms in standard form contracts entered into or varied from 12 November 2016.

It would be beneficial to understand whether this legislation will assist in preventing future hardship for dairy farmers from apparently unfair terms in milk supply contracts. If this is not the case, amendments or new legislation should be considered.

I look forward to seeing your recommendations and would be happy to provide any further information to assist your inquiry.

Yours sincerely



Leon Bignell MP
Minister for Agriculture, Food and Fisheries

April 5 2017

