

Submission to Australian Competition and Consumer Commission (ACCC) to hold an Inquiry into the competitiveness of prices, trading practices and the supply chain in the Australian dairy industry.

By P.R. Denniston – Managing Director – Fairbrae Milk Co Pty Ltd

My submission is based on a very practical example on how current processors in the Dairy Industry processors act in an anti-competitive nature to reduce completion and smother emergence of new producers and innovation.

Synopsys

With the deregulation of the Dairy Industry and removal of market milk Quota, a dairy farm I was associated with was facing a drop from around 55c/ litre of milk at the farm gate to what was being predicted as being as low as 19c/litre (fortunately it never got that low but it was a real fear at the time).

Consequently, because of my background as a Dairy Technologist, Environmental Planner (and various other qualifications), the family asked me to consider building an on farm milk processing and distribution business.

Consequently, this was done and over about six years, the business developed into a high profit enterprise, turnover of about \$1.4m pa in its last full year of trading, with an investment on the farm of just under \$1m with plans for new products.

The arrangement with the major processor in the District (NORCO), was during all those years of processing that they would collect whatever Fairbrae Milk did not require and in a particular drought period, that meant no surplus for NORCO at all.

Eventually NORCO brought in a new policy on suppliers basically saying that unless a farm provided all its supply to it, it would not accept any.

At that stage, while new production operations were being investigated by Fairbrae Milk, it was impossible for it to guarantee to take all production from the farm and the farm therefore terminated its agreement with Fairbrae Milk Co Pty Ltd.

Consequence.

Fairbrae Milk – a National Award winning producer) cease to trade as a processor who had been serving customers throughout Australia (with the exception of Tasmania and the Northern Territory).

Fairbrae Milk had to sell its close to \$1m on farm investment for \$200,000 and was probably lucky to get that!

Consequential fall out resulted in Australia now having a monopoly A2 milk supplier.

Other Background

At the time I did lodge a complaint with whatever department that was appropriate about the anti-competitive nature of this NORCO policy (it may even have been your own organisation) but the conclusion was there was no anti-competitive conduct. This if course seemed rather strange when viewing the conduct and obvious objective and consequences for a competitor, but while I was disappointed in the decision, I assume there was a logical reason for it.

What I am saying is that such conduct should be classified as anti-competitive.

My Submission

A processor should not penalise a farm for supplying another processor nor prohibit it from doing so.

A processor can overcome collection costs by adopting a standard cost (in equity and in view of the nature of farm distribution) – in fact this may already be a practice - and this should be a standard cost for each farm.

A quality control standard for all farms is imposed so there can be no argument that such an arrangement of separate processor collections impacts on legal and quality control standards for supply of milk to more than one processor.

There could be a hardship clause that covers (for example) a farm that is a significant distance from other farms and the pickup volume is simply not viable. In this particular example above, such a claim could not be made as the Fairbrae Milk farm was nestled amongst numerous other farms and had various milk run tankers passing the farm gate at least on every second day.

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