



TASMANIAN FARMERS & GRAZIERS ASSOCIATION

Australian Competition and Consumer Commission
TFGA Submission – ACCC Inquiry into the Australian dairy industry

By email: dairyinquiry@acc.gov.au

The Tasmanian Farmers and Graziers Association (TFGA) is the leading representative body for Tasmanian primary producers. TFGA members are responsible for generating approximately 80% of the value created by the Tasmanian agricultural sector.

The total Tasmanian gross state product (GSP) was \$23.9 billion for the 2012 year. The GVP of agriculture, forestry and fishing collectively amounted to almost 9% of this total – before input supply services and value-adding, which is well above that for the nation as a whole.

The TFGA is grateful for the opportunity to make comment to the ACCC Inquiry into the Australian dairy industry.

Dairy is the largest agricultural sector in Tasmania, with Dairy Australia stating that the industry contributes over \$1 billion to the state economy each year. The industry currently employs 2,720 people across the value chain (from farm to product) and continues to generate long term sustainable jobs into Tasmania's regional economies and throughout the dairy supply chain. Thus, it is in Tasmania's best interest to consistently monitor, maintain and seek ways to improve this industry.

Issue 1 – Competition for milk

The major processors in Tasmania are Fonterra, Murray Goulbourn, Lion Nathan, Cadbury and Parmalat, there are also various smaller private owned milk processing companies such as Ashgrove. It must also be stated that these companies are largely geographically zoned, and are largely, with the exception of Fonterra confined to regions.

Competition for milk in the state is growing, with decreasing volume due to seasonal conditions and potential for new dairy ventures such as Van Milk. Tasmania's Legislative Inquiry into the branding of Tasmanian milk also has the potential to increase intrastate competition. This being said, the current processing milk requirements of the state are largely being met by producers. This does mean that it can be difficult for producers to move between processors, because demand on a normal year is meeting supply. Movement between processors is usually a considered change, both by the processor and the supplier. In some areas of the state, due to pick up routes, a dairy farmer will have little to no choice of processor due to geographical location.

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Issue 2 – Contracting practices

Dairy products produced in Tasmania are largely traded as commodities, with the majority of production leaving the state as a value added product, this exposes Tasmanian production to fluctuations in global supply, demand and price. The Commodity market has shown in recent years to be a very profitable situation for both processors and producers, but oversupply due to political uncertainty, domestic issues, market access and increased competition due to global oversupply has seen a reverse in this situation.

Milk production in Tasmania is largely not produced under contract, but supply agreements, these supply agreements vary in form depending on the processor. Some supply agreements allow producers freedoms that may otherwise not be afforded to other producers; such as the ability to supply to other processors over and above their agreement, while this is not common practice, it can happen. The Tasmanian dairy industry is also an industry based on relationships and loyalty; anecdotally it is said that upsetting the applecart can be potentially detrimental to future agreements with processors. This being said relationships with processors are generally considered to be positive and collaborative in most instances.

Issue 3 – Transparency and price signals

Transparency and price signals are clearly an issue within the industry, and potential mismanagement has resulted in a separate ACCC inquiry. The current situation the dairy industry has found itself in has highlighted the intrinsic flaws in the complex pricing system. The lack of transparency in the industry and the reliance of producers on their processing company for reliable and accurate information is high. The industries reliance on the perceived reliability of this information is used as the basis for large financial commitments, this exposure is a major risk for the industry. When the validity and quality of this information is found lacking the whole industry suffers.

For the dairy industry in Tasmania and the Southern dairying regions to be sustainable and profitable price signals need to be clear concise. Spreading the price risk of the commodity market is also very important in these instances, robbing Peter to maintain Paul is neither equitable or sustainable. It has been seen in the industry that such actions cause ill will, both within the farming community and with consumers. Increased communication about price and contractual agreements between all stake holders will help avoid, or diminish the effects in the case of a recurrence of this, or similar situation.

Some might like to think that the lack of information is an issue with an individual company, but this was an industry wide event that caused much confusion for producers and communities; this event has damaged livelihoods, families and communities.

Issue 4 – Domestic retail markets

The role and actions of the major retailers is well known inside and outside of the agricultural sector, both as large customers and a source of major frustration for the industry. The dairy sector is not immune to the immense buying power of the major retailers and requires it to be sustainable, but at whose expense.

Retailers have an important role to play in the industry, but it is seen by many in the agricultural sector, and particularly the dairy industry that an imbalance of power exists, with the major retailers controlling much of the power.

“Dollar milk” is, and has been seen by the dairy industry and the retail sector as a bone of contention for years. The dairy industry sees dollar milk as devaluing their product, and unfairly competing with other branded product that they believe express greater value for their time and efforts. Milk as a loss leader is seen by processors, who get paid at the contracted rate irrespective of commodity price, as a consistent income stream with little or no brand management required. The attraction for processors and retailers is clear, but the benefit for producers is questionable and intangible, the issue of equity and effect is yet to be resolved or measured.

Issue 5 – Global markets

Due to the volatility of the international dairy commodity market, the State government has seen that there are opportunities for diversification of the Tasmanian dairy industry. The Tasmanian dairy industry and State government is, and has been very proactive in the development of new markets for Tasmanian branded dairy product. These products would, and do require differentiation if the Tasmanian industry, or portions thereof are to move out of a commodity based global marketplace. Moving towards a branded niche Tasmanian dairy product, and trading it on the international market is seen by many in the industry as the new frontier. The Legislative Council Inquiry into the Dairy Industry in Tasmania seeks to define and advance opportunities for Tasmanian dairy producers, by reducing the volatility of commodity prices, these opportunities include international options. This is not an unknown or unexploited opportunity in the State, a recent example of which is Van Milk, which is being flown fresh into China. These opportunities and potential developments may exist away from the major processors in the state, but not necessarily. Product differentiation will be key to the success of these ventures.

Issue 6 – Production costs and profitability

Production costs and profitability are a major issue for producers, with relation to this inquiry the ability of producers to budget and have adequate information in a timely fashion is a key element for sustainable and profitable businesses. Transparency, sound price signals, equity, risk management and balance throughout the system, from producer through to the retailer are key easily identifiable risks to a sustainability and viable dairy industry. Producers need to be able to have the flexibility and surety to make financial decisions based on the information they are provided with, and have the confidence in that information to make those decisions. Only with confidence restored will the dairy industry be able to again invest in the sector, our communities and future.

TFGA recommends:

- **Price transparency and better price signalling** will increase confidence for all portions of the sector.
- **The implementation of a code of conduct by processors**, this should allow all portions of the community and industry a level of confidence, security and understanding as to their roles and responsibilities within the industry, voluntary or otherwise.
- **The implementation of an effects test on “Dollar milk”**. This issue has plagued the industry for far too long and needs to be resolved, determining the equity of this product is of paramount importance.

Please contact the TFGA if you require any further information.

Yours sincerely,



Peter Skillern
Chief Executive Officer
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