



Our ref: AA1000530
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Eric Danzi
Company Secretary
Queensland Dairyfarmers Organisation
PO Box 13061, George Street QLD 4003

and

Sarah Ferguson
Marketing and Communications Manager
Queensland Dairyfarmers Organisation
PO Box 13061, George Street QLD 4003

Sent by Email

Dear Eric and Sarah,

Queensland Dairyfarmers Organisation application for authorisation AA1000530 — request for information

I refer to the application for authorisation lodged by the Queensland Dairyfarmers Organisation (**QDO**) on 25 September 2020 (the **Application**). As discussed, in order to assess the Application, including for interim authorisation, we are seeking clarification on a number of issues outlined below.

We request that you provide a response for publication on the ACCC's public register by 27 November 2020.

Impact of the proposed scheme on retail prices

In Section 9 of the Application QDO submits that it is unlikely there will be any change in retail price of products as a result of the introduction of the proposed scheme, and any such variation in price would be minimal.

In reaching this conclusion, QDO cites several sections from the ACCC's Dairy Inquiry Final Report (the **Dairy Report**) discussing the relationship between Farmgate and retail prices.

The Dairy Report found that an increase in dairy retail prices would be unlikely to result in increased farmgate prices. However, the Dairy Report did not find that the inverse is also true, and that an increase in farmgate prices (such as may occur from the widespread adoption of the proposed scheme) would not result in an increase in retail prices.

Queries:

- a) QDO suggests the proposed scheme will not materially increase retail prices because none of the 'major processors' have indicated an intention to participate.
 - Please explain what impact QDO expects the scheme to have on the retail price of products derived from dairy products sources from participating processors.
 - How prevalent does QDO expect these products to be in relevant retail markets?
- b) What impact, if any, does QDO expect the scheme will have on:
 - the wholesale cost of dairy products that retailers purchase from processors that participate in the proposed scheme?
 - the retail prices that will be charged for products bearing the Fair Go Dairy' trade mark?

Likely reach of participating products

QDO submits that the proposed scheme will deliver public benefits to consumers in the form of more choice for consumers and greater transparency about dairy products.

However, QDO's discussion of the impact of the proposed scheme on the retail prices of dairy products will be limited because 'major processors' (including CQ Dairies, Cooloola Milk, Mungalli Creek, Scenic Rim 4 Real Milk, Norco, Lactalis and Lion Dairy and Drinks) are unlikely to participate.

Queries:

- a) In light of the preceding context, how significant does QDO consider the public benefits would be if the participation in the scheme is limited?
- b) Are participating products likely to predominately be sold by 'boutique retailers' or does QDO envisage large scale retailers to also sell participating products?
- c) Does QDO expect major processors to participate in the proposed scheme in the future?

Issues arising from public consultation

We note that QDO is in the process of preparing a response to the public submission provided to the ACCC in response to its application for authorisation.

We have set out below a number of issues arising from the public submissions that QDO may wish to respond to. The further issues raised by interested parties set out in the submissions on the ACCC's public register are also relevant to the ACCC's assessment and QDO should not view the following points as an exhaustive list of issues.

We invite QDO to comment in response to the following issues that have been raised in the course of public consultation:

- a) The 'Fair Go Dairy' logo does not convey that eligible products must source at least 80% of the milk used from farms and cows based in Queensland. Accordingly some products may not use the logo because they are ineligible (even if they pay their farmers an amount in excess of the SFFP). Submissions have asserted that the logo is misleading, as consumers may erroneously conclude that the farmers who contribute milk to products that do not bear the mark have been paid less than farmers that do.
- b) Queensland is a net importer of raw milk. As a result, all of the major processors active in Queensland import more than 20% of their total volume requirements, and would not

be eligible to participate in the proposed scheme. Submissions assert that this means the scheme is discriminatory.

- c) Processors that participate in the proposed scheme may need to acquire equipment to segment Queensland milk from that sourced elsewhere and may choose to purchase more milk from Queensland than more cost effective areas, both of which will increase production costs. As a result, processors may seek to pass these costs on to farmers (reducing the farmgate price) or retailers (increasing wholesale cost of the products and leading to increased retail prices for consumers). The risks and possible detriments which prevented the bill from passing are also applicable to QDO's proposed scheme.
- d) Queensland Dairy Accounting Scheme (**QDAS**) may not provide a good benchmark for the calculation of the SFFP because:
 - i) The farms that provide information to QDAS are not randomly selected, creating a risk of bias.
 - ii) Inefficient farms are taken into account by QDAS, so production costs based on this data may not reflect what efficient farms could achieve.
 - iii) QDAS data will always be 12 months behind current costs and does not reflect upcoming events that can have a significant impact on production costs.
- e) The calculation method of the SFFP will reduce the incentive for farms to innovate and will entrench inefficiencies as the SFFP is calculated based on average production cost (as suggested by QDAS) plus a margin.
- f) A similar attempt at establishing a SFFP was made in *The Sustainable Queensland Dairy Production (Fair Milk Price Logos) Bill 2016*. That Bill was not passed, as there are significant difficulties that arise if the state government takes on the role of determining the 'fair' farm gate milk price.

This letter has been placed on the ACCC's public register. If you wish to discuss any aspect of this matter, please do not hesitate to call Robert Janissen (on 02 6243 1387) or Michael Pappa (on 03 6958 6531) or email exemptions@accc.gov.au.

Yours sincerely



Darrell Channing
Director
Competition Exemptions