Queensland Dairyfarmers' Organisation

183 North Quay
BRISBANE Q 4000

Thursday 25 February 2021

Re: Queensland Dairyfarmers' Organisation – application for authorisation AA1000530

QDO would like to submit the following clarification to issues raised in the 2nd round of submissions in response to QDO's request for Authorisation and QDO's application to revise the method of SFFP calculation.

Issues that were repeated in 2nd round submissions but that had been addressed by QDO's initial clarification have not been repeated in this document.

1. Concerns that the use of the logo will mislead consumers

a. The qualities of products bearing the 'Fair Go Dairy®' logo may not be clear to consumers (i.e. the logo may not be clear in what it is denoting).

***b. Consumers may form inaccurate conclusions about products that do not bear the logo*.**

QDO seeks to address concerns regarding the qualities required to qualify for the Fair Go Dairy® logo being clearly communicated to consumers.

The website, www.fairgodairy.com clearly outlines the criteria for the Fair Go Dairy® logo Scheme on 3 pages (including the Home page).

Consumers will be directed to the website for more information on all communications where appropriate.

QDO has already developed 30 second and 15 second brand content videos and cut down clips for free-to-air TV and social media network specifications.

Pending ACCC Authorisation, QDO will develop additional cut down clips which communicate the provenance attributes required for qualification to the Scheme and communicates that brands must meet both provenance and SFFP criteria to qualify.

QDO has a scheduled activity plan for the launch of the Fair Go Dairy® logo Scheme.

The plan demonstrates our intention to run an intensive brand awareness campaign at launch followed by a rotation of single focus messages that detail:

1. the criteria for brands to get the Fair Go Dairy® logo
    - Must be from Queensland farms and Queensland cows
    - Must meet the SFFP or above

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2. why the SFFP gives Queensland dairy farmers a Fair Go
    - overview of the SFFP and what an SFFP means for farmers
    - the price defined as a Sustainable and Fair Farmgate Price (SFFP) is calculated using Cost of Production (CoP) + Cost of Inflation (CoI) for the last 2 years and is based on the audited figures.
3. the Queensland provenance requirements to qualify for the Fair Go Dairy® Logo Scheme
    - overview of focusses on criteria: using no less than 80% unprocessed milk purchased from a farmer where the farmer's farm is located within Queensland, the milk is derived from dairy cows located within Queensland, and no milk used in the products may be sourced from outside of Australia

QDO will focus its channel activity on South East Queensland consumer markets to ensure that the largest proportion of Queensland consumers are exposed to (both Reach and Frequency) the overarching idea and qualifiers for the Fair Go Dairy® logo Scheme.

Social media will be used to extend the reach to consumers throughout all of Queensland.

2. It is unclear which processors pay a farmgate price above the revised SFFP, and if processors raise pay higher farmgate prices to qualify for the Scheme this could result in higher retail prices for dairy products.

QDO has contacted all SME dairy processors currently operating and retailing produce in Queensland that have been identified as likely candidates to receive and use the Fair Go Dairy® logo.

These processors have been identified as likely to meet the core criteria for the logo namely:

- the purchase price for the milk (per litre) is not less than the SFFP,
- using no less than 80% unprocessed milk purchased from a farmer where the farmer's farm is located within Queensland,
- the milk is derived from dairy cows located within Queensland, and
- no milk used in the products may be sourced from outside of Australia.

QDO has had confirmation from several processors who have indicated that they will all meet the provenance criteria and the SFFP criteria of 73.8c/L based on the revised formula for calculating the SFFP (ref QDO Revised method of SFFP calculation – 25 January 2021).

The major processors and supermarkets were approached regarding the Fair Go Dairy® Logo Scheme in talks back in 2019 and 2020 prior to QDO seeking ACCC Authorisation.

Bega (previously Lion), Norco and Lactalis have shown no interest in participating in the Scheme and have actively opposed the Scheme with submissions to the ACCC. Bega, Norco (including Coles milk) and Lactalis (including Woolworths and Aldi branded milk) currently pay an average price at least 3c/L below the SFFP.

Regardless of provenance of fresh milk, they would not meet the first of the requirements.

It is extremely unlikely that they would seek to participate in the Scheme and raise the price to farmers by 3-6c/L to comply with this single qualifier for the Fair Go Dairy® logo Scheme.

Doing so would be a major strategic change in direction for all companies and thus it is extremely unlikely that any processors would raise prices to participate in the Scheme and thus retail prices would not be increased.

If one of the 3 major processor were to become interested in participating in the Scheme it would be likely this would be only on specific brands not all their supply. A processor may try to demonstrate that the wholesale returns from some brands are higher than other brands and thus this allows them to pay a higher farmgate price on these products.

If these claims were made by a processor and can be validated to QDO then it would be possible to approve the logo on a limited range of products which do comply with the Scheme rules. This would not increase the farmgate price or retail price for dairy products.

3. The introduction of the 'Fair Go Dairy®' logo will devalue products that do not qualify for the Scheme or have chosen not to participate in it. And, if processors that pay a higher farmgate price lose customers to competing products that bear the logo, it will place downward pressure on farmgate prices.

All brands are able to apply for the Scheme and all brands that do pay a price equal to or above the SFFP would be wise to apply for the Scheme if they believe the Scheme has value.

From discussions held to date, most brands paying a price sufficient to meet the SFFP are likely to apply to participate in the Scheme. There may be some brands who meet the SFFP who do not believe the Scheme will be successful or commercially in their brands interest and thus may not apply to participate. This is a commercial decision they are free to make.

However, it is likely that most brands that do not apply for the Scheme are paying farmers a price below the SFFP and thus there is little value in applying. This is definitely the case for Bega, Norco and Lactalis currently despite some claims implied in submissions to this inquiry.

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There may be a small reduction in sales for some brands not participating in the Scheme but these brands are unlikely to meet the SFFP criteria. If demand for some brands reduces because consumers believe that the Fair Go Dairy Logo® Scheme is providing a value-add proposition to their dairy products, it is likely that these brands will adjust supply of milk from farmers rather than reduce the price they pay farmers.

This is a constant juggling act that all processors undertake and if a small change occurs due to this Scheme it would be a small issue for processors to manage especially in the context of significant undersupply of milk from Queensland farmers for sales into the Queensland market. In reality, if a processor did need to reduce its milk supply, it would not seek to replace milk lost from the natural closure of Queensland dairy farmers or farmers switching to other processors which is occurring in a steady manner currently.

If processors in the Scheme increase their sales, they will seek to contract more Queensland dairy farmers. They would be able to easily attract farmers given that they would be paying a higher price for milk to ensure they met that criteria for the Scheme.

Thus, some Queensland farmers will be substantially better of due to the Scheme without a change in retail prices. Farmgate prices on average could increase under the Scheme and the risk of lower prices would appear to be small.

4. In relation to the revised SFFP calculation:

a. The introduction of two-year averaging increases the disconnect between the 'Cost of Production' used to calculate the SFFP and the actual and current operating costs of farms.

Currently in Queensland all processors pay a price which provides stability and certainty to farmers. None pay a price that reflects the costs market in 1-year in isolation of other years or this significant variation year-on-year would cause significant changes in farm numbers and supply year on year.

Farmers do not make decisions based on single year financial outcomes. They look at multi-year outcomes and balance profits in some years with losses in other years. If the costs come down post a drought, for example, farmers would typically use this to invest in areas that have had underspend during the drought not return significant profit.

As a result, for both processors and farmers a multi-year approach is taken re milk price.

QDO's change to the SFFP *(ref QDO Revised method of SFFP calculation – 25 January 2021)* better reflects the current situation rather than create a disconnect.

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b. It is inappropriate to include finance costs and land lease costs in the costs base for 'Cost of Production' when calculating the SFFP.

In the revised SFFP calculation re finance costs, QDO has removed capital purchases and principal repayments from the SFFP in response to previous submissions. Only interest repayments have been included as an expense which is a legitimate expense under ABARES guidelines. So this concern has already been addressed.

Regarding the question raised on the inclusion of land lease costs, these are included and are a legitimate expense under ABARES guidelines. There is no reason to exclude these from the SFFP and it is unclear on what basis some are claiming they should be removed since they ar-e a legitimate farm expense.