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Dear Sir/Madam

We are Parmalat suppliers from the Darling Downs and are writing to you with concerns regarding the application for continuance of collective bargaining between Premium and Parmalat and other anti-competitive behaviour by supermarkets and processors.

After reading the background to the application I think some of the information supplied to ACCC is outdated and/or wrong.

In point 3.3 you talk about a more efficient dairy industry through many smaller dairy farms and manufacturing organisations ceasing to exist. Not only have many smaller dairy farms exited the industry, but also many larger enterprises have also exited. We feel that some of the most efficient farms that were best able to handle de-regulation were the first to leave because their farms had potential for other uses, and they weren't going to milk cows for nothing.

We recently heard of over 110 rotary dairy sheds in one area of Victoria being abandoned and either being pulled down for scrap or exported to China. Also, processors have had to pay big suppliers volume incentives above the average price just to keep these big suppliers operating. Surely if big farms were more efficient they would be the ones surviving on smaller margins. We have noticed that many of the bigger farms have two or three unmarried sons at home and it doesn't take much to realise that just one marriage would be the end of the whole enterprise. These larger farms quite often have several millions of dollars invested and are living below the poverty line. Smaller farms are sometimes better equipped to survive by one or more family members working off farm. But these families are living in hope of things improving but certainly won't do it forever. The industry forecast for Queensland is that Queensland production will be below the domestic requirements within two years. This can only result in increased prices for consumers as milk has to be sourced from interstate or overseas (no public benefit).

In point 3.18 it states that improvements in technology and more cost effective transport have meant that milk can be moved, sourced and supplied over long distances for further processing. This may have been the thought prior to de-regulation but processors have found it not to be the case with the result being high transport costs, trucks wearing out fast and unprofitable processing plants due to the overall increased price of the milk (high transport costs) eg. the recent closure of Dairy Farmers Toowoomba plant and others. In some cases Queensland processors were paying more for milk from Victorian

processors than they were paying to their own farmers and still having to transport it to Queensland.

In point 3.20 Coles and Woolworths have adopted a strategy of selling reduced price generic milk in a bid to attract more customers. The biggest problem with this strategy is Coles and Woolworths still insist on making a large profit on this milk, meaning this has to be subsidised by someone else ie. Farmers, small shops, service stations and milk vendors. Since around half the milk is sold outside supermarkets this can only result in higher prices for the consumer and lower prices for the farmer.

The 1<sup>st</sup> Woolworths contract under de-regulation saw Dairy Farmers supplying Woolworths at below cost while still insisting on making their margin. The 2<sup>nd</sup> Woolworths contract was won nationally by National Foods even though they were not in a position to supply this milk eg. Dairy Farmers Queensland still supplied and bottled milk for Woolworths even though National Foods had the contract. Ian Langdon, Dairy Farmers, stated "No one processor could afford to gear up for these contracts", meaning collusion between one another is the only way processors can win these contracts.

As for Premium's ability to collectively bargain, we don't believe they have any ability to collectively bargain as the Premium board are only interested in preserving the PDA system they have in place. Parmalat Queensland is the only processor in Australia that still pays for market milk on a per litre basis, rather than on component quality of the milk, which favours the larger PDA suppliers with little over quota milk and no incentive to produce a quality product. Not all Premium members are PDA suppliers.

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It seems that the Downs which has very few PDA suppliers compared to coastal areas, does not have their zone represented when negotiating price with Parmalat. It seems unlikely that any negotiating group could have a win when negotiating with only one processor. The only time a processor will offer more money to secure more milk is when they win another supermarket contract and then the processor that has just lost this contract will not want this milk, meaning that the winning processor will not have to pay very much more, if any, to secure this milk. The opposition will probably be looking at price decreases.

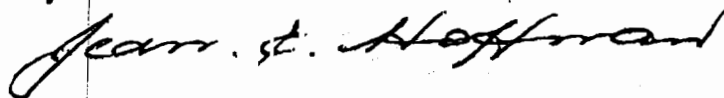
Farmers have no negotiating power with processors, as on two prior occasions when opposition processors approached farmers in this area for new suppliers then other processors prevented this eg. when National Foods offered Dairy Farmers suppliers a better price Dairy Farmers offered the milk straight to National Foods for less money than the National Foods offered farmers. And again, when Norco approached Downs farmers Parmalat did a deal with Norco to prevent this.

In summary, there is no way collective bargaining can work for the farmer as the farmer has no negotiating power, and organisations such as Premium are nothing more than jobs for the boys.

There are no meetings allowed by individual representatives of Premium with grassroot farmers to voice their concerns. It has to be a group meeting or nothing at all. There is something seriously wrong when the producers of a commodity are expected to bear the pain of rising costs, while everyone else further up the supply chain just raises the prices eg. electricity, feed costs, rents, fuel, water.

The Government must look at a system that ensures farmers can also exercise some market muscle to ensure they can demand a fair price for their produce. In the long term this will ensure farmers stay on their farm supplying milk and the processors stay in business supplying milk to the consumer instead of one organisation getting everything and everybody else going backwards and being forced to leave. The question begs, "Do you want farmers in this country?"

Yours truly



Hoffman Partnership