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16 May 2019

Dear Interested Party

Re: Request for submissions: Saputo Dairy Australia's proposed acquisition of Lion Dairy and Drinks Pty Ltd's specialty cheese business

The Australian Competition and Consumer Commission (**ACCC**) is seeking your views on the proposed acquisition of the cheese business of Lion Dairy and Drinks Pty Ltd (**Lion Cheese Business**) by Saputo Dairy Australia Pty Ltd (**Saputo**) (the **proposed acquisition**).

The Lion Cheese Business and Saputo overlap in the acquisition of raw milk in Tasmania and the production and sale of a range of cheese varieties including cream cheese, parmesan and certain types of cheddar.

Further details regarding the acquisition can be found at **Attachment A**.

The ACCC's investigation is focused on the impact on competition. In particular, we are seeking your views on:

- the impact on prices or terms of supply farmers receive for their raw milk in Tasmania
- the impact on the price of various cheeses.

Further issues you may wish to address are set out in **Attachment B**.

This matter is public and you can forward this letter to anybody who may be interested.

The legal test which the ACCC applies in considering the proposed acquisition is in section 50 of the *Competition and Consumer Act 2010*. Section 50 prohibits acquisitions that are likely to have the effect of substantially lessening competition in a market.

Please provide your response by no later than **5pm on 30 May 2019**. Responses may be emailed to mergers@accc.gov.au with the title: *Submission re: Saputo's proposed acquisition of Lion's specialty cheese business- attention Braeden Smith*. If you would like

to arrange a time to discuss the matter with ACCC officers, or have any questions about this letter, please contact Braeden Smith on 02 6243 4936.

Updates regarding the ACCC's investigation will be available on the ACCC's Public Mergers Register at ([ACCC mergers register](#)).

Confidentiality of submissions

The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the *Competition and Consumer Act 2010*. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information on confidentiality.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Tom Leuner', is positioned above the printed name.

Tom Leuner
General Manager
Merger Investigations

Attachment A

Saputo Australia

Saputo is a wholly owned subsidiary of Saputo Inc., one of the ten largest dairy processors in the world. Saputo produces a range of dairy products for domestic and export markets. Saputo's milk and cheese brands include:

- Devondale
- Sungold
- Warrnambool Heritage Cheddars
- Coon
- Cracker Barrel (the Cracker Barrel trademark is owned by Kraft and used under licence by Saputo)
- Mil Lel
- Liddells and
- Great Ocean Road.

In 2018, Saputo acquired certain assets and liabilities of Murray Goulburn, which included a number of cheese varieties sold under the Devondale brand. As a part of that acquisition, Saputo acquired a processing plant in Tasmania, at Smithton. This plant produces milk powder, bulk butter and cream primarily for export or onsale to other processors.

Lion Dairy and Drinks Australia

Lion's main activities include the manufacture, marketing and distribution of various food and drink products in Australia, including dairy products such as white and flavoured milk, cheese and cream.

The Lion Cheese Business manufactures and supplies various cheeses under brands including:

- South Cape
- Tasmanian Heritage
- Heidi Farm
- King Island Dairy
- Mersey Valley
- Dairy Farmers and
- Australian Gold.

These brands cover a variety of cheeses including brie, camembert, blue vein, goat's cheese, washed rind, specialty cheddar, cottage cheese and some hard cheeses. All of these products are produced at Lion's two cheese plants in Tasmania, at Burnie and on King Island.

These products are supplied for retail distribution through grocery chains, and also through the food service channels. Lion also supplies cheese to manufacturers, resellers and private labels.

The proposed acquisition

Saputo proposes to acquire the Lion Cheese Business. This proposed acquisition comprises Lion's cheese processing facilities at Burnie and King Island, two dairy farms on King Island, and all other assets required for the manufacture and supply of various cheeses produced at Burnie and on King Island.

Accordingly, the two parties overlap in the acquisition of raw milk in Tasmania, and in the production and sale of various cheeses including cream cheese, parmesan and cheddar.

Attachment B

1. Please provide a brief description of your business or organisation.
2. Please outline the reasons for your interest in the proposed acquisition, including any commercial relationship/s with either of Saputo or Lion.

Farmers

3. Please describe your farm. The ACCC would appreciate receiving information about the processor/s that you currently supply, the volume of milk supplied per annum and your calving pattern.
4. Please identify all processors that you consider are viable competitors for your raw milk and whether you have switched between processors in the past. If you decide to exclude any particular Tasmanian processors from this list, please provide reasons why.
5. What sets the offers of different processors in Tasmania apart? For instance, do they offer different incentives or varied contractual terms; or do particular processors only pursue particular farmers?
6. What impact do you think Saputo acquiring Lions Cheese Business will have on your business? Will it reduce the number of competitors for your raw milk?

Dairy processors

7. Who do you consider are currently your closest competitors in acquiring raw milk in Tasmania? If there is a particular processor/s in Tasmania that you don't consider you compete strongly with, please provide detail as to why.
8. Please describe your organisation's supply of cheese. The ACCC would appreciate receiving information about the specific types and volumes of cheese you supply.
9. Please comment on whether you think the proposed acquisition will have an effect on competition for the supply of cheese.

Purchasers of cheese

10. Please address the closeness of competition between Saputo and the Lion Cheese Business in the supply of cheese. Relevant factors to consider may include, the range of cheeses supplied, whether Lion and Saputo respond to each other's promotional activity, and whether you can substitute between Saputo and Lion cheese products. Please provide specific examples where possible.
11. Is there a distinction between everyday cheese varieties, such as block cheddar, and more specialty products, such as soft cheeses and premium hard cheeses?
12. To the extent that some varieties have products that have both lower value and higher value options, for instance parmesan or cheddar, to what extent do these compete with each other directly? For example, does Saputo's Mil Lel parmesan compete closely with Lion's South Cape parmesan.
13. If Saputo acquired the Lion Cheese Business, is this likely to impact your business and the terms on which you acquire various varieties of cheese?

14. Are cheese imports a viable alternative to sourcing cheese from domestic producers? Are there particular varieties of cheese that are more or less suited to import competition?

Other information or competition issues

15. Please provide any additional information or comments, or identify other competition issues, that you consider relevant to the ACCC's consideration of the proposed acquisition under section 50 of the Act.