



Friday 5 February 2021

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Re: Queensland Dairyfarmers' Organisation Ltd 'Fair Go Dairy' – Revised method of SFFP calculation – AA1000530.

The Queensland Dairyfarmers' Organisation (QDO) has revised its proposed method for calculating the Sustainable and Fair Farmgate Price (SFFP) for its Fair Go Dairy Scheme (the Scheme).

The Australian Dairy Products Federation (ADPF) has consulted with its members and provides comment to the ACCC on their behalf. We previously responded to the Queensland Dairyfarmers' Organisation Ltd — application for authorisation AA1000530 and most recently AA1000530 — Draft determination and interim authorisation.

The ADPF is the national peak policy body representing commercial, post farm-gate members of the Australian dairy industry, including processors, traders and marketers of Australian dairy products. For the past 30 years, ADPF has worked to represent the interests of members in promoting and protecting dairy products through advocating for improvements in the manufacturing, marketing and trading of dairy. Our members process more than 90% of Australian milk volumes and provide dairy products for both the domestic and export markets.

The ADPF is supportive of sound policy principles and decisions that foster innovation and the future viability of the whole of the dairy industry – we again restate that the proposed QDO Scheme fails to support any of these.

The ADPF *does not* support the proposed QDO application on the Scheme – inclusive of the revised methods for calculating the SFFP – and recommends that the ACCC does not grant any form of authorisation. The risk and industry detriment from introducing the Scheme outweighs any consumer or dairy industry benefit.

The fact QDO have revised their methods for calculating the SFFP since their application, which shows a lack of understanding in farmgate milk pricing and failure in the Scheme – before it has even started.

Their proposal for SFFP to be based on retrospective, two-year average pricing, i.e., QDAS production costs – Appendix 10.3: Group Dairy Farm Profit Map, plus CPI data – to *smooth fluctuations* – fails to recognise the realities of seasonal fluctuations and short-term impacts (both good and bad), that occur in the industry. It also means that previous, harder years (such as 2019/2020) can have an extended influence on milk price, as opposed to what the current pricing may bring.

In addition, changing the definitions for what is captured within the QDAS production costs reported to now include finance costs and land lease costs is incorrect, proposing these are personal/ business investment choices as opposed to production costs per se – and can inflate the SFFP figures.

Collectively, this means the proposed price QDO determines to be ‘fair’ is likely to be much higher than what is required to be ‘fair’, and/or falsely communicates what is happening in the marketplace. Inevitably, this lends to questioning the reality and sustainability of the SFFP and in turn, the message this sends to stakeholders – in particular consumers.

Queensland farmers currently receive a higher price for their milk relative to other states to reflect consumer demand for drinking milk and year-round supply.

Localised marketing strategies and on-pack communication are currently working to educate consumers on the origin of products, to enable informed purchase decision – and should be maximised.

Farmgate milk pricing, however, is a carefully considered mechanism influenced by a number of variables, and firmly lies in the commercial terms of trade between contracting parties – *and not QDO*. It incorporates, but is not limited to freight costs, product mix, marketing strategies, manufacturing capacity utilisation and efficiencies, and exchange rate hedging policies. In addition, competition for milk in different production zones has proven to impact farmgate milk pricing, often to the advantage of the seller (i.e., dairy farmer).

Having a pricing strategy set by farmers based on cost of production fails to recognise these variables, nor the importance of continuous improvement, innovation or efficiency for the industry to remain operational.

New tools introduced since the date of this application work to enhance the transparency on the milk market and the farmgate milk prices offered to farmers to help guide and inform business decisions. The introduction of the Dairy Code of Conduct is achieving greater transparency on the contracting process between farmers and processors. The ADPF [Milk Value Portal](#) provides primary data directly from milk processors on farmgate milk pricing for each milk production region in the country, along with local and global insights on dairy product markets and supply chain influences on price – delivering a rationale economic discussion on milk pricing and what drives milk pricing.

Thereby, in considering the sentiment versus realities, the ADPF raises grave concerns over the application by QDO for the Fair Go Dairy Licensing Scheme and the impact it could have on the dairy industry.

We welcome the opportunity to meet with the ACCC before any final decisions are made on this application, to ensure the best outcomes are obtained for the industry.

Yours sincerely

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