QUEENSLAND FARMERS' FEDERATION
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16 October 2020

Ms Hannah Ransom
Contact Officer
Australian Competition & Consumer Commission
23 Marcus Clarke Street
CANBERRA ACT 2601

Via email: adjudication@accc.gov.au

Dear Ms Ransom

Re: AA1000530 - Queensland Dairyfarmers' Organisation Ltd (QDO) Application for Authorisation

The Queensland Farmers' Federation (QFF) is the united voice of intensive and irrigated agriculture in Queensland. It is a federation that represents the interests of 21 peak national and state agriculture industry organisations which collectively represent approximately 14,000 Queensland farmers across the food, fibre and foliage industries. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations.

QFF understands that the Queensland Dairyfarmers' Organisation (QDO) has sought an authorisation for a licensing scheme for processors of milk and dairy products to apply a "Fair Go Dairy" logo to their products. The logo is intended to signal to consumers that the products bearing the mark are made from milk for which farmers have been paid a sustainable and 'fair' farmgate price (known as the SFFP). The products which can display the logo include dairy milk, dairy cream, dairy desserts and cheese.

QFF strongly supports QDO's application for the authorisation of the "Fair Go Dairy" logo. The dairy industry in Queensland is under significant pressure from rising input costs and reduced market prices as well as unfair market contracts. Nearly 70 per cent of Queensland is also still drought declared[1], further reducing the availability of feed and increasing its cost. Additionally, Queensland is the most weather impacted state. The continuing impact of extreme weather events is significantly impacting primary producers across Australia, from crop damage, rising input costs through to livestock stress. Climate change is exacerbating the effects of extreme weather events, such as drought, and rural and regional communities (particularly farming communities) are disproportionally impacted[2].

QFF notes that farm business profit is a comprehensive measure of the long-term economic performance of farm businesses. In addition to the receipts and costs included in farm cash income, farm business profit also accounts for non-cash costs incurred by farm businesses, namely capital depreciation, payments for family labour and changes in inventories of livestock, fodder and grain held

[1] Queensland Government. The Long Paddock. Latest Drought Situation Map (dated 1 August 2020). See https://www.longpaddock.qld.gov.au/drought/drought-declarations/
[2] Climate Council (2016). On the Front Line: Climate Change and Rural Communities. Climate Council of Australia Limited

on farms. At the national level, dairy farm business profit declined significantly from an average of $88,290 per farm in 2017–18 to negative $21,300 per farm in 2018–19[3].

The recently released 2019 Queensland Rural Debt Survey[4] showed that a total of 18,232 farm borrowers owe a cumulative debt of $19.10 billion, a figure 10.75 per cent higher than the 2017 survey, and one that does not include other forms of debt such as unpaid utility bills through to lines of credit with local rural and farm suppliers. The report acknowledged that at a farm level, margins continue to be squeezed and profitability is increasingly being challenged with more farm businesses expected to face financial instability in the future.

The Australian dairy industry has operated in a deregulated environment after support for manufacturing milk prices through the Domestic Market Support scheme ceased at a federal level and regulated sourcing and pricing of drinking milk was discontinued across the states. International prices are now the major factor in determining the price received by farmers for their milk, which is low by world standards and therefore must run very efficient production systems.

Multiple issues have been identified across the dairy supply chain since deregulation culminating in the implementation of the Dairy Industry Code of Conduct, which came into effect on 1 January 2020. The Code regulates the conduct of farmers and milk processors in their dealings with one another and applies to retailers, such as supermarkets, but only to the extent that they purchase milk directly from farmers.

In 2011, major retailers reduced the price of private label fresh milk to $1 per litre which resulted in the immediate devaluation of Australia's dairy industry – disproportionately affecting Queensland's dairy farmers as all dairy production in the state goes directly to providing fresh white milk. As a result, processors were forced to compete for lucrative contracts supplying private label milk, and in attempt to minimise their own losses, they applied price pressure on their dairy farmer suppliers, thereby impacting the whole supply chain.

With reduced profits due to processors dictating terms and farmers fearing reprisal if they refuse to comply, and the price of milk production increasing due to the above mentioned high input costs, a significant number of Queensland dairy farms have left the industry. This number will continue to decrease until the production of milk in volumes capable of sustaining domestic supply reaches a critical point, with the demand for dairy products in Queensland already exceeding local production.

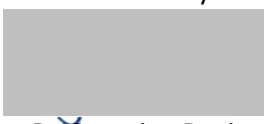
In addition to a severe imbalance of power between processors and dairy farmers, issues also exist between processors and retailers. Given there are only three major processors in Queensland, which are each aligned to a major retailer, retailers have taken advantage of this power imbalance to prescribe the processors' product facing on shelves if they refuse to negotiate on the price for the privilege of processing for the retailers.

Additionally, the two-tiered pricing structure that exists within the fresh white milk market has resulted in the erosion of brand differentiation as perceived by consumers. Already a commodity product with minimal differentiation, processors find it difficult to negotiate and find balance with retailers on the price for their branded products which pay more sustainable and fairer prices to farmers.
Despite the introduction of the Dairy Code of Conduct, there is still significant work to be done to remedy the excessive control, unrealistic demands and corporate bulling exerted by retailers on processors and farmer suppliers. Without a sustainable level of profitability across all levels of the supply chain, volume will continue to decline across all regions in Australia resulting in market failure.

[3] Australian Government. Department of Agriculture, Water and the Environment. Australian Dairy: Financial Performance of Dairy Farmers 2017-18 to 2019-20.
[4] Queensland Government. Queensland Rural and Industry Development Authority (*QRIDA). Rural Debt Survey 2019.*

The use of an easily identifiable logo for products where dairy farmers have been paid a SFFP is critical. A logo is much more than just an image, it is a point of recognition for milk consumers and an important foundation for identifying (branding) milk that meets the SFFP threshold. Previous campaigns have shown that consumers will support the dairy industry and make ethical purchasing decisions if they are able to identify the brands that offer SFFP to farmers[5]. However, where the price variation is significant, branded products do suffer as some consumers fail to see a significant product differentiation in comparison to private label milk. As such, an easily identifiable label to these consumers is particularly critical to highlight that differentiation. Cheap milk degrades the product and it also devalues the worth of the dairy farmer.

Yours sincerely



Dr Georgina Davis
Chief Executive Officer

[5] For example, Choice 2016. Consumers Spending Big to Support Dairy Farmers. See https://www.choice.com.au/food-and-drink/dairy/milk/articles/consumers-buying-more-branded-milk-to-support-farmers