



**Australian
Competition &
Consumer
Commission**

Dairy Inquiry Farmer Forum: Traralgon, Victoria

14 February 2017

This document is not a verbatim record of the forum but a summary of the issues raised by forum attendees.

The views and opinions expressed are those of the attendees and do not reflect the ACCC's views or position on the issues summarised here.

14 February 2017 from 11.30 am to 2.00 pm
Traralgon Golf Club
Princes Highway, Traralgon, VIC

Attendees

Australian Competition and Consumer Commission

Mick Keogh, Commissioner

Sarah Court, Commissioner

ACCC staff: Amy Bellhouse, Imma Chippendale, Andrew Parnell,

Lavinia de Havilland.

Interested parties

Approximately 75 interested parties attended the forum.

Introduction

Commissioner Mick Keogh welcomed attendees, outlined the purpose of the forum and invited the attendees to contribute comments in response to the topics of interest to the Inquiry.

Attendees were informed that the matters discussed at the forum would be recorded and a summary placed on the ACCC's website, but that this summary would not identify or attribute comments to individuals.

Summary of issues

Attendees discussed the following issues during the forum:

1. COMPETITION FOR MILK

- Many farmers review different processors' price offerings on an annual basis.
- It was alleged that there is limited competition between many processors as they tend to follow the price of the leading processor, including step-ups and step-downs.
- Switching may occur based on various incentives, such as bonuses for scale, growth, or signing a multi-year contract, rather than on the announced opening price.
- Farmers find it difficult to switch between processors. Reasons for this include:
 - each processor has unique, complex pricing structures which are difficult for farmers to compare
 - in recent years, farmers have been paid 'advances' on the new dairy season instead of a final 'step-up', which they will forfeit if they do not commit to a further 12 months with the same processor
 - farmers are only able to switch processors when a processor is short of supply; when a farmer reassesses their options and initiates a switch this may not align with the timing of a processor needing additional supply
 - the perishability of milk makes farmers more likely to remain with processors despite poor conditions or prices
 - it was stated that processors prefer to enter agreements with larger scale farms, which makes switching processors difficult for small scale farms.

2. CONTRACTING AND PRICING

2.1 Contracts and Handbooks

- Some farmers consider it unfair that processors pay different prices for milk supplied in autumn and spring.
- The majority of Victorian farmers do not sign supply contracts, but are instead subject to a supplier handbook, and are deemed to have accepted these terms if they supply milk to the processor in a given season.
- It was stated that many farmers are not familiar with the fine print in their supply agreements, including the possibility of retrospective price step-downs.
- Despite the consequences of the step-downs in 2016, milk supply handbooks still permit retrospective step-downs. It was stated that one processor has changed the notice period relating to step-downs. It was suggested that in 2016 smaller processors also imposed retrospective price step-downs, and that at least some of these were in breach of contract or handbook terms.
- Farmers receive monthly payments. It was stated that this is too infrequent to adequately manage farmers' cash flows.
- Processors sometimes offer large scale farmers special incentives and contracts to secure their milk supply.
- It was noted that milk prices depend on quality. It was submitted that since milk from different farms is blended, this may not be a fair method to determine price.

2.2 Collective Bargaining Groups

- Farmers submitted that as processors are not under an obligation to enter into negotiations with collective bargaining groups, they retain the balance of bargaining power.
- It was suggested that if farmers did collectively bargain effectively, these groups

<p>might achieve a higher price at the expense of other farmers.</p> <ul style="list-style-type: none"> • If collective bargaining groups could secure sufficient member numbers, they would have the power to bargain with processors.
<p>3. TRANSPARENCY AND PRICE SIGNALS</p>
<ul style="list-style-type: none"> • Sometimes processors do not announce the new opening price until after the new dairy season has commenced. • Processors' pricing structures are difficult to interpret. • Farmers do not believe it is reasonable for processors to base their farm gate price on global markets when the majority of Australian produced milk is locally consumed. • The recent price step-downs were unexpected and have affected farmers' ability and confidence to make future business plans.
<p>4. RETAIL PRICING</p>
<ul style="list-style-type: none"> • The retail price of \$1 per litre for private label milk places downward pressure on processors' and farmer's returns. • Supermarkets use \$1 per litre milk as a 'loss leader.' • It was suggested that one supermarket chain pays processors 97 cents per litre for both generic and branded milk. • Some farmers consider that supermarkets have grown in power through the sale of private label milk and dictate prices to processors.
<p>5. OTHER ISSUES</p>
<ul style="list-style-type: none"> • Australian milk production is declining, affecting our ability to compete internationally. • High labour, infrastructure and transport costs make it difficult for Australian farmers to compete internationally. • Farmers are concerned that processors believe they can get away with offering poor conditions to farmers, as farmer loyalty and a lack of demand from other processors means that few farmers will switch. • It was asserted that co-operatives should continue to exist as they play an important role in 'keeping the processing industry honest' and determining the market price. • Contrary to the above comments, it was also suggested that the number of competing Australian processors does not allow any one player to hold sufficient market share to compete strongly in global markets.

Commissioner Keogh closed the forum by inviting farmers to make a written submission or to phone the ACCC if they had further comments to contribute. He invited attendees to remain for discussions and refreshments.