

## **PERISABLE AGRICULTURAL GOODS INQUIRY**

Matt Reid – Dairy Farmer South West Vic - Coles supplier

We run a family owned dairy farming operation, the farm comprises of 650 hectares of owned and leased land; milking 675 cows and calving four times per year.

The aim is to produce high quality milk, setting high standards for environmental management and animal welfare; to create a sustainable family dairy business. The business has 5 employees, the workforce is stable with excellent staff retention.

This submission is based on personal experience gained from 20 years of dairy farming in Victoria, it has been written in response to observations of negative commentary around of the direct supply of dairy to supermarkets from those within the industry and politicians and media outside. Often it is the negative story that grabs the headline, rarely do we hear reports of positive stories particularly when it comes to Supermarkets and Farmer relationships.

Supply opportunities do differ across the country, dairy farmers in Victoria have opportunities to supply processors aligned with either the domestic or the export market. The supply profile required for domestic is different and specific to that market, generally a domestic supply profile is flatter, and an export profile is peakier driven by the feed supply on farm. Variation in domestic milk price is generally less than that of export. Global supply and demand balance has become very volatile, global prices can swing wildly which can have a massive impact on farm income from year to year. In the past this business supplying an export orientated processor has seen income fluctuations of more than \$800,000 year on year.

The market is the market. Milk price in Victoria is underpinned by the global commodity price, processors can only return to the farmer what they can extract from the market. Processors have an obligation to their owners to produce a profit, the absence of Australian owned processors means those profits are in most cases not returned to Australians. The same can be said for foreign owned processors who produce products that are domestically consumed via supermarkets. This places pressure on the price that can be paid to the farmer for the raw milk.

### **Coles dairy direct source**

In May 2019 Coles announced that they intended to contract directly with dairy farmers. The offer was a fixed price for 1, 2 or 3 years. Consequently, for us an initial term of 3 years was signed up to, the new Dairy Code meant that a new contract and further 3 years began for the 20/21, 21/22 and 22/23 seasons. The significance of the Coles contract is immense, compared to previous supply arrangements where-by income was not known for any more than 12 months at a time. And that income was typically an opening price with unknown step-ups where the market allowed. The effect of that type of arrangement is; a) the farmer wears all the risk in milk price fluctuations; b) the farmer is funding the working capital of the processors and c) the business cannot make strategic

long-term decisions due to price insecurity. The Coles contract represents the highest price ever received by the Reid's locked in for four years. Essentially Coles and the farmers are sharing in the price risk by locking in a long-term price. This is allowing long term investment decisions and enabling farm businesses to be managed like a business.

Coles direct source is a direct toll model, the processing is fee for service resulting in an efficient supply chain model where farmers are paid well and rewarded for producing milk to Coles' requirements.

In addition, Coles through its contract with Milk Department (Milk Department is contracted by Coles to manage the milk pool on behalf of Coles) has ensured farmers are supported by Dairy supply chain experts where communication is open and transparent. This also ensures farmers like us supplying Coles have a strong voice in the relationship.

### **Coles Sustainability Dairy Development Group (CSDDG)**

At the time of announcing the direct toll sourcing model, Coles also announced \$1.9 million to go towards sustainability initiatives that were developed through the CSDDG. The CSDDG structure was established by PWC ensuring correct governance, compliance and procedures. The CSDDG comprises of Coles direct farmer representatives, senior Coles staff and representatives of the Milk Department. The CSDDG has achieved much in its initial 12 months of operation, and there are exciting initiatives in the pipeline.

- Supply of Automatic electronic defibrillators to all Coles farmers
- Initial trial has led to all suppliers receiving Mastatest machines to improve herd health. From clinical mastitis samples these machines give farmers information relating to the recommended treatment protocols depending on the bacteria found in the sample. This initiative sets Coles farmers apart due to the proactive approach to antimicrobial stewardship.
- Covid-19 support, supply of face masks and sanitiser to all Victorian Coles farms
- Targeted Hay and grain report
- Established working groups to help farmers improve Farm Safety

Therefore, the relationship with Coles goes beyond paying for our milk which is something we have not had in the past with other processors.

### **Coles awareness of farm business conditions**

Coles have shown high levels of awareness of business conditions at farm level. Coles have demonstrated that they are prepared to step in and support their suppliers when seasonal conditions deteriorate placing the supply pool at risk. As an example, earlier this year Coles made contact stating that there was an Exceptional circumstances Special Payment for Coles' dairy farmers, the below is taken from the announcement. In 20 years of farming we have never experienced anything like that level of proactive support.

*‘Coles is acutely aware that there is an ongoing impact of the recent unseasonal conditions in NSW and Victoria and current business challenges. This has the potential to impact milk production. After speaking to many of our direct supply farmers Coles has decided to continue to provide additional financial support to our Coles direct milk supply farmers for a further four months in recognition of these exceptional circumstances.*

*Coles is committed to assisting Coles' dairy farmers to build sustainable businesses. It is important to Coles that when our farmers are challenged by exceptional circumstances that meaningful transitional support is provided to farmers to secure the inputs needed to produce milk. In the current circumstances, Coles considers it important that this support is provided.’*

### **Coles preparedness to consult**

From the outset Coles representatives have been open and honest in what they can and can't do. The initial round of supplier consultation meetings saw changes to the terms of the proposed contracts and the prices paid. Ongoing regional supplier meetings continue to build relationships between Coles and farmers.

Our experience supplying Coles has so far been nothing but positive.

Matt Reid – 