Queensland Dairyfarmers' Organisation

Queensland Dairyfarmers' Organisation Limited ABN: 90 090 629 066

Mr Mark Fitt
Committee Secretary
Senate Economics References Committee
Department of the Senate
PO Box 6100
Parliament House, CANBERRA ACT 2600
Email: economics.sen@aph.gov.au

8 February 2017

Dear Mr Fitt,

Re: Inquiry into the Australian dairy industry

The Queensland Dairyfarmers' Organisation Ltd (QDO) welcomes the opportunity to provide additional information to the Senate Economics References Committee as requested at the hearing in Brisbane on 31 January 2017. The QDO was asked to provide its views on essential elements for a mandatory code of conduct by supermarkets.

QDO and the Australian Dairy Farmers (ADF) have long advocated for a code of conduct across the value chain. In March 2015 the Competition and Consumer (Industry Codes – Food and Grocery) Regulation 2015 was announced. QDO and ADF viewed this 'Supermarket Code' as a positive first step toward addressing the imbalance of market power between retailers and their suppliers. At the time, QDO and ADF noted that many aspects of the dairy draft code of conduct, which ADF and QDO began developing in 2011, had been adopted in the prescribed Supermarket Code.

The prescribed Supermarket Code is not perfect, but it does address several key imbalances with regard to major retailer power over suppliers. QDO and ADF noted the review of the Supermarket Code three years from implementation, and stated it would be seeking the strengthening of regulations if necessary.

The major issue missing from voluntary code relates to predatory pricing by supermarkets. Major supermarkets are able to push down the price of procuring store brand milk, apply a much smaller margin to store brand milk and sell store brand milk at a loss in some markets. This allows major supermarkets to wipe out competition from other retailers in some regions who cannot possibly match prices especially if major retailers chose to sell milk at a loss. In addition this strategy allows major supermarkets to ensure that their brand picks up market share versus branded milks. This predatory pricing approach should be outlawed under a mandatory coded of conduct.

In addition major retailers offer different shelf space for branded products to processors based on store brand contracts that processors have with retailer. This creates a clear incentive for processors to buy shelf space from retailers by undercutting the price that it sells store brand milk to retailers. The concept of supplying shelf space should be outlawed under a mandatory coded of conduct.

One of the issues discussed at the hearing in Brisbane on 31 February 2017 related to the impact that store brand contracts had on the price received by farmers. Norco stated that as a result of the deal with Coles for store brand milk they were able to pay farmers an additional 3c/L for their milk.

The committee should also be aware that Lion lost the contract with Coles to Norco. As a result of losing the contract with Coles for store brand milk, Lion was able to pay their farmers an additional 3c/L for their milk. In addition, Parmalat signed a contract with Woolworths soon after the $1/L pricing started in 2011. Directly after this occurred Parmalat farmers in Queensland were forced to accept a 3c/L cut in the milk price as a direct result of the Parmalat contract with Woolworths.

The QDO is happy to provide any further information the Committee members may require.

Yours Sincerely,

Brian Tessmann
President
Queensland Dairyfarmers' Organisation Ltd