



12 October 2016

Senator Chris Ketter
Chair
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Chair,

Submission by the Australian Dairy Industry Council (ADIC) to the Senate Economics References Committee Inquiry into the Dairy Industry

The ADIC co-ordinates industry policy and represents all sectors of the industry on national and international issues through its two constituent bodies; Australian Dairy Farmers Ltd (ADF) and the Australian Dairy Products Federation (ADPF). ADF and ADPF represent the interests of dairy farmers and manufacturers, processors and traders respectively.

The ADIC aims to foster, promote and protect the interests of the Australian dairy industry by driving a whole of industry approach to dairy policy.

The dairy industry recognises the importance of working constructively and cooperatively to resolve issues across the value chain, and where possible, presenting solutions to Government and regulators.

The ADIC hopes to be able to achieve implementation of fairer contract clauses through negotiations between farmers and processors and be able to provide the Inquiry and Government with industry developed and shared solutions.

With this in mind, dairy farmers and processors met on 27 September 2016 to begin the process of improving the contractual arrangements with farmers, and balance risk along the supply chain.

The workshop followed the Deputy Prime Minister and Minister for Agriculture and Water Resources, Barnaby Joyce's August 2016 Dairy Symposium, where key industry stakeholders committed to working cooperatively to find solutions to issues faced by dairy farmers, processors and the industry generally.

The ADIC has long recognised that it is important that farmers and processors work together collaboratively to address both domestic and international challenges to the profitability of the industry.

The workshop was a constructive first step for dairy farmers and processors working together on contract and transparency issues.

The importance of working cooperatively to find solutions to issues faced by dairy farmers and the industry was emphasised.

Dairy farmers and processors discussed an ADF draft discussion paper outlining a set of principles which industry could consider in working together to develop a Code of Best Practice on Contractual Relationships.

Processors and dairy farmers engaged in a constructive discussion of the points raised in the draft discussion paper whilst being mindful of the specific needs of different industry players and regional differences.

The discussion took place in the context of four overarching principles acknowledging:

1. The changing nature of the dairy industry, e.g. increasing global volatility;
2. The different Australian operating environments, e.g. domestic vs export;
3. The need for fair and reasonable negotiation to take place between farmers and processors on contracts and supply agreements and the need to assist farmers to negotiate; and
4. The importance of transparency in both market signals, pricing and forecasts and supplier agreements and contracts.

Two key outcomes from the workshop were:

- Agreed importance of transparency and prescribing the mechanisms for pricing in the proposed draft Code and importance of allowing flexibility.
- Agreed no retrospectivity regarding pricing and pricing mechanisms.

The two outcomes above are a small selection of the outcomes from what was a very constructive workshop.

Dairy farmers and processors agreed to form a small working party of processor and farmer nominees to further progress the issues raised with a view to developing a draft code of conduct for further consideration by the wider group.

The processor and farmer meeting was also attended by Mick Keogh, the Australian Competition and Consumer Commission (ACCC) Agricultural Counsellor and Craig Latham, Deputy, Australian Small Business and Family Enterprise Ombudsman.

Mr Keogh provided background on unfair contracts and other issues, including the ACCC market study into the dairy industry, which will commence soon, and is discussed further briefly below.

The ADIC understands there are currently investigations into Murray Goulburn and Fonterra by the ACCC, and a separate investigation by the Australian Securities and Investments Commission (ASIC).

The ADIC respects the roles of both these organisations and the important part they play in competition and corporate regulation.

Given the importance and sensitive nature of these investigations the ADIC is unable to comment further apart from stating that all ADIC members, including Murray Goulburn, other processors and dairy farmers, are cooperating fully with both the ACCC and ASIC.

The ADIC is also aware of at least one class action against Murray Goulburn and a number of current and former directors that has been lodged in the Supreme Court of Victoria on behalf of unitholders in Murray Goulburn.

This action is going through the court process and thus the ADIC is unable to comment on it.

The ADIC is aware that the ACCC will be undertaking a market study into the dairy industry at the direction of the Treasurer.

The ADIC understands the market study will be finalised in 2017 with an issues paper released, a request for submissions issued, regional hearings, and a draft report released.

The dairy industry market study will provide an opportunity for the concerns of stakeholders to be examined by the appropriate regulator, potentially lead to policy recommendations and potential

enforcement issues being identified. The ADIC expects that the market study will also identify positive aspects of the industry and what is working well.

ADIC engagement in the study will be integral to its outcomes and recommendations being adopted by the whole of the dairy industry value chain, and the ADIC looks forward to working with the ACCC and the Government on the dairy industry market study.

We operate in a global environment that is increasingly volatile. The dairy industry is examining ways to help manage this volatility.

It is important to acknowledge that whilst the Australian dairy industry is an industry that has been under intense pressure, it is also an industry that has the know-how and resilience to overcome adversity and thrive in the long term.

Collaboration is the key to get us where we need to be. Our industry relies on all the elements to operate effectively. Farmers need processors and vice versa – so the solutions require all stakeholders to come together to ensure a positive future.

The recent farmer and processor workshop and the subsequent actions and changes that will flow from that meeting are the first step in ensuring a mutually beneficial and more transparent system for all.

Yours sincerely,

David Basham
ADIC Chair