

**Standing Committee on Rural & Regional Affairs & Transport**  
Answers to questions on notice  
**Agriculture, Water and the Environment Portfolio**

**Committee:** Standing Committee on Rural & Regional Affairs & Transport  
**Inquiry:** Performance of Australia's Dairy Industry  
**Hearing Date:** 19 June 2020  
**Division/Agency:** Department of Agriculture, Water and the Environment  
**Hansard Page:** N/A  
**Question Date:** 22 June 2020  
**Question Type:** Written

**Senator Sterle asked:**

1. I note that the Department has provided evidence that “deregulation has created a more favourable environment for growth and innovation in the dairy industry”, if this is the case why are dairy farmer groups telling the committee that there is a different reality for dairy farmers
2. Does the department agree that there a market imbalance between dairy farmers and processors? Was this situation created because of the deregulation of the industry?
3. If as according to the department deregulation has created a more favourable environment for growth and innovation why did the Government commit a \$22 million package to assist dairy farmers?
4. On Monday 15 June 2020 the Minister for Agriculture stated that he “has not ruled out a Royal Commission into the Dairy industry, but that he would require evidence of malpractice”. Has the department provided advice to the Minister regarding the establishment of a Royal Commission?
5. Has the Minister sought advice from the department if any evidence exist with regards to malpractice in the dairy industry or from the supermarkets?
6. The department has said that a minimum farm gate price could increase domestic retail dairy prices – disproportionately impacting on pensioners and low-income earners? Does the department hold the same position with regards to the Minister calling on the supermarkets to apply a levy onto domestic retail prices, so that farmers can get a fair price for their milk? If not, why not?

**Answer:**

1. State dairy farming organisations represent and advocate on behalf of farmers from their states. There are differences across states and dairy farming regions, with farmers experiencing different challenges such as the impact of poor seasonal conditions and international competition. The committee may be best placed to ask dairy farming groups about submissions or evidence they have provided to the committee.
2. The department notes the findings of the 2018 Australian Competition and Consumer Commission (ACCC) inquiry that at that time a market power imbalance existed between dairy farmers and processors. A key recommendation from the inquiry was to introduce a mandatory industry code of conduct.

The government implemented this recommendation with the mandatory Dairy Code of Conduct (Dairy Code) coming into effect on 1 January 2020. The Dairy Code manages the conduct of business relationships between farmers and the first purchasers of milk.

The Dairy Code assists in rebalancing bargaining power between farmers and processors by setting enforceable minimum standards of conduct to improve the clarity and transparency of trading arrangements.

The ACCC dairy inquiry found clear differences in bargaining power throughout the supply chain. These market power imbalances were *“caused by the nature of the relationship (such as small farms supplying a large processor with a generic product), disparity in the volume and quality of information to farmers and the perishability of raw milk”* (Ref: ACCC Dairy Inquiry Final Report April 2018, Chapter 2, pg. 57). The ACCC dairy inquiry did not indicate that deregulation was a cause of the market power imbalances that exist in the dairy industry.

3. The Australian Government committed \$22 million for the dairy industry through a range of initiatives to support the ACCC to enforce the Dairy Code, and enhance industry's ongoing profitability in the longer term, through innovation, funding to address high energy costs and other initiatives that will support the industry, such as cooperatives.

The \$22 million includes:

- \$8.1 million in additional funding to the Australian Competition and Consumer Commission's Agriculture Unit
- \$10 million to assist dairy farmers to upgrade or invest in energy efficient equipment to reduce their energy costs
- \$3 million in grants to support farmer groups to set up farm cooperatives and other collective business models, and
- \$1.5 million to Dairy Australia (DA) and the Australian Dairy Farmers (ADF) to increase financial literacy for farmers and support increased price transparency through contracting and milk marketing tools such as blockchain and alternate milk marketing options and a new modern trading platform.

4. No

5. No

6. A minimum farmgate price would have a range of detrimental impacts. The department is required to consider all potential risks of a government price intervention and one risk would be a decrease in the affordability of dairy products in low income categories.

This is the same risk across any increase in price, but is more pronounced where the government would set a floor price across the dairy industry because it could increase the price of all domestically produced dairy products. A voluntary retailer levy would only impact the price of some dairy products sold through some outlets.