

REPORT ON PROCEEDINGS BEFORE

**PORTFOLIO COMMITTEE NO. 5 – INDUSTRY AND
TRANSPORT**

**INQUIRY INTO SUSTAINABILITY OF THE DAIRY INDUSTRY IN
NEW SOUTH WALES**

CORRECTED

At Macquarie Room, Parliament House, Sydney, on Monday 26 November 2018

The Committee met at 13:15

PRESENT

The Hon. Robert Brown (Chair)

The Hon. Rick Colless

The Hon. Courtney Houssos

The Hon. Scot MacDonald

The Hon. Mark Pearson

The Hon. Mick Veitch (Deputy Chair)

The CHAIR: Welcome to the fourth hearing of the inquiry into the sustainability of the dairy industry in New South Wales. Before I commence I acknowledge the Gadigal people, who are the traditional custodians of this land. I would also like to pay respect to the elders past and present of the Eora nation, and extend that respect to other Aboriginals present. Today the Committee will hear evidence from Coles, Woolworths and Bega Cheese.

Before we commence I will make some brief comments about the procedures. Today's hearing is open to the public and is being broadcast live via the Parliament's website. A transcript of today's hearing will be placed on the Committee's website when it becomes available. Broadcasting guidelines are probably not relevant because we have no media here in the room, but I will just say to any witnesses that they are not covered by Parliamentary privilege outside of their time at the table. So any comments they make outside of their evidence will not be protected by parliamentary privilege.

There may be some questions that witnesses could only answer if they had more time or with certain documents to hand. In these circumstances witnesses are advised that they can take a question on notice and provide an answer within seven days—that is, within seven days of the Committee secretariat sending those questions to the witness in writing. To aid the audibility of this hearing I remind Committee members and witnesses to speak into the microphones. In addition, several seats have been reserved near the loudspeakers for persons in the public gallery who have hearing difficulties. I request everyone to turn their mobile phones off or to silent.

TONY PARKINSON, Head, Public Affairs, Coles, before the Committee via teleconference, affirmed and examined

VITTORIA BON, Government and Industry Relations Manager, Corporate Affairs, Coles, before the Committee via teleconference, affirmed and examined

The CHAIR: I understand that we are hearing from Mr Parkinson and Ms Bon via teleconference. Are there any other representatives with you?

Mr PARKINSON: No.

The CHAIR: Before we proceed to questions we probably do not have enough time for both of you to make an opening statement. Would one of you like to make a brief, five-minute opening statement?

Mr PARKINSON: I will make some opening statements. Thank you for the invitation to speak to you today about the importance of the Australian dairy industry to Coles and to our customers at Coles. Before we speak directly to this issue we would like to provide you with a brief run-down of the Coles business in Australia and in New South Wales.

Coles is a 104-year-old Australian-owned company and our market share of the Australian grocery retail market is 31.8 per cent. Only last week, our business was part of the biggest demerger in Australian corporate history, when Coles relisted on the Australian Securities Exchange as a stand-alone entity. We now have more than 480,000 direct shareholders across Australia, with many millions of Australians holding shares indirectly through their superannuation funds. Today Coles employs more than 115,000 people across Australia. In New South Wales Coles employs more than 32,000 team members.

We source from around 7,000 Australian suppliers, and we proudly have an Australia-first sourcing policy. One hundred per cent of our fresh meat, chicken, milk and eggs are from Australian farms, and 96 per cent of our fruit and vegetables are sourced from Australian farmers. At Coles we proudly support many community and charity partners. Coles have supported New South Wales small business through our Coles nurture fund by providing funding worth more than \$2 million since 2015.

In this calendar year in New South Wales, Coles has supported the Redkite Christmas campaign, raising over \$150,000; SecondBite winter appeal, donating almost \$70,000; and supporting Sydney Children's Hospital with more than \$200,000. Coles and our customers have also raised and committed more than \$12 million in drought relief funding to help out farming communities affected by extreme conditions. Families impacted by drought in New South Wales will benefit from more than \$3 million of the funding that is being distributed through the great work of the Country Women's Association.

Additional to that, we agreed to set up a dairy drought relief fund, funded by a 10 ¢ per litre increase in our Coles brand three-litre fresh milk through to the end of this year, specifically to provide assistance to dairy farmers affected by drought. A lot has been said about the impact of Coles brand milk that retails for \$1.25 for one litre and \$2 for two litres. I would like to provide the Committee with some facts. In 2018 financial year, Australia's total milk production was 9.289 billion litres. Coles brand milk represents 3.5 per cent of Australia's total milk production. Coles brand and the proprietary brand of milk combined represent 4.7 per cent of Australia's total milk production.

Dairy products are an important element of our customer offer. Dairy is the key staple in the diets of Australian families. The loyalty and support of our customers for locally produced, world-class and affordable dairy products is critical to our business as it is for processors and, of course, dairy farmers. We have heard from past inquiries the claim that customers are willing to pay more for dairy products, including milk. What our customers at Coles expect is for us to provide a choice of quality Australian products in the dairy case at a range of priced goods that suit different household budgets. Today's Coles brand milk remains just one of the 80 different types of milk that Coles offers for sale at a range in price points. For example, in the two litre range, customers can choose a milk price from \$2 to \$5.70. The Coles fresh milk range offers customers choice to buy the brand of milk they want at a price they are prepared to pay and at a price they can afford to pay.

We are sure that, as elected representatives of the community in which you live in New South Wales, you would be aware that the Australian Bureau of Statistics household expenditure survey shows that the second-largest expense families face after housing is food and non-alcoholic beverages, which account for around 15 per cent of the average weekly household spend and 18 per cent for those on lowest incomes. The same survey shows that 40 per cent of Australian households have around \$150 a week to spend on their grocery shop. A higher proportion of workers at the bottom 40 per cent of income earners are from regional Australia. Real wages growth has been subdued for the best part of four years and there have been multiple challenges for households in dealing,

in particular, with rising costs of gas and electricity and higher crude oil prices globally. I would ask that the Committee's considerations on this matter include the impacts on customers right around New South Wales. It is particularly important in the case of dairy, which is such an important staple and source of nutrition for many millions of Australians.

At Coles, we are unclear why a government in New South Wales or any member of Parliament would advocate increased living costs for their constituents. An assertion that is often made is that Australian retailers dictate farmgate pricing in the dairy industry. This is not our experience at Coles, and it is clearly not the considered view of the Australian Competition and Consumer Commission [ACCC]. The ACCC went through these issues are forensically. Its dairy industry inquiry went from October 2016 and concluded only in April this year. The commission used compulsory information-gathering powers to access thousands of documents and data points and took many hours of sworn evidence from retailers and processors as well as having consultation with farming communities across Australia. By any definition, this was an exhaustive investigation and the findings are there for all to see. Fundamentally the ACCC found that supermarket milk prices do not determine the farmgate price. Put another way, the ACCC found no evidence that \$1 a litre milk has a direct impact on farmgate prices.

Our contracts with processors typically include the farmgate milk price, which is advised by the processor, a provision for other production costs, including farm collection costs of haulage plus the bottles, caps and labels and factory processing costs along with an additional margin for return paid to processors. Coles is not involved in the setting of the farmgate price. Our cost price with our Coles brand suppliers is reviewed on an annual basis or more regularly based on the farmgate price movements. In keeping with this process, Norco recently came to us with a cost price increase due to the impact of drought on the farm costs of their suppliers. As a result, they increased the farmgate price to their suppliers by 5¢ per litre through September and October and they recently announced through November. I want to be clear that processors are not obliged to contract with Coles to supply their milk and dairy products to our supermarkets. There are numerous retailers in Australia who sell fresh milk; one or two sell milk for less than Coles.

There is also clearly a high degree of export demand for Australian dairy production. Even the most conservative estimates suggest that 30 to 40 per cent of Australian dairy production is exported. As the Committee is aware, there has been a lot of debate about the dairy sector since its deregulation almost two decades ago. Sometimes there is a tendency to conflate the structural issues with headlines about retail milk pricing. We understand that this is an emotion-charged debate, but the facts do matter. As you know until 1 July 2000 Australia had one of the most highly regulated dairy industries in the world, with price-fixing by governments a basic feature of the system. State governments would set the prices to be paid to farmers and, to protect those prices, we were not allowed to trade milk across State borders. Ultimately, consumers picked up the tab for this. Australian households were required to pay more each and every day for a basic household staple like fresh milk in order to support incomes in the dairy sector. Then along came deregulation, the effect of which was to ensure that more of our dairy farmers became competitive globally and to lift from consumers the burden of subsidising the industry through paying higher prices for milk.

I believe this Committee has heard evidence to the effect that dairy farmers would do better if there was a return to the heavily regulated days of price setting. What needs to be remembered is that the cost to the consumer of extricating Australia from the heavily regulated system was a \$1.7 billion structural adjustment package. In 2009 our arrangement ended. As the levy was lifted on the retail price of milk, the price of retail milk fell. There have been many inquiries into the dairy industry and supermarket pricing since deregulation. In the 2000s alone there have been 11 inquiries of which Coles is aware and Coles has participated in a number of those inquiries. None of those inquiries found that the farmgate price has been impacted by the price of own brand milk.

In conclusion, Coles has a strong interest in ensuring a sustainable and positive future for dairying in this country. That is what our customers in New South Wales would want. What our customers also expect is for us to continue to provide a choice of quality Australian dairy products in a range of value propositions, and we are committed to providing this to them. Thank you, Chair.

The CHAIR: Thank you, Mr Parkinson. Before we proceed to questions from members of the Committee, I thank you for reminding us exactly what our duties are. That was most informative. Thank you for that. I might begin by asking you for a little bit of clarification. In talking about the total market for fresh milk and Coles' share, am I right in thinking that you said that Coles share of your total of fresh food market for milk was 3½ per cent, or that Coles sell 3½ per cent of the total amount of fresh milk produced?

Mr PARKINSON: That is right—the latter, Chair.

The CHAIR: So Coles sells 3½ per cent of the 9.289 billion litres—

Mr PARKINSON: Coles brand milk, Chair.

The CHAIR: —at \$1 a litre. Shall we call it dollar milk?

Mr PARKINSON: Coles brand milk, yes. It is \$1.25 for one litre but it is \$2 for two litres.

The CHAIR: And a further 1.2 per cent of that 9.289 billion as branded milk.

Mr PARKINSON: That is correct.

The CHAIR: Bringing the total to 4.7 per cent of the 9.289 billion.

Mr PARKINSON: That is correct, yes.

The CHAIR: Effectively, what that says, or close enough, is that you sell three times as much \$1.25 milk as you do branded milk.

Mr PARKINSON: Is that the percentage of volume?

The CHAIR: Yes.

Mr PARKINSON: Branded milk is about 45 per cent, or it might be a slightly higher proportion in terms of sales.

The CHAIR: Okay. The figures you gave us were not in litres, but dollar sales, were they—the 3.5 and the 4.7 per cent.

Mr PARKINSON: I am sorry. Just so there is no misunderstanding, those figures were in volumes.

The CHAIR: In volumes?

Mr PARKINSON: Yes.

The CHAIR: What that indicates to us is that if you take 3.5 away from 4.7, you end up with 1.2. Of the 4.7 per cent total, 3.5 per cent is what we will call dollar milk or \$1.25 milk and the remainder is other than dollar a litre milk.

Mr PARKINSON: That is correct, Chair. If you do the calculation on sales, of course, you are going to get a different number.

The CHAIR: Yes, you probably are, are you not. That is fine. You are correct: We have taken quite a deal of evidence from farmers, some from processors, and we have established what we will call trends in the evidence. We want to step through this fairly logically. I will begin by handing over questioning to the Hon. Rick Colless and I will then move to questions from the Hon. Courtney Houssos, and we will try to fill in as we go once we have established a few basic facts.

The Hon. RICK COLLESS: I will start by exploring what has happened to the demand for milk since the dollar-for-milk price started, and also what has happened to your sales in that time.

Ms BON: In terms of demand for milk overall, it has remained relatively stable since Coles introduced a little of milk at \$1.25 and two litres at \$2.

The Hon. RICK COLLESS: That tells us that milk does not react to price, is that a fair comment to make?

Ms BON: No, I do not think so.

Mr PARKINSON: I think it is fair to say that Coles brand milk has proved very popular.

The Hon. RICK COLLESS: Understandably, but if the price had stayed at something like \$1.50 prior to the dollar milk coming in?

Mr PARKINSON: I am happy to take you through—

The Hon. RICK COLLESS: I am trying to explore what the elasticity of milk is according to its price? The demand for some products varies greatly as the price changes, but it is my understanding that the demand for milk does not change dramatically with price?

Mr PARKINSON: Just to provide some context, at the start of 2011 Coles Smart Buy Milk was retailing for \$2.09 for a two litre carton. That was also true for Woolworths Homebrand fresh milk and Aldi's private label milk, which were both selling at \$2.09 for a two litre carton. That went right through to 2011. So when Coles introduced fresh milk at \$2 for two litres in 2011, it was not actually the sharp fall in price that some people seem to remember it as being.

The Hon. RICK COLLESS: But it is fair say, is it not, that since 2011 the cost of production, including your costs of production, have gone up dramatically in that time? Certainly the cost of production for dairy farmers has gone up quite a bit in that time; in some cases they are getting less than they were getting in 2011 at the farm gate.

Ms BON: We are aware of the impact of the recent challenges in the dairy industry on individual farmers. Whilst we do not deal with dairy farmers at the farm gate, we are aware of the impact of the drought on farm costs and that is obviously true across the farm sector. So we know there is the impact of higher energy and water and fodder costs not only in drought-affected areas but also on prices for those inputs right across the farm sector. We talk to farmers regularly and we look for ways that we can help and our partnerships with WAFarmers and the South Australian Dairyfarmers' Association and, most recently, the Victorian Farmers Federation have provided customers with new brands of milk and the returns are delivered back to the industry via funds so farmers can obtain access for additional assistance.

But, as you are obviously aware, there is a lot of variability in profitability with competitiveness of dairy farmers in different parts of the country—for example, production costs tend to be higher and productivity lower in the industry in tropical and sub-tropical north, whereas the temperate climate in south-eastern Australia, particularly in Victoria where we are, tends to be the powerhouse regions for dairy production. So there are quite different calculations about the commercial liability, depending on where a farmer is farming their food. The Committee heard evidence from Mr McNamara from Norco that when they came to Coles in relation to increasing the price by 5¢ a litre on the cost price of their milk, because of the issues facing dairy farmers we were supportive of that, and we agreed to a similar arrangement with Lion.

The CHAIR: Ms Bon, in that answer you have made two contradictory statement: you said, "We don't talk to dairy farmers" and then you proceeded to say that you do. Am I correct that when you say you talk to dairy farmers you are referring to discussions or negotiations or whatever you like to call it with the relevant associations, rather than with individual farmers?

Ms BON: To clarify, what I said was we do not deal with dairy farmers at the farm gate. We do speak to farmers a lot, but we do not deal with them at the farm gate.

The CHAIR: When you say "deal" you mean in a commercial sense?

Ms BON: Yes.

The Hon. RICK COLLESS: I ask you to answer my next question in general terms, not specific contractual terms. What average price do you pay for your milk from the processors?

Ms BON: That information is commercial in confidence, so we are not able to share that.

The Hon. RICK COLLESS: I understand, that is the exact answer I thought I would get to that question.

Ms BON: But I can tell you what makes up the price that we pay to our processors. There are three elements: the farmgate price, the cost of production such as bottles, caps and haulage, and there is also a margin. So the processors tell us that is what they want us to pay. They are the elements of the payments we make to them because, as you would know, we do not make any payments directly to farmers at the farm gate.

The Hon. RICK COLLESS: The Committee has heard in evidence that the average price that processors were receiving for their milk from the major retailers was somewhere in the vicinity of 92¢ to 93¢ per litre, which would indicate the margin you would receiving would be somewhere around 6¢ or 7¢ per litre.

Ms BON: It would not actually because whatever that differential is we also have costs such as marketing, haulage, labour, just general overheads. So if there was a difference it is not straight arithmetic as you have said.

The Hon. RICK COLLESS: I understand, and I am not at all suggesting that is a profit margin. The Committee has heard plenty of evidence to suggest that the margins at the farm gate for the producers is in fact about that same 6¢ or 7¢ a litre but in reverse—in other words, it is minus 6¢ or 7¢ a litre. That is the reason for this inquiry—namely, these people are slowly going out the backdoor because the price they are getting for their product is less than their cost of production and in many cases—if you have read their evidence—those figures do not include the price of personal, family farm labour. So it is really costing them a lot of money.

Mr PARKINSON: Mr Colless, we obviously understand, as everyone does, that a lot of farmers are doing it very tough in the current dry conditions, and in most parts of the country that goes for the whole farm sector, not exclusively to dairy farmers but certainly including dairy farmers. As we mentioned in the opening statement, that is why Coles and its customers have stepped up to help—

The Hon. RICK COLLESS: Can I just interrupt you—

Mr PARKINSON: —with \$12 million in drought relief funding. We think the contribution by Coles' communities right across the country has been a great show of solidarity.

The Hon. RICK COLLESS: I can assure you that we went to some lengths with most of these producers to separate the additional costs of the drought from those figures because we realised that is going to end, hopefully soon. What we are talking about is their day-to-day costs of production, with the extra impost that is being placed upon them by the drought.

Ms BON: As we have said, in terms of the farmgate price we do not pay farmers but we pay processors. They tell us what they would like us to pay for their product, which includes those three elements I just mentioned. One of those is the farmgate price. In addition to that, we have rise-and-fall mechanisms in our contracts with processors. As I said, earlier in demonstrating how that works, when one of our supplier processors comes to us and says that they would like to increase the price to reflect additional production costs for their farmers such as Norco did in the case of 5¢ per litre, we accepted that increase.

The Hon. RICK COLLESS: The 10¢ a litre in the drought fund only applies to your three-litre containers. Is that correct?

Ms BON: That is correct.

The Hon. RICK COLLESS: What proportion of those three-litre containers make up your total sales?

Ms BON: Can I just see if I can look into that for you? I do not have the information so we may have to take it on notice.

The CHAIR: To save time, we will call that a question on notice. If you could just make a note that we will write to you asking you that question formally.

Ms BON: Of course.

The Hon. RICK COLLESS: In your view is the price of fresh milk in Australia determined by a normal supply and demand mechanism or is it determined by the major retailers telling the processors what price they are going to receive?

Mr PARKINSON: As we mentioned a little earlier, what we are doing is offering a range of milk products at different price points and different specifications so consumers, and our customers therefore, have the choice as to what they think they can afford and what they want to buy.

The Hon. COURTNEY HOUSSOS: Thank you for your time this afternoon. I wanted to ask you some questions leading on from what the Chair asked you earlier. Do you negotiate directly with farmers?

Mr PARKINSON: Not in the dairy sector, no.

The Hon. COURTNEY HOUSSOS: Is that a policy position of Coles?

Mr PARKINSON: No. We do not buy raw milk and process it so it obviously makes sense that we would have to conduct those commercial arrangements through a processor.

The Hon. COURTNEY HOUSSOS: That is right, but I am interested to know if it is a policy position of Coles not to negotiate directly with farmers.

Ms BON: As Mr Parkinson said, we do not buy the product that farmers are producing. We do not purchase raw milk. That is why we do not deal directly with farmers.

Mr PARKINSON: When we say that, that is in the dairy sector. It is different in fresh. It is different in meat.

The Hon. COURTNEY HOUSSOS: You said that you have rise-and-fall provisions in your contracts. I am happy for you to provide this on notice. Can you tell us how many times they have been varied since 2011?

Ms BON: They are reviewed and they are varied on an annual basis.

The Hon. COURTNEY HOUSSOS: Can you tell us how many requests you have received from your processors to increase the price?

Ms BON: We receive one each year and this year we received one from Norco most recently for an increase of 5¢ a litre, which we accepted.

The Hon. COURTNEY HOUSSOS: Is that the only request for an increase you received this year?

Ms BON: For Coles branded products, yes.

The Hon. COURTNEY HOUSSOS: Who initiates these requests normally?

Ms BON: In this case it was Norco for the 5¢ per litre but it is generally an ongoing open dialogue with our processors weekly, daily.

The Hon. COURTNEY HOUSSOS: Sorry, you just contradicted yourself. You said that these are reviewed annually but you have an ongoing conversation with your processors about them.

Ms BON: Correct. They talk to us each day but a request is made once annually. We have a rise-and-fall mechanism in the contract. It was made by Norco most recently for the 5¢ per litre.

The Hon. COURTNEY HOUSSOS: Again I am happy for you to take this on notice, but I would like to know since 2011 how many annual increases you have provided to your processors.

Ms BON: We will provide that to you.

The Hon. COURTNEY HOUSSOS: Do you have a policy or do you provide direction to your local shops on what proportion of the shelf space is Coles brand milk?

Ms BON: Yes, we do.

The Hon. COURTNEY HOUSSOS: What is that proportion?

Ms BON: That is different depending on the location. It differs by store and we have around 800 supermarkets nationally.

Mr PARKINSON: It would not surprise you to suggest that shelf space is normally determined by sales.

The Hon. COURTNEY HOUSSOS: Yes, but you just said that you provide a policy direction to your local stores. Are you saying that there is a different policy direction for each individual store?

Ms BON: No, we are saying that our stores make their own determination and it is coordinated at a central level. It is based on the days of supply, so when the product goes into the store.

The Hon. COURTNEY HOUSSOS: What is the policy direction that you provide to them?

Ms BON: I am not sure how to answer the question. I am just trying to think if I can rephrase this. It is different by store. It depends on when the store is supplied with product.

The Hon. COURTNEY HOUSSOS: Do you have a policy on restocking?

Ms BON: I will take that on notice.

The Hon. MICK VEITCH: I want to explore a couple of items with you. If you have been reading the testimony you would know that a number of people have put to us that there is a need for a dairy industry advocate or a dairy industry commissioner role in New South Wales. I would be very keen to get Coles' view on whether or not there is a need for such a role.

Ms BON: As you may be aware, in 2015 the ACCC appointed an agricultural commissioner, that is Mick Keogh, and at the same time they established an agriculture and enforcement unit. The role of that unit has been to monitor and look into competition issues in the sector more broadly. The unit has already completed a number of inquiries. You are probably aware of the ones in the meat sector and most recently the ACCC inquiry into the dairy sector.

The Hon. MICK VEITCH: My question is: Do you think there is a role in New South Wales for such a position?

Ms BON: I am not sure if I can answer that because I do not know how it would be different to the role carried out by the agricultural commissioner on a national level.

The Hon. MICK VEITCH: Again, if you have read the testimony you would know there has been quite a bit of criticism around the ACCC process and the determination made by the ACCC into milk pricing. Do you think those criticisms are valid?

Ms BON: I do not, no. I think the ACCC, as you are aware, were directed by the Treasurer at the time, the Prime Minister today, Mr Morrison, and also by Barnaby Joyce, the former agriculture Minister, to conduct an inquiry into the dairy sector. That inquiry went on for almost two years and the ACCC, using its powers to compulsory gather information, gathered hundreds of documents and many hours of testimony from witnesses,

including Coles. So I think that was an extensive investigation. In addition to that, we have seen at least 10 inquiries that have been carried out by not only the ACCC but the Productivity Commission and Federal and State governments. None of those inquiries have concluded that farmgate pricing is impacted by the retail price of milk.

The Hon. MICK VEITCH: With regard to the ACCC report, were there any elements of that report or the findings that Coles were not happy with?

Mr PARKINSON: I think it is probably our preference that the ACCC findings speak for themselves.

The Hon. MICK VEITCH: With regard to your dealings with the processors, we have heard that you do not talk directly to farmers about the farmgate price for milk and you say there are three elements essentially in your arrangements with the processors—the farmgate price; the cost of production, which includes bottles, haulage, et cetera; and the margin. Is that right?

Mr PARKINSON: Yes.

The Hon. MICK VEITCH: I want to dwell for a bit on the cost of production items, particularly around haulage. Who is responsible for the haulage of the milk from the processor to Coles?

Ms BON: That is the supplier or ourselves. It just depends on the contract. It is either the processor or Coles.

The Hon. MICK VEITCH: I take it you have some processors who have their own logistic arrangements and Coles would be responsible for the logistics of others? Is that what you are saying?

Ms BON: That is correct.

The Hon. MICK VEITCH: So Coles does not conduct any haulage then from farm gate to processor?

Ms BON: No, it does not.

The Hon. MICK VEITCH: This is a rhetorical question but what would happen if there were no dairy farmers left in New South Wales or Australia?

Mr PARKINSON: Our customers tell us every day the importance they attach to the dairy products they get from local producers. As we said earlier, it is important to our success, it is important to the success of the dairy industry but it is also really important to Australian consumers that there be a strong and thriving Australian dairy sector.

The Hon. MICK VEITCH: Would we be able to backfill the arrangements with milk from, say, New Zealand?

Mr PARKINSON: Very unlikely. I do not know. I would have to take it on licence as to whether that is feasible at all but I think not.

The Hon. MICK VEITCH: That is all right. The reason I ask is that we are hearing from numerous dairy farmers that this is a real issue. You are right: consumers have regard for where their milk comes from and the people who produce that milk but at the same time those dairy farmers are telling us that they are going out the door backwards and something is not gelling. That is why there have been so many inquiries that Ms Bon talks about; it is because the dairy farmers are saying they are going broke. If they all go broke where will we get our milk?

Mr PARKINSON: I understand what you are saying, Mr Veitch, but as we have said before and as the agency has found, the retail price does not determine the farmgate price. In trying to work through some of the numbers on the milk production volumes we have had over the journey since deregulation as an indication of where the industry is at now compared to where it was, in the past I gave the number as 9.298 billion litres as total production. If you look at the year so far to the financial year 2019 it is running about 3 per cent down year-on-year. The production in South Australia and Tasmania is up. Most of the shortfall is down in Victoria, which, as you know, accounts for about two-thirds of the total milk production. Even putting that aside, we are still trending above the financial year 2017 production total of 9.01 billion litres and we are probably trending currently around the same as the financial year 2010 production total of 9.08 billion litres and that was, of course, the year before the introduction of dollar milk.

The Hon. MICK VEITCH: Excuse my ignorance but is there currently an oversupply of milk in Australia and New South Wales or an undersupply?

Mr PARKINSON: The national figures have come back since where they were in 2014-15, which was about 9.8 billion but they are a long, long way up on where they were in 1989-90, which was the old days of regulation when our total production across the country was only 6.2 billion litres.

The Hon. MICK VEITCH: Is demand meeting supply or supply meeting demand?

Ms BON: Yes, it is.

Mr PARKINSON: Yes.

The Hon. MICK VEITCH: So is there a shortfall?

Ms BON: No, there is not.

The Hon. MICK VEITCH: So we are right on the numbers then. There is not an oversupply and there is not an undersupply so we must be producing the right amount of milk?

Ms BON: I am not sure that we can answer that; we can only talk about Coles and in terms of what our customers are telling us they would like to purchase and what we are providing, there is no shortfall and there is no oversupply.

The Hon. MICK VEITCH: My last question relates to a question from the Hon. Courtney Houssos where you talk about the arrangement you have in place with processors about the rise and fall of prices. How many times has Coles initiated a price rise or price fall in accordance with those contracts?

Ms BON: That is generally done by the processors if they want a rise as a general rule but it is a two-way conversation, and we talk to our processors regularly.

The Hon. MICK VEITCH: Has Coles ever initiated a price rise or a price fall in accordance with those contracts?

Ms BON: Every year we have those discussions and it is a two-way conversation.

The Hon. MICK VEITCH: So Coles has never initiated a price rise or a price fall in accordance with those contracts?

Mr PARKINSON: We will have to take that on notice, I think.

The CHAIR: That might be a good idea. I have a very keen Committee here all wanting to ask questions. Ms Houssos will ask a question seeking clarification and then I will move to Mr Mark Pearson.

The Hon. COURTNEY HOUSSOS: Mr Parkinson, you said that the ACCC has found that there is no relationship between the farmgate price and the retail price but your testimony to us was that you pay the processors the farmgate price plus the cost of bottles tax haulage plus the profit. Which one is correct?

Mr PARKINSON: They are both correct.

Ms BON: What we are saying is the price we pay for processors has three components: the farmgate price, the cost of production and the margins, so what we pay processors has three inputs and that is what they are.

The CHAIR: I will now move to Mr Mark Pearson.

The Hon. MARK PEARSON: Thank you very much. Mr Parkinson, in your opening statement you said that dairy farmers were keen to go back to heavy regulation. How does Coles come to that conclusion?

Mr PARKINSON: No. Sorry, if there is a misunderstanding there, Mr Pearson. What I said was that some people seem to be arguing that dairy farmers would be better off if they went back to regulation. I was not asserting that on the part of any individual dairy farmer.

The Hon. MARK PEARSON: You said that Coles listens to the customer, and Coles has made some historic changes actually listening to the consumer in relation to animal welfare behind the products that are sold at Coles. Do you not think that consumers would listen to the wellbeing and welfare of producers such as dairy farmers and their livelihood and their capacity to continue to survive?

Ms BON: Was the question: Do we think consumers listen to farmers?

The Hon. MARK PEARSON: Would be concerned, just like they are concerned about the story or what is happening in the production of a product—and that is quite clear because you actually have made decisions about certain products you sell in relation to whether there is slavery being used or other ethical issues in relation

to animal welfare—wouldn't Coles also take into consideration the wellbeing and welfare of farmers who are producing a product which consumers are wanting to purchase?

Ms BON: Of course, and I think the fact that we offer 80 different products at a range of price points so our customers can choose what they would like to buy and they can buy based on what their budget allows them to buy—

The Hon. MARK PEARSON: Would Coles not be interested in participating in that particular issue of consumers and customers concern about the source of a product that they are wanting to purchase, that is, Coles brand participating in that?

Ms BON: Sorry, I am not clear on what the question is. Could you repeat that again please, Mr Pearson?

The Hon. MARK PEARSON: If Coles is selling their home brand or the equivalent Coles brand—

Ms BON: Yes.

The Hon. MARK PEARSON: —and you are putting a price on that product of milk sold under your Coles brand, would Coles not itself be interested and concerned about consumers, and their interest and concern about how that product is sourced, the wellbeing and welfare of the people and the farmers who are producing that product? Would Coles itself be interested in that issue in relation to their own brand?

Mr PARKINSON: Mr Pearson, earlier in her testimony my colleague mentioned how we have reached relationships with organisations including the South Australian Dairy Association, the Western Australian Farmers Federation and more recently the Victorian Farmers Federation to set up brands that ensure a percentage of the proceeds goes directly back to farmers, so we have done that. There are three instances of that in the last five years, two of which are ongoing.

Ms BON: Just to add to that: Coles is a customer-led organisation so we talk to our customers regularly and that is why we have made available to them a product that sells at \$1.25 a litre and \$2 for two litres right through to \$5.70 for two litres and there are 80 of those products and it is our customers who choose.

The Hon. MARK PEARSON: Thank you. We are running out of time so I would like to move to my next question. If there is anything further on that answer you would like to put on notice, that would be appreciated. When the ACCC came to the conclusion in its report that the market did not influence the price at farm gate, are you aware that one of the main components that was taken into consideration by the ACCC was the export market and that no fresh milk is exported?

Ms BON: Correct, and no fresh milk is exported. But, as you know, around 75 per cent of milk production in Australia is impacted by global prices. About half of that is because it is exported and the other half that is manufactured locally, because it needs to be competitive with imported products.

The Hon. MARK PEARSON: We have received evidence there is such a practice of retrospective pricing. So once a sale agreement is made of a particular price per litre, further down the track a retailer will retrospectively change that price agreement. Does Coles engage in that practice?

Ms BON: No.

The Hon. SCOT MacDONALD: Someone was saying that Coles do not buy raw milk off dairy farmers. Coles do not buy raw meat off lamb or beef cattle producers. I live near Armidale. There is a good relationship between farmers and Coles, who buy their product; they deal directly with farmers. Abattoirs are simply processors in this food chain. Do you think there would be a better relationship if Coles dealt directly with dairy farmers? I understand that the milk goes through that processing or food chain. I have made the comment and others have made the comment that when there is a disconnect with the producer, sometimes we get these aberrations. When the relationship is not direct and strong, it can lead to some of these frustrations.

Mr PARKINSON: Mr MacDonald, that is certainly something people will have to think about in the future.

The Hon. SCOT MacDONALD: On that theme, would you say, as a general comment, that Coles enjoys a good relationship with citrus farmers, tomato farmers, lamb producers and beef producers?

Ms BON: Yes, we would.

The Hon. SCOT MacDONALD: And it rides the vagaries of climate and the market and all those sorts of things? In other words, there is a direct and clear relationship that works to the benefit of both parties?

Mr PARKINSON: That is true, yes. Absolutely.

Ms BON: That is because we buy those products directly from the farmer.

The Hon. SCOT MacDONALD: Red meat still has to go through the abattoir, of course, but they are literally just a processor. Many of the dairy farmers might be relatively small, so it is a fragmented market, if you like. Is there a role for collective bargaining and aggregation in respect of marketing?

Mr PARKINSON: Mr MacDonald, at present we operate through processors, so it is academic to that extent, as things stand. I should make the point also that we would never sit down in a room with processors to discuss retail price for Coles brand milk much less with our competitors. There is a very good reason why, and it is all there on the ACCC website. It goes to the issues of price collusion.

The Hon. SCOT MacDONALD: The point I am trying to get to is that it seems the further the farmer is from the end consumer—putting Coles to one side—the more remote and lack of relationship there is between a producer, a farmer and the end consumer. The more the market signals can get distorted, the production signals get distorted and the quality. We have seen that in the past in the wool industry. Do you see any other approach from your end?

Mr PARKINSON: Coles certainly benefitted greatly from strong and direct relationships with a lot of our fresh produce suppliers and beef suppliers. Certainly it is a model that has worked for us in those sectors.

The Hon. MICK VEITCH: My question goes to the drought levy that you have applied. Earlier you said you have been reading the testimony, so you would have seen that we have been getting some numbers on how many cents go back to the dairy farmers. Do you have any commentary on that?

Ms BON: First of all, we are not applying a levy to our milk. We have added 10¢ per litre to the cost of our three litre Coles brand milk until the end of the year as a temporary measure to support dairy farmers affected by drought. Since we have that levy, we know that the overall sale of Coles brand milk has come down, and that is the same as other brands of milk, so proprietary brands that have also increased their price. So those sales volumes have come down. In terms of what is available to support our farmers, I can tell you that we have had many hundreds of applications and the applications close on Friday.

We think it is a very fair and open system and, unlike some other schemes, they do not have to be dairy farmers supplying through Coles processors. All they have to do is fill in a two-page application form and then the assessment and payment is overseen by PricewaterhouseCoopers. We are really pleased we have had a strong and steady stream of applications. We know there has been misgivings by some commentators, but it is not shared by the hundreds of dairy farmers who have applied to our fund.

The CHAIR: I take it from that testimony that you have not yet distributed any of those funds?

Ms BON: The milk is on sale until the end of December this year and applications close on 30 November.

The CHAIR: My question is: Have you distributed any of that levy to those applicants as of yet?

Ms BON: Again, Chair, we are not imposing a levy, but we will distribute the funds at the conclusion of the funding round and the sale of the milk at the end of 2018.

The CHAIR: That is okay, Ms Bon. In using the term "levy", I am only using the term that you have used yourself—maybe inadvertently. I do not care whether it is a levy or a largesse, my question is: When do you anticipate—assuming that you have not distributed any of the funds—that you will start to distribute the funds?

Ms BON: At the end of 2018 when the sales of the milk conclude.

The CHAIR: I will ask you a couple of structural questions that might assist me in moving forward with this inquiry. Do you have a corporate establishment in New South Wales? Are any of your corporate people here?

Ms BON: No. Our store support centre is in Melbourne, Victoria.

The CHAIR: What corporate presence, if any, do you have in New South Wales?

Ms BON: We have our stores in New South Wales and we have around 32,000 team members in New South Wales that work in our supermarkets, our Coles Express sites and our liquor stores.

The CHAIR: But no-one I could subpoena?

Ms BON: If you want to invite someone to attend, I am sure we would be able to respond to that.

The CHAIR: Well we invited you to attend, did we not?

Ms BON: And we are here participating.

The CHAIR: Thank you very much. I am not trying to be aggressive. All I am saying is that it is extremely frustrating having to conduct this depth of inquiry over the telephone. I may yet seek to do this face to face with Coles, and with the others, if we find that it has not produced the level of—I will not use the word "cooperation" but the level of answers we would have liked. I will conclude by saying thank you very much for agreeing to speak to us. We really do appreciate it. One question I might ask of you, you say quite correctly—because my wife receives a lot of these communications—that you listen to your consumers in regard to the fact that they like Australian produce. How difficult would it be for Coles to ask their consumers whether they would be prepared to support the dairy industry permanently by an increase in milk price?

Ms BON: We have done that, Chair. Our customers have raised or contributed over \$3 million to support drought-affected farmers, and Coles have matched that dollar for dollar. Our customers are aware that we have added 10¢ to the price of \$3 Coles brand milk per litre. What they are telling us is that some can support but some cannot afford to support and there has been a decline in overall Coles brand milk sales.

The CHAIR: Is that perhaps partially due to the fact that other retailers are not being as community minded as Coles?

Mr PARKINSON: May be if I could answer this way, Chair, to address some earlier comments you made. We have been very happy to have this conversation with you today. I think it would be useful to your committee if all the other major retailers in the industry were to engage as well.

The CHAIR: That is our objective. I am used to getting my own way but unfortunately when the executives of retailers do not reside in the State I am a bit limited. Again I say to you both, thank you very much for agreeing to talk to us. Obviously there will be some questions on notice as some of the detail needs to be fleshed out from some of the answers. We would be happy if you would take those questions on notice and if you could reply to us within seven days of receiving the questions, that would help our secretarial staff and people who put these answers together for the committee. Once again, thank you very much Mr Parkinson and Ms Bon for agreeing to appear before us.

Mr PARKINSON: Thank you.

Ms BON: Thank you.

(The witnesses withdrew)

CHRISTIAN DAVID BENNETT, Head of Government Relations and Industry, Woolworths, sworn and examined

PAUL STEPHEN HARKER, Director, Fresh Foods, Group Replenishment and Buying Support, Woolworths, before the Committee via teleconference, sworn and examined

The CHAIR: I want to put on the record that the committee is very grateful that Mr Bennett has agreed to appear in person, even though he is from Melbourne. We thank you for that. It is extremely difficult trying to conduct these meetings over the phone. Perhaps some of the other invitees could take a leaf out of Woolworths' book and agree to be as cooperative as you are. Before we proceed with questions, do you want to make an opening statement?

Mr BENNETT: Yes. We would. We very much appreciate the opportunity to participate in the Legislative Council's inquiry into the sustainability of the dairy industry of New South Wales. As mentioned, I am Christian Bennett, Head of Government Relations with Paul Harker, the Director of Fresh Foods, Group Replenishment and Buying Support, joining us by telephone from New Zealand. Together we will try to answer as many of your questions as possible with obvious limitations around information that is commercially sensitive, but on a topic of very keen interest to Woolworths. After all a sustainable dairy industry is a crucial aspect of our ability to service the demands of our customers for affordable, high quality and domestically produced fresh milk.

Indeed, we see that sustainability as one important part of a broader ambition for a prosperous Australian agricultural sector and one that propels vibrant regional and rural communities. In that context I should just note that our supermarket business alone employs over 18,000 team members across regional and rural New South Wales in 131 stores. We work directly with some 4,200 farmers and producers across Australia. In short, the agricultural sector is of vital importance to the Woolworths Group.

We are acutely conscious of the challenges currently confronting the New South Wales dairy sector and elsewhere. We appreciate that within the industry there are strong emotions and long-held perspectives attached to private labelled milk if they are sold at a price of \$1 per litre and equivalent in the two litre and three litre varieties. And the current drought conditions create significant new challenges. On the subject of \$1 per litre milk, in our submission we strongly recommended the committee's attention be given to the recent exhaustive report, completed by the ACCC regarding the relationships within the industry. The report was completed with the benefit of the ACCC's compulsory information gathering powers and, in short, no stone was left unturned.

We would just like to highlight three key conclusions of the ACCC's report. One, processors do not have an incentive to reduce farmgate prices as a result of lower wholesale prices they receive for private labelled milk. The flipside is if supermarkets agree to increase the price of milk and processors receive a higher wholesale price processors would still not pay the farmers any more than they have to secure the milk. Thirdly, and this was a point emphasised by the chairman of the ACCC in his subsequent 18 September press release, given the contractual pass through arrangements in farmgate prices to supermarkets, processors set the farmgate prices independently of the supermarkets' retail prices.

In that sense it reflects the reality that farmgate milk prices are a function of processor demand for milk, and is also heavily influenced by international prices and the subsequent prices of Australia's largest dairy regions. This dynamic was highlighted in some detail in the ACCC report. Hence the report's focus on improved bargaining power for farmers in their negotiations with processors. We do hope that the Australian Competition and Consumer Commission's final report provides invaluable evidence-based input into shaping future structural reform of the industry as part of ensuring its future sustainability.

Finally, regarding the drought, after our observations of conditions facing many dairy farmers in New South Wales, and built on farm visits and various other discussions, in September we created a new drought relief range that added 10¢ per litre to our two-litre and three-litre range. We made clear at the time that this was designed to create a mechanism whereby our consumers could choose—not be forced, but choose—to opt in to the drought relief range. Creating choice was especially important to protect our budget customers, who were already facing cost-of-living pressures. For those who did choose to opt in, they could do so knowing that all funds raised would reach those dairy farmers in drought-affected areas of New South Wales, Queensland and northern Victoria that supply Parmalat—which of course supplies us—and that it would do so in a timely fashion.

Funds raised are distributed monthly, and on a volume-basis—albeit with a minimum \$1,000 floor payment—to each eligible dairy farmer. We are pleased that since introducing the levy, \$1.8 million has been distributed to 289 dairy farmers across those jurisdictions. Of that, \$733,000 has been distributed to 82 dairy farmers in New South Wales—that is, 41 per cent of the total paid out—and those 82 farmers represent 28 per cent of the total dairy farmers eligible. As we said at the time, this levy was not about long-term structural change.

It had and retains a simple and clear objective. Within a line of sight that we had to dairy farmers via Parmalat, we wanted to get cash into the hands of those who needed it most and as quickly as possible. Woolworths is committed to working with stakeholders across the dairy value chain to work towards our shared objective of a sustainable dairy industry.

As we have done over recent months, we will continue to engage widely and encourage relevant stakeholders to come together to find those areas where we can agree and to work collaboratively as longer-term structural reform issues play out; for example, how to grow the demand for dairy-based products in Australia. Thank you for your time and we look forward to your questions.

The CHAIR: As I said, thank you for agreeing to appear before the Committee. I am very pleased to hear that your levy scheme has already started its distributions. Perhaps that should have been the case across all such schemes started in the State. Thank you to Woolworths for getting the money to the people who need it. Mr Harker, you are in New Zealand. Have you had a chance to go into a supermarket and look at the fresh milk prices?

Mr HARKER: No, I have not.

The CHAIR: You will find that they are substantially higher than they are in New South Wales. I will not pursue that. When you get a chance on your holiday, I urge you to investigate fresh milk prices. Committee members have asked some questions of the previous witnesses from Coles. They provided some broad outlines about national markets, the elasticity of markets, the percentage of milk that is fresh and which is exported. What is your share of the total grocery market in New South Wales?

Mr HARKER: Do you mean the share of milk or the total market?

The CHAIR: What is your share of total fresh milk sales in New South Wales?

Mr HARKER: I do not know if I have the market share by State.

The CHAIR: Please take that question on notice.

Mr BENNETT: Our own-brand share in New South Wales is 59.6 per cent.

The CHAIR: You have a better market share than Coles by the sound of it.

The Hon. RICK COLLESS: Thank you for appearing before the Committee. Is it correct that Woolworths has a presence in New Zealand?

Mr BENNETT: Yes, we do.

The Hon. RICK COLLESS: Under the name of Countdown?

Mr BENNETT: Correct.

The Hon. RICK COLLESS: One of our Committee members is also in New Zealand on holiday at the moment. He sent some photos showing the price of milk in New Zealand. It is substantially higher than the price in New South Wales. It is hard to work out which is which, but the cheapest price there is \$NZ1.73, which is \$AU1.65. That is substantially higher than the price in New South Wales. Do you agree?

Mr BENNETT: Yes, that is my understanding. I am not sure of the dollar conversion. It has often been mentioned that the price of milk in New Zealand is higher than the price in Australia. It has also been mentioned that the price in the United Kingdom and the United States is lower than the price in Australia.

The Hon. RICK COLLESS: Sure, but given the competitive advantage that New Zealand has—that is, I suspect its costs of production are somewhat lower than ours particularly as you go further north from Victoria—what are the influencing factors that make the difference in those prices?

Mr BENNETT: I will leave it to Mr Harker to respond. I have asked questions about the distinctions between Australia and New Zealand. I do not want to pretend to be an expert in this space, but clearly we are talking about distinct marketing environments and history of investment in what is colloquially called the "steel" in New Zealand to position themselves for the export market. Mr Harker has some specifics, so I will leave it to him.

Mr HARKER: I point out that they are completely different markets with completely different competitors. The retail prices in one market versus the retail prices in another market are not directly comparable.

The Hon. RICK COLLESS: Right. How is milk marketed in New Zealand compared to the way it is marketed in Australia? The Committee has heard a lot of evidence that the processors negotiate with the producers

to determine the farmgate price and then they negotiate with the retailers for their price. How does it happen in New Zealand?

Mr HARKER: I am not in a position to answer that. I am not responsible for our New Zealand business and do not have insight into how they manage the category in New Zealand.

Mr BENNETT: Again I do not profess to be an expert and, like you, I am interested in that question. When those who do have knowledge about this explain the various significant different roles played, for example, by Fonterra as a guarantor of all milk produced, the particular circumstance is that New Zealand has invested heavily in its ability to process powdered milk for the export market. As Mr Harker has said, it is an apples and oranges scenario based on the individual experiences of those jurisdictions. I have asked why milk is cheaper—the price is 87¢ a litre—in the United Kingdom. We had some retailers here from Texas not long ago and I was stunned by the low price of milk there, but each jurisdiction has its own particular dynamics.

The Hon. RICK COLLESS: I refer to the 10¢ a litre levy you are putting on your two-litre and three-litre range. The Committee heard evidence from a producer recently showing a huge variation in how much of that was actually going back to each individual producer. In one case it was as low as 0.1 per cent of 1¢ in drought levy and for others it was as high as 2¢ and 3¢. Why is that? You can imagine the confusion on the part of farmers when Coles and Woolworths say they are going to impose a 10¢ levy and that all of it will go to the producers but they do not see it.

Mr BENNETT: I am not aware of any of that feedback. As far as I am aware, we have not received any regarding discrepancies. The only "false" feature in the market is the fact that we put in a \$1,000 per farmer floor to ensure that the smallest producers were at least given some minimum monthly injection. An auditor sits on the committee that Parmalat has established along with New South Wales Dairy Connect to ensure that every cent is passed back to farmers. Mr Harker might have some more details around the specific reference you had, but that is certainly not something I am familiar with.

The Hon. RICK COLLESS: Mr Harker, can you offer any light on that?

Mr HARKER: No, other than to say that the levy is raised on the private label milk. If farmers were providing milk to processors well and above what was actually going to private label milk then clearly the amount of money they are given to fractionalise the cost of their whole milk base would not be 10¢ a litre. So the 10¢ a litre is specifically raised on the sale of the drought relief milk and the amount of milk that they contribute to private label milk is determining how much is actually paid back to farmers. If they were contributing milk that was not going to private label milk, I would imagine that that milk would not be attracting funds.

The Hon. RICK COLLESS: However, most farmers do not know where their milk goes, do they? They sell it to the processor and they are not sure whether it goes into private label milk or branded milk or whatever.

Mr HARKER: That may be correct.

The Hon. RICK COLLESS: Mr Bennett, do Woolworths do any direct deals with dairy farmers?

Mr BENNETT: We do, through our Farmers' Own brand, Mr Colless, which I am sure Mr Harker would be happy to provide more details for.

The Hon. RICK COLLESS: Sure, thanks. Mr Harker?

Mr HARKER: Woolworths has often tried to deal directly with producers in this country but that is always been the case where it has involved manufacturing. Our meat and fruit and vegetable procurement has obviously always been direct with farmers. Milk has not been the case because milk is processed and/or manufactured and we are not processors or manufacturers. Historically, we have not had relationships with dairy farmers but we did introduce a range of milk a number of years ago now called Farmers' Own where we procured the milk directly and paid the processor a processing fee to process that milk. We started in New South Wales and we are now in all States of Australia. It represents about 5 per cent of our category sales.

The CHAIR: Could I ask for a point of clarification? Who is the processor that processes that particular brand on your shelves for you?

Mr HARKER: In New South Wales, I believe it would be Parmalat.

The CHAIR: That is the same processor that processes your \$1-a-litre milk. Is that correct?

Mr HARKER: In New South Wales, yes.

The CHAIR: Thanks, that is all I needed to know.

The Hon. RICK COLLESS: Gentlemen, you see that there is an opportunity. We look at a whole range of different marketing systems for different agricultural products. I have a background in the wool and beef industries. There has been a lot of direct marketing, particularly in the wool industry, into mills in Italy and so on, on a contractual basis. While fresh milk obviously is more appropriate to be sold fresh in Australia, do you see an opportunity there for dairy farmers to do more dealing directly with Coles and Woolworths to achieve a branded product such as the Farmers' Own brand?

The CHAIR: I assume you are signalling for Mr Harker to answer that. Mr Harker, could you perhaps contribute there?

Mr HARKER: We are obviously very open to growing our Farmers' Own business. We also deal with a number of cooperatives. We deal directly with Norco on their brand. We also deal with Riverina Fresh based down the Riverina district where you have got cooperatives that are selling their own milk. We do support local brands right across the country and also in New South Wales—we have Farmers' Own milk on the shelf here. Ultimately, we need to manage the category based on what consumers are happy to buy.

Mr BENNETT: Mr Colless, I think since introducing Farmers' Own and working on that since 2013, we took considerable risk because we are obviously committed to take the volume of milk offtake. If we could not sell that, we then had to put it back into the market. It was a costly exercise for us in those early years but we have stuck at it because we think it is the right thing to do. We are committed to trying to make sure that it is a success and as part of those broader efforts to work with the industry about how to—we have some of the lowest dairy consumption rates in the world in Australia—work in more collaborative fashion to develop both the market and the choices that consumers have.

The Hon. RICK COLLESS: I have one last question in relation to the elasticity of demand for milk against price. What is your understanding of how elastic the price of milk is?

The CHAIR: That is for you, Mr Harker.

Mr HARKER: When the price of milk dropped, there was a small increase in demand. I dare say some people started buying more milk and probably included it in their repertoire a lot more. I would say there is a very small amount of elasticity in there. I think the people that ultimately would cut back on their consumption are those that are more economically challenged and have cost-of-living pressures. They would probably drop out and buy something else or drop it out of their consumption by cutting back on occasions.

The Hon. RICK COLLESS: Compared with other agricultural products such as, say, fresh food, veggies and meat products, is milk more or less elastic?

Mr HARKER: As a commodity, I would say it is equal but in fruit and veg, obviously people trade around the various products because there are many products in the category. Meat is increasingly becoming more elastic as price goes up. I would imagine that milk would be slightly less elastic than those but there is a small amount of elasticity there.

The Hon. SCOT MacDONALD: Mr Bennett, I make the point first that both Coles and Woolies seemed to put a great stall on the ACCC's findings that the \$1-milk does not have a great impact on farmgate pricing. But equally, the ACCC did identify, in their words:

... a range of market failures resulting from the strong bargaining power imbalance and information asymmetry in farmer-processor relationships.

Can you talk to that? I would like to hear a bit more about "information asymmetry".

Mr BENNETT: Mr MacDonald, I am sorry I do not think we can talk so much to—I mean, yes, we certainly do put faith in the ACCC report. I personally call it the corporate colonoscopy, given the thoroughness with which the ACCC went about the process. But in terms of the information asymmetry between processors and farmers that you referred to, I think it is hard for us to really comment on that, not being a participant in those discussions directly. Obviously, the ACCC report and all of its recommendations very much honed in on that particular dynamic within the value chain in the dairy industry. Mr Harker, I do not know if you wish to add to that.

Mr HARKER: No, I think that was a capable answer, Mr Bennett. Having not been involved in the information exchanges between the two parties, it is very difficult to comment.

The Hon. SCOT MacDONALD: Is that part of our issue—

The CHAIR: If I could interrupt, I guess what that would indicate is that the ACCC probably were not referring to Woolworths and Farmers' Own brand when they talked about "asymmetry" because in that particular case Woolworths and the producers are directly connected. Am I correct?

Mr HARKER: Correct.

Mr BENNETT: Mr Harker can correct me but I think there are 21 farmers involved in Farmers' Own and those relationships are strong.

The Hon. SCOT MacDONALD: There is a good level of transparency, isn't it? You are dealing direct with the dairy farmer, there is a good awareness from all parties about cost of production, what people need to make a return on investment and your market circumstances as well—your competition and what you are up against. Is that not a big part of the challenge that we have got in now, that outside of Farmers' Own, the information is not there to a large extent?

Mr BENNETT: Mr MacDonald, what I do not think we can do—We can talk about the nature of our relationships with those—

The Hon. SCOT MacDONALD: Processors.

Mr BENNETT: —farmers in Farmers' Own. It is hard for us to extrapolate and make authoritative comment regarding the relationships that exist between the processor and the dairy farmers elsewhere in the supply chain. We are not trying to pretend to be authoritative on something to which we are not a participant.

The CHAIR: Mr Bennett, for the benefit of the Committee, are you able to tell us, say, roughly today what the shelf price of Farmers' Own is per litre?

Mr BENNETT: Mr Harker will correct me if I have got \$1.50 a litre wrong.

The CHAIR: Is that correct, Mr Harker?

Mr HARKER: I think that is about right.

The CHAIR: So, a relationship between a retailer and a farmer that seems to be mutually beneficial can exist at \$1.50 a litre, given that there are a lot of products around for choice. It is quite obvious then that there is a scenario or a particular market configuration that seems to at least provide a better outcome for the dairy farmer, given that we are pretty much told that the cost of production is somewhere between 50¢ and 70¢ litre on the farm and given that a lot of those farmers are not getting 50¢ a litre from the processors. So it could be argued that perhaps more of the Woolworths Farmers' Own style would be beneficial rather than the other way around. You did say you had some problems in the early years, but I take it now that you are quite happy to continue with that particular brand.

Mr BENNETT: We remain committed but I think it is important to understand that the volumes reflect—

The CHAIR: Tiny.

The Hon. COURTNEY HOUSSOS: Thank you, Mr Bennett. I would like to place on the record that we have heard some very sad stories about dairy farmers through this inquiry, but a brief ray of hope has been the Farmers' Own story. I wanted to ask you about that, and just note that the testimony that we received was not just about the price but also the structure of the contracts that allowed the farmers to continue to invest. The three-year rolling contracts with six-monthly notice periods gave the farmers the ability to invest in the infrastructure that allowed them to increase their efficiency, so it seemed to be a more holistic approach to this industry, rather than the piecemeal approach that exists in other arrangements. I wanted to ask you: are you open to expanding this arrangement or perhaps negotiating additional arrangements like this directly with farmers?

Mr BENNETT: I will leave it to Mr Harker to expand on the future of Farmers' Own. I think you have touched on an interesting aspect of the ACCC's report, which was that the lack of balance in bargaining power between farmers and processes was contributing to that loss of appetite or inability to invest in productivity-enhancing measures which would help deliver lower costs of production. I think that was one of the important insights that the ACCC was able to reveal. As to the future of an expansion of Farmers' Own, I will leave that with Mr Harker.

Mr HARKER: We are obviously committed to that. The volume at the moment is determined by consumer acceptance. As that grows we source milk. In terms of more general plans, I think you can appreciate that, given this is a public forum, I probably would not like to disclose in detail what our future plans are for the product, given that it would be commercially sensitive information. It is something that is currently, as you described, unique to us.

The Hon. COURTNEY HOUSSOS: I think it would be useful for us, Mr Harker, if you would not mind providing it to us on notice. We can then treat that confidentially. It would be really useful to inform the work of the Committee.

The CHAIR: Mr Harker and Mr Bennett, given the commercial sensitivity, would you be prepared to provide us with some information in confidence? I am prepared to guarantee you that any information you did provide would be treated confidentially—that is, it would not become public, and certainly would not be disclosed by any members of the Committee. If you cannot answer that now, could you perhaps note that we will put that question to you on notice, and give your corporate people some time to think about it. Anything that you can do—anything that Woolworths can do to help this inquiry is going to show Woolworths as an extremely good and valuable community player in this game. I am not trying to gild the lily; I am just trying to put it the way it is. Ms Houssos, perhaps rather than prosecute that now we will make sure that we get that on notice.

Mr BENNETT: Noted.

The Hon. COURTNEY HOUSSOS: I want to ask some questions around the drought levy. I noted that you talked about the amounts in your opening statement and also in correspondence with the Committee. There was about \$1.3 million to 290 dairy farmers. You said that there was a floor price of \$1,000.

Mr BENNETT: Correct.

The Hon. COURTNEY HOUSSOS: Can you give us a rough indication with respect to one of those small dairy farmers who is receiving \$1,000 of drought levy, how many litres of milk they would be providing to you on a monthly basis?

Mr BENNETT: I am not sure that I have that detail to hand. This is information that we get from Parmalat. I would have to look at it to see if that material has been provided to us.

The CHAIR: Perhaps you could take that on notice. If necessary we will go back to Parmalat and ask for that information if they will not provide it to you. I am sure they will, but—

Mr BENNETT: I do not think there is a problem. In looking at some of the numbers that come through you can see what some of the payments would have been without the \$1,000. It would have been substantially less than \$1,000. You ask the question, what is the dynamics of that particular farm? I understand that it could be less than 100 cows for some of them.

The CHAIR: I did some simple maths and it looked as though, on average, across the 290 dairy farmers it is about \$4,480 per farmer. I appreciate that that varies depending on their production size. I am just trying to get a sense of how much this is actually assisting farmers. So any information you could provide in relation to that would be useful.

Mr BENNETT: Sure. We have had feedback from a number of farmers. The first instalment, which was paid in October was approximately \$500,000 because that was not a full month. The second instalment in November was \$1.3 million. I think it was after that that we received a number of pieces of feedback from farmers who had been very pleasantly surprised that they had just received \$6,000 or \$4,000. Obviously the largest suppliers to us in New South Wales get substantially more. It was a very pleasant shot in the arm, but we will provide whatever we can to help elucidate that more for you.

The Hon. COURTNEY HOUSSOS: That would be useful. I have one last question. You would have heard previously Coles tell us that their price to processors include the farmgate price, the cost of production and margins. Do you agree that that is what you expect that you pay your processors?

Mr HARKER: Our contracts vary by processor, but they include things like the farmgate price of milk, which is publicly available information, packaging, processing, transportation and those sorts of things—they are all particular line items in a contract.

The Hon. COURTNEY HOUSSOS: So there is a direct relationship, then—the farmgate price is a component of the price that you are paying to the processor?

Mr HARKER: Yes.

The Hon. COURTNEY HOUSSOS: Thank you very much.

The Hon. MICK VEITCH: Thank you for your attendance here today and on the phone. I am not sure whether you have had a chance to read the submissions and the testimony we have been taking for this inquiry, but there has been a case put for an advocate or a commissioner type role in New South Wales—a dairy farmer advocate or a dairy farmer commissioner. I would like your views on that.

Mr BENNETT: Mr Veitch, we would probably have a similar response to that which I heard from Coles. It really depends on what additional role such an appointment would take, over and above the existing processes, particularly those that have been established by and within the ACCC—as well as things like the food and grocery code of conduct. So it is not clear to us, absent more specifics. I apologise if we have not read every

piece of Hansard. If any initiative supports and aids the ability for us to drive towards a more sustainable dairy industry in New South Wales and elsewhere then great, but it is not clear to us right now how that would add to the existing mechanisms.

The Hon. MICK VEITCH: With regard to the ACCC report—their final report—that has been canvassed quite a bit in this inquiry. I gather Woolworths are quite supportive of the final position. Did Woolworths have any criticism or concerns arising from that final ACCC report?

Mr BENNETT: In the broad, Mr Veitch, we thought that, given the thoroughness of the process, it was a very solid body of work.

The Hon. MICK VEITCH: In some of your comments in your opening address, Mr Bennett, you talk about the "future structural reform of the industry" and your statements around international prices and their impact on setting the price of milk. You also spoke about the "contractual pass through process". First things first: I gather that by "contractual pass through process" you mean the farmgate price to the processor and then the processor to Woolworths.

Mr BENNETT: Correct.

The Hon. MICK VEITCH: We heard that the contract you have with processors, such as Parmalat, would be the farmgate price plus the other costs of production, such as the bottles and haulage, and that sort of thing, and a margin?

Mr BENNETT: That Mr Harker referred to?

The Hon. MICK VEITCH: Yes. Can you explain from a Woolworths perspective what role international pricing plays in that?

Mr BENNETT: I do not know if Mr Harker would be happy to comment, but I think I had better leave it to Mr Harker.

The Hon. MICK VEITCH: Okay.

Mr HARKER: The role that international pricing or other things would play, again without labouring the ACCC report, refers to how the farmgate milk price in Australia is set. In regards to the international dairy prices, there are very clear graphs in the ACCC's report that show how international demand for Australian milk would see the farmgate milk price go up. If there was a lack of demand for international milk that had negative impacts sometimes on the farmgate milk price because nearly 40 per cent of the raw milk in this country actually finds its way offshore in a dairy product, I think the dynamic we have is that there is an international market that impacts the farmgate milk price in Australia and then we have the largest dairy production region in the country, which is obviously in the southern part of Australia, that is competing internationally. On my reading of the report, that seems to have influences on what the determination of the farmgate milk price is in this country.

The Hon. MICK VEITCH: Thank you. We have heard quite considerable testimony from dairy farmers who are saying that they are actually going out the door backwards; essentially, they are not even making a living. What happens if the dairy industry collapses in Australia? From where do we source our milk?

Mr BENNETT: Mr Veitch, I do not want to rely back on the old "It's a hypothetical", but what we are hoping is that the reforms that have been suggested by the ACCC will drive the sustainability that is necessary to ensure that the domestic demand for milk is satisfied by the structure of the industry that exists. I think that is why we see this as such an important body of work—because it gives the evidence-based impetus that we think is so desperately required in what has been a very emotional debate since 2011 at times. We understand that. That is why, and as we said in our submission to the Committee, we hope the ACCC and the work of the Committee can help to energise those reforms because they are the best bet that I think we have got at the moment to try to make sure that the sorts of scenario as you have described do not eventuate.

The Hon. MICK VEITCH: Does Woolworths own any dairy farms?

Mr HARKER: No.

The Hon. RICK COLLESS: My follow-up question to Mr Veitch's question about what if the dairy industry was to collapse is this: What about if the Australian dairy industry was suddenly to write a contract with China for the supply fresh milk into China that arguably would take every litre of milk we could produce in this country? How would that impact on the Australian dairy industry? Would you be looking to increase your prices to attract dairy farmers to sell to you rather than to the Chinese consumer?

Mr BENNETT: Mr Colless, I used to work in the coal seam gas industry, so now I am starting to think about domestic milk reservations. I do not know whether this is one of the drivers behind the New Zealand prices.

The CHAIR: Now there's an idea!

Mr BENNETT: Perhaps that is one of the drivers behind the domestic price in New Zealand, given their very strong export performance. Again, I think these are hypotheticals, but one would have to think that, given the very strong level of demand that exists internally in Australia, those sorts of scenarios hopefully are unlikely. In any event, what we need to do is focus on the reforms that will deliver the sustainability that is so patently necessary within the industry—not just here in New South Wales but elsewhere.

The CHAIR: That is why we are meeting in this room today.

Mr BENNETT: Yes, and that is why we are very keen to be a participant in all of our discussions with industry bodies. Whether it is Dairy Australia, Australian Dairy Farmers, NSW Farmers, Dairy Connect and others, we have tried to be at the table and be a participant to help us get away from debates that have tended to go around in circles and have not allowed us to make the progress that really the industry needs and that we are certainly keen to be participant and supportive of.

The Hon. RICK COLLESS: We live in a changing world in terms of international marketing. It is changing very quickly. For example, in the last few weeks there has been a contract written with China to supply fresh cherries. Within four days of them being picked, they will be delivered into China. That sort of international marketing will become a reality, which is maybe going to impact more on the global pricing than we can anticipate at this point in time.

The Hon. MICK VEITCH: Do you have a rise-and-fall pricing process with your processors?

Mr HARKER: Yes, we do. It is in our contracts.

The Hon. MICK VEITCH: What is the process for engaging or initiating a rise or fall in pricing?

Mr HARKER: The farmgate milk price is publicly available information. If there is a material change in the farmgate milk price, then the processors have the ability to come and talk to us about the increase. In fact, in the last year in one market—off the top of my head I cannot recall which one—we have had an increase already on our private label milk contract as well as across the dairy portfolio generally on branded and own brand non dairy milk products throughout the last year.

The Hon. MICK VEITCH: That is the process of initiating the arrangement with Woolworths. Does it work in reverse? Can Woolworths also utilise that clause with regard to price rise or fall?

Mr HARKER: I imagine that, technically, it would be two ways, yes.

The Hon. MICK VEITCH: Has Woolworths ever initiated that process?

Mr HARKER: Ever?

The Hon. MICK VEITCH: Yes, or since 2011?

Mr HARKER: I would not be able to answer about ever. I am not aware of an instance where we have said, for example, to farm gate, "Your price has gone back and therefore we'll pay less."

The Hon. MARK PEARSON: Are there any other business arrangements or industries in which you have a similar agreement where you engage with the producer on a price and then bring in the processor afterwards, such as in beef, pork, or wheat?

Mr HARKER: Our meat model actually has recently changed, without going into a lot of detail, but historically we have been fully integrated in our meat supply chain. Currently, rather than processing all the meat ourselves—and you would recall that a lot of it was processed in stores—we have an arrangement with the Hilton Food Group who do that processing on our behalf. But in terms of beef and lamb, Woolworths procures directly off growers and we pay for them to be processed and slaughtered in abattoirs.

The Hon. MARK PEARSON: Is there any reason why that arrangement that you have for Farmers Own and the ones that you just mentioned in other produce could not be 100 per cent for dairies—to have such an arrangement of direct negotiation with the milk producer and then engaging or retaining the processor?

Mr HARKER: I imagine, given the fact that there is considerable investment that processors made in, obviously, all their facilities that we certainly could have a conversation, but I imagine that would bring about a whole bunch of inefficiencies in the supply chain in terms of the milk being broken up into components, if you like, as opposed to at the moment its being purchased and it goes into many and varied products by the processors. They obviously do private label milk. They do their own milk. They obviously make yoghurt and cheese and everything else. We have started that path with Farmers' Own. As I said before, we are open to looking at how we

can grow that arrangement and, without going into a lot of details, it is something that we would certainly like to explore further.

The Hon. MICK VEITCH: Is that the sort of thing that would fill the statement "future structural reform of the industry"? Is that the sort of thing that you are looking at?

Mr BENNETT: In terms of the opening statement and reference to "future structural reform", I think we are more thinking about right now, in the near future to the Australian Competition and Consumer Commission's recommendations.

The Hon. MARK PEARSON: We have heard from dairy farmers that some buyers—whether it be the retailer or the process—have, after a contract has been signed and the price has been set, gone back retrospectively and changed or lowered the agreed price. Does Woolworths engage in that practice?

Mr HARKER: No. We do not engage in that practice. We do not negotiate the farmgate price of milk, other than on Farmers' Own.

The Hon. MICK VEITCH: You may or not be able to do this, but I would be keen to look at a copy of one of the contracts you have between a processor and yourself. It would be in total confidence; a bit like the previous arrangement that the Hon. Courtney Houssos was talking about. I would even be happy for you to redact the name of the particular processor. Would that be possible?

The CHAIR: Mr Bennett is indicating that Mr Harker should answer that question. Mr Harker, what do you think?

Mr HARKER: Let us go and ask the question to see whether there is any issue that the organisation has with that. We will come back to you with a very clear answer.

The Hon. MICK VEITCH: That is fair and decent, thank you.

The CHAIR: In parallel with that, if it is not too late, the Committee might also send the same request, noting that we made the request to you, to the primary processor being Parmalat for a couple of those process lines. It would, of course be a two-way street: Woolworths agreeing to agree and the processor agreeing to agree. But when you take this back to your corporate lawyers and others, you can assure them that confidentiality will be guaranteed. You can assure them also that the Committee is not asking this question just from curiosity or idleness, but that we would love to try and dig a little bit deeper to see whether there is any imbalance in the power as espoused in those contracts. I take it the corporate offices of Woolworths are outside New South Wales?

Mr HARKER: No, they are located in Sydney.

The CHAIR: I could not get at Coles. Please do not misread me, because I am not threatening here, I am just having a little bit of fun. It would be extremely beneficial to this Committee to get some cooperation from someone, and if that cooperation could come from Woolworths or one of the processors we would be eternally grateful. I ask you to take that on notice.

The Hon. RICK COLLESS: The regulation issue has come up a number of times and there has been a lot of discussion about what has happened to the dairy industry since deregulation. The accusation has now been levelled saying that the regulation is in fact in reverse—it is being regulated by the major retailers determining the minimum price on the shelf, rather than the price being determined by the cost of production on a competitive basis.

Mr BENNETT: I think that argument has its roots in this historical notion that it is the retail price that is having the direct relationship on the farmgate price, which is what the ACCC report has really tried to debunk, as has many of the inquiries and other processes that have gone before it. Again, why I think it is so important that these evidence-based bodies of work are now leveraged to try and really crack the nut of the problem around the sustainability of the dairy industry.

The CHAIR: Having said that, I would hate someone to say that I am criticising the ACCC but only a few days ago the royal commission did exactly that. I have to say personally I am not convinced by the conclusions of the ACCC. Yes, they may have been extremely thorough in the work they did but when you sit back and apply the pub test to a lot of these things, I know that Coles, Woolworths and the oil companies talk about non-collusion, and it is a highly competitive market and there are other players in there, but I would like to address by way of a question on notice what the process was whereby Woolworths decided they would sell milk at \$1.25 instead of \$1.60. The Committee will also explore that with Coles and see what sort of thought processes were in the marketing mix. Of course, once one does it, we know the other has to do it—you have got no choice. Within a few cents here or there you have to meet the competition, not necessarily meet the consumer expectation.

Although, as Coles were quick to remind us, we have a duty to the hard done by consumers in this State. Yes, we do. We also have a duty to ensure that a product continues to be supplied—whether it be power, water or milk.

As there are no further questions, I will draw this session to a close. Once again, Mr Harker, I apologise for interrupting your time away from your business place over there in New Zealand with your family. Mr Bennett, the Committee also appreciates you coming all the way up here to talk us face to face. It is vastly superior to having to do it over the telephone. Thank you both for your time. Thank you also to Woolworths for agreeing to cooperate with the Committee. Any questions taken on notice will be sent to you and the Committee would appreciate answers to those questions within seven days.

(The witnesses withdrew)

BARRY IRVIN, Executive Chairman, Bega Cheese, sworn and examined

The CHAIR: Before we proceed with questions, would you like to make an opening statement?

Mr IRVIN: I would, thank you. I am very pleased to be here before the Committee and I think it is important. As a fifth-generation dairy farmer with my son as the sixth generation, and perhaps the seventh generation not too far behind, I find it very heartening that there is such concern and interest in the future of the dairy industry.

The CHAIR: I will just interrupt you there. What you represent is one of the people who the retailers refer to as bringing "emotion" into a serious debate.

Mr IRVIN: I think you will find that I might bring significant experience and knowledge into a serious debate. I have been a director of Bega Cheese since 1989, so for a great period of time. I have been the executive chairman since 2000, so it is fair to say that I landed the job as deregulation hit New South Wales. I have been at the forefront of the development of Bega Cheese. We are an interesting story and indeed the beautiful Bega Valley is a bit of an interesting story in itself. When I joined as chair of Bega Cheese, Bega Cheese managed 120-odd million litres of milk in the Bega Valley and, in fact, our intake out of the Bega Valley is around about the same today with a lot less farmers it is fair to say. I think if I was to give you the numbers from the top of my head it would be 124-odd or 125-odd back in 2000 and probably less than 90 now, but nowhere near as substantial as some of the drops you have seen elsewhere. I think the important thing to note about the industry is that it is indeed a complex industry.

I suppose for those of you that know the geography of New South Wales, which I am sure is all of you, Bega has been in that rather strange position of being right on the Victorian border sitting beside the largest dairy milk pool in the country and indeed being a manufacturer, not a liquid milk supplier, which is unusual in New South Wales. I would actually argue that really we are the only substantial manufacturer of dairy products left in New South Wales. Interestingly, we looked to expand this organisation particularly under my leadership. We will this year handle more than a billion litres of milk across a number of sites, mostly in Victoria. We have invested substantially in our facilities in Bega and New South Wales but, obviously, the large milk pools are in Victoria. We realised that what we needed to do was to be able to straddle both pools, particularly given the nature of our business. Our business is very much a balance business between international markets and Australian markets.

The commentary that is always discussed about what sets milk price and indeed where returns come from is something we are very familiar with. We are a major supplier to both Coles and Woolworths but we are also a major exporter of dairy products particularly into the Asian markets and the Middle East. My experience over a great period of time has been one where I have observed things firsthand I guess. I have experienced the challenge of what it is to be a dairy farmer, particularly in difficult periods of time like drought. I observe the stress that suppliers feel around milk pricing and indeed the seeming inability to lift price along with costs, quite frankly. I have many a time stood before farmers and began to try to explain to them the impact of international markets and currency in particular to not much avail, I might say, just in terms of realising that those factors seem a long way from the issue at hand.

I would probably contend that really in Australia we have two different industries. We have an industry in the market milk States which is very much focused on liquid milk and we then have an entirely different industry almost in what we would call the manufacturing States. I suppose, as I said, I straddle both of them a little but I do not participate in the white milk markets. But I have long wished, I guess given my background, to try and do all we could to support dairy farmers but I also have long observed that I needed to have very strong financial disciplines not to bring our own business down or apart. I think we saw in recent times some behaviours both in terms of not understanding the commercial circumstances that they were operating in and then also some actions that did not reflect an understanding of their supplier circumstances that brought a company such as Murray Goulburn down.

Maybe I will wrap up there, because I would be very pleased to take questions. I guess my objective in my opening statement was to let you know that I have been in this industry a very long time. I feel like I have a knowledge right from farm base right the way through. In 2011 Bega Cheese publicly listed. A number of our dairy farmers found themselves with more wealth tied up in the shares of the company than indeed they had in their property. I think we have got a very strong record of programs focused on sustainability and growth for our suppliers. We try to respond within the commercial bounds that we have to try and support farmers in difficult times, but always we try and be very cognisant of the fact that we need a business that can go forward with its farmers.

The Hon. SCOT MacDONALD: It is good to hear about the financial discipline. I want to flip this a little bit. What would be the worst possible thing the State Government could do to the dairy industry? We are hearing a lot of evidence about this sort of support or that support or intervention or regulation or whatever it might be. Sitting there as a dairy farmer and someone involved in the processing industry and manufacturing industry, what is the worst thing we could do? Usually we ask a witness what we could do to help you.

Mr IRVIN: I will be slightly provocative.

The Hon. SCOT MacDONALD: I want you to be.

Mr IRVIN: Some of it has already been done. Quite frankly, and it is not unique to New South Wales, but one of the things that I note and even when I compare it to say what occurs in New Zealand is that there was a time that every dairy region had a dairy officer provided by the government. Research and development is wonderful but if we do not get extension, if we do not go out there and say to farmers, both those that are growing and those that are struggling, "Here's a new variety of rye grass. Perhaps you should try it. Here's a new practice. Here is some of the best technology"—this might be a strange answer but I would argue there is a great opportunity in agtech but if we do not get the extension of agtech on to all of our farmers, or the vast majority of them, they will not see the advantage that they need to see.

The Hon. SCOT MacDONALD: Can I challenge you on that? If you were a cotton farmer we would never have this conversation. The cotton farmer would say, "I know I need to improve my productivity. I know I need better varieties, better chemicals and better chemical utilisation." They would then reach out to the chemical company or the seed company.

Mr IRVIN: Like I said, there are two things. I will be careful here because I might make a generalisation that is not entirely correct. But I would argue that cotton farms are already large corporates. Dairy is and remains very much a family operation. Some of the family operations can be quite large but they are very much family operations that did for a great many years benefit from that extension. When I try and look at some of the challenges that have hit the industry I do absolutely look at deregulation. Some of the issues around market power and what price can be achieved are absolutely issues. But I look on the other side of that ledger as well and say—

The Hon. SCOT MacDONALD: We still have a role in productivity, basically?

Mr IRVIN: Yes. So the question of whether you can have a role in the market, and again I go back too far, but this debate was had rolling up to 2000 and it was had pretty ferociously. Indeed Bega was—no surprise—amongst most of the New South Wales the Queensland based companies against deregulation. We argued strongly against it and said that we do not think there will be an overall benefit. I cannot remember the right term now, but we argued the fact that there was a community benefit in maintaining regulation. That argument was lost. I have got to admit I saw it as—

The Hon. SCOT MacDONALD: You had a foot in both camps?

Mr IRVIN: Well, funnily enough, not really at the time. Bega was very much a New South Wales-based company in 2000 so the funny thing is: What did deregulation do for us as a company? It freed things like the international markets, it took away the Australian Dairy Corporation, which was a single desk, and it meant that we could go out there and operate in the international markets more strongly. I do tend to look at it now and say, "This is a free market economy." Quite frankly what was the situation before 2000 and what really deregulated of the industry? A whole lot of Victorian suppliers sitting there saying, "I don't have access to a premium market in New South Wales and Queensland". I think it would be very hard to try to re-regulate a market, so therefore, as much as a lot of people talk about it, I think that debate has been had and, depending on your perspective, won or lost. I therefore go: Well, what are the other factors?

The Hon. SCOT MacDONALD: Productivity, efficiencies, technology adoption?

Mr IRVIN: Yes, and that is why I say the extension piece is the piece where I think we have done ourselves a disservice. I think we have got some very good research and development [R&D] out there and we are not getting the extension. Your point is well enough made: "Well, surely that is just done commercially", but sometimes when it is not happening or there is market failure, obviously that is where government needs to step in.

The Hon. SCOT MacDONALD: You can point to a public interest-public benefit there?

Mr IRVIN: Yes.

The Hon. RICK COLLESS: There is room for both?

Mr IRVIN: There is indeed, and it would be fair to say that many of our larger dairy farmers employ consultants and indeed even Bega Cheese provides a subsidy to its farmers to go and employ consultants but I would still say that strategic whole of industry, what can be adopted by 80 per cent of the farmers that will get an uplift straightaway or get an efficiency straightaway. That was what used to happen rather than it happen as individuals. I accept your point on some other areas of agriculture but I do think dairy itself is very much family orientated.

The Hon. MICK VEITCH: Can I just follow up from that? So what you are saying is that there is actually a role for government-funded extension services, not in competition with the private extension services that are available, the consultants, but to support them?

Mr IRVIN: Yes. I think you would actually find that most private consultants would be delighted to see government involved. There is enough to go around and what they actually need is more resource because there is nothing like having your neighbour's project going well and then the neighbour seeing it over the fence and adopting it and some overall strategy. If you picked three or four big things in extension and said, "They are the things that we are going to focus on"—let us be really candid here: If we make more profitable farmers, what will they do? They will go out and reinvest in their businesses. They will employ those consultants as well as seek the advice.

The CHAIR: I make the point that a government extension service does not have to compete with the private sector?

Mr IRVIN: No.

The CHAIR: In fact, most governments these days prefer to subcontract?

Mr IRVIN: Yes.

The CHAIR: So it would mean that the technology can still get there whether the farmer—I won't say wants it or not—is sophisticated enough to know that he can go and get it or whether somebody knocks on the door one day and says, "Hi, I'm Jerry. I'm your local R&D coordinator. Listen, I notice you've been doing this. The bloke over there is doing that. He's getting more milk than you. Would you like some help for you to do that?"

Mr IRVIN: That is exactly it. I will give a real-life example, and it is me compared to my son, if you like. I am a banker, so forgive me for that.

The Hon. RICK COLLESS: I thought you might have been an extension officer?

Mr IRVIN: No. I came out of banking. I never intended to be a dairy farmer but without going into circumstances I ended up being a dairy farmer. But when I came back as a very bad dairy farmer the thing I remember significantly is that the local departmental agronomist turned up on my doorstep and said, "So you need to be sowing within the next two weeks" and then the dairy officer turned up and said, "You need to be thinking about these challenges", so I was spoonfed, quite frankly, until I got on my feet and understood what I should be looking for. Then when I did, I knew I could get independent advice. So what is the difference today? My son is spending his time trying to work out whether the agronomist who talks to him and who works for Monsanto or works for one of the seed companies is trying to sell him something or whether it is actually good advice.

The Hon. SCOT MacDONALD: That was my previous job.

Mr IRVIN: And that is no criticism of the people who are doing that job.

The Hon. RICK COLLESS: Mr Irvin, I fully understand what you are saying. As a former government extension officer and a private consultant myself who did not work for any company—I sold my information direct to the farmers—I can say you are absolutely right; it is very obvious that you need to have that flow of good quality information available through whatever source all the time?

Mr IRVIN: Yes, really effectively and really timely.

The Hon. RICK COLLESS: I ask you about the structure of the industry in the Bega Valley. I gather there is a cooperative there that manages the milk. Does the cooperative run the cheese factory as well?

Mr IRVIN: No. Interestingly, we were a cooperative up until 2009. This is an interesting perspective. We were a cooperative, then we were an unlisted public company, then we were listed and the path to that is a bit unusual for cooperatives. We had actually been very successful, so we created a lot of wealth within the cooperative but the dollar that the farmers put in was the dollar they got out when they left. Interestingly it was in a period of drought when the farmers were saying, "This is very difficult". I said to them, "Well, you're the owners

of this business. We can change the structure to be publicly listed. The only difference will be that rather than you as a collective deciding whether you want to own the business or not, you will as individuals."

Hence why I said earlier for a number of our suppliers at the time it meant that we created millions of dollars worth of wealth as we listed. Interestingly, we have got a very young group of farmers in Bega because that facilitated succession planning because obviously we created wealth outside the farm but I think some of the farmers would say, "While we are now a publicly listed company, our roots and heritage is very much in a cooperative" and as by the history I outlined they have not seen that much change because I am still the person that sits at the head of it. I sat at the head of it as a cooperative and then I sat at the head of it as a publicly unlisted and then as a publicly listed company. So we very much try to maintain all those heritage values while also walking that thin tightrope between being both publicly listed and having public shareholders as well as having farmers as shareholders.

The Hon. RICK COLLESS: As to the price that the company pays producers for the milk, does all the milk go to the processing company? You do not sell any fresh milk, do you?

Mr IRVIN: We sell a little bit of fresh milk but as trade, if you like, so we will sell it into another processor if they are actually short or whatever else but generally, no, in the Bega region it all goes into cheese. I know you are not too interested in Victoria but in Victoria it is all heading into a range of products from cream cheese to infant formula to milk powders, et cetera.

The CHAIR: I seek some clarification. How many plants do you actually own and operate—just the one in Bega?

Mr IRVIN: There are two in Bega. There is a large cheese-cut pack and processing one, which is actually a value-adding facility and then there is the—

The CHAIR: But do you actually own processing plants down in Victoria?

Mr IRVIN: Yes, we own four plants in Victoria and we actually own the Peanut Company of Australia in Kingaroy, which I am sure is of little interest to you as well. I will do this off the top of my head but the fundamental approach we have to milk pricing and what we talk to our farmers about is driven by four things. The first is the market the product is destined for. The second is the product mix of the particular factory because while everybody talks about white milk, in our game it is all about how you break those proteins and fats up and what you can get for the mix of them. The third one is competition.

Interestingly, in the Bega Valley, as the milk pool gets smaller in the rest of New South Wales we were experiencing more competition from other processors trying to purchase milk out of the valley, which never occurred up until very recent times. The fourth one is sustainability of supply. They are the four things. Therefore, in the Bega region, on that basis, you will see a place more akin to New South Wales, and you will see a price that reflects a competitive price with New South Wales, even sometimes when the market does not return it. In Victoria, you will see a price more akin to a Victorian manufacturing price.

The CHAIR: I have another point of clarification. You are saying that as the supply market shrinks a little bit, you are facing competition with other people?

Mr IRVIN: Yes.

The CHAIR: Why is the milk market shrinking? Is it because of the drought or because producers are going out of business? What is the story behind that?

Mr IRVIN: My view would be if you look at the market in New South Wales and southern Queensland, the prices that were received under regulation in 2000, they are not too different to the prices received today.

The Hon. RICK COLLESS: You are referring to farmgate prices?

Mr IRVIN: Farmgate prices, yes. And we all know how much costs have changed.

The Hon. MICK VEITCH: Input costs?

Mr IRVIN: Input costs, yes. Input costs have put significant pressure on it. In a period of drought, of course that puts enormous pressure on farming operations.

The CHAIR: When you talk about your particular market, and that is a demand starting to suck on the supply from the Bega Valley, can you tell me roughly what percentage of increase that is forcing upon your supply price? Is it marked increase or just a couple of per cent?

Mr IRVIN: Let me think. It has literally happened in the past few months. We moved our price upward of 10 to 15 per cent?

The CHAIR: From what to what?

Mr IRVIN: It was \$6 or \$6.75 a kilo—you will have to forgive me if I get this a little wrong—to about \$7.20 a kilo for milk solids.¹

The CHAIR: So around 15 per cent. That is interesting, given the comments that were made by some of the retailers before.

Mr IRVIN: It is the nature of any market, I suppose. To go back to the earlier question of why supply is shrinking, costs are going up and revenue is not going up with it.

The CHAIR: Do you supply your milk from Victoria for all your products in Victoria or is it all coming out of the Bega Valley?

Mr IRVIN: Interestingly, we bring milk out of Victoria into the Bega Valley.

The CHAIR: Really?

Mr IRVIN: Yes, so it comes up from Gippsland into the Bega Valley. The rest of the milk in Victoria goes to our manufacturing milk sites in Victoria.

The CHAIR: Is that because your manufacturing volumes are expanding or because supply in the Bega Valley is diminishing?

Mr IRVIN: Supply in the Bega Valley is pretty stable. We are looking to get the most out of our plant, so there are two sides to it. Yes, we know that we have markets for it. The second one is, of course, the last litre through any plant makes that plant much more efficient.

The CHAIR: It is driving the efficiency right down to the last litre?

Mr IRVIN: Yes. If we can freight milk within a reasonable distance, we can still make a dollar out of those marginal cost benefits.

The Hon. MICK VEITCH: Is Bega Cheese responsible for the freight logistics?

Mr IRVIN: Yes. That is pretty much across the industry everywhere.

The CHAIR: Across the manufacturing industry?

Mr IRVIN: Across the manufacturing industry, yes.

The Hon. MICK VEITCH: Do you use your own fleet or do you subcontract?

Mr IRVIN: We use contractors.

The Hon. RICK COLLESS: What is the relationship with the retailers? How do you market your product into the retail chain?

Mr IRVIN: We have a variety of arrangements. We do everything from retailer's mark to branded product. With retailer's mark, which I guess is the sensitive one—I know everyone talks about \$1 litre milk but nobody talks about \$8 a kilo cheese, which, for the record is 80¢ a litre. It has been well enough said that one of the driving factors is the international markets and currency. For us, on retailer's mark we were going in and tendering for a contract and tendering against two or three large competitors. We put our best foot forward and presented our credentials and how we can develop their market and what we might be able to do. It is on public record that we were one of the first to write a five-year contract with Coles, which we lost in 2017 to the rival that ultimately went broke, but needless to say when people talk about drives—

The Hon. RICK COLLESS: Was that imported cheese?

Mr IRVIN: No, we were producing it, and we lost it to—

The CHAIR: Was that Murray Goulburn?

Mr IRVIN: Yes, we lost it to Murray Goulburn, who within 12 months—I will talk about that later.

The CHAIR: Did you get it back?

¹ In [correspondence](#) to the committee Mr Barry Irvin made clarifications to his evidence in regard to farm gate dairy prices.

Mr IRVIN: No, but we did immediately get a Woolworths contract. It is fair to say the nature of competition is that it was not very difficult for Woolworths to work out that Coles had got a very good deal, so we did not manage to replicate the deal we once had. We got a deal on not quite as good an arrangement because that was the market. I think it should be understood that really, quite often, and I hate to say it, we found it to be that the cooperative was one of—I do not know how to put it politely—those most inclined to cut price rather than try to build value. So we have seen, for example, our cheese cut back on processing.

I am happy to say it here because I say it publicly, that part of our business, which was a very large part of our business, has been pressured on margin for the last few years and of course the retailer is always coming to you saying, "Can you do a better job for us?" In the end, when the tender came up, there were lower prices submitted by some of our competitors. Of course it is a free market and they are entitled to do so.

The CHAIR: How much competition does imported product provide you?

Mr IRVIN: In our world, a lot. In cheese, again, Australia would import 30 per cent of its cheese, so half of that would come from New Zealand and probably the other half would mostly come from Europe. Again, when you think about the consumer, they are not afraid to purchase a dairy product out of New Zealand or out of Europe. They know they will be getting a good quality product.

The Hon. RICK COLLESS: Do you compete in blue cheese and camembert and those sorts of things?

Mr IRVIN: No.

The Hon. MICK VEITCH: They are Rick's favourite.

The CHAIR: I like the yellow stuff in the green packet.

Mr IRVIN: Good man.

The Hon. MICK VEITCH: We talk about Coles and Woolworths, but does the lack of competition in the retail sector cause a problem for you or your organisation? Would you like to see more competition in the retail sector?

Mr IRVIN: I am always a little bit torn in terms of answering this question. The question was asked earlier, and I thought it was a good one. I would have put it in different ways. Supermarkets, by their very nature, the world over have a playbook that they play. Do I think that a fourth or a fifth or a sixth supermarket would suddenly behave any differently to the other players? While we in this State, and appropriately so, look at the white milk market, for me that is not where I look. I look at manufacturing and as soon as you look at manufacturing you look at a product that is highly transportable. I would say that my best efforts and benefits—

I will use an example of a product we have just bought recently. Butter worldwide is in strong demand and short supply. What is my best negotiating capability against Coles or Woolworths, or anybody? It is a world market and butter being in strong demand. Our job, or my job, for both the farmers and the shareholders is to create a countervailing power by making sure that I am maximising the value of the product I produce, no matter where it goes in the world, and that is my best negotiation point, if you like. Why are we, quite frankly, attracted to still wanting to be important suppliers to Coles and Woolworths? Well, they do generally give a level of stability that may not be there on the global markets around volatility.

If you were talking to Victorian dairy farmers they would say one of the great challenges beyond just price—pricing in New South Wales is relatively stable at farm gate. It is not perfectly stable but it is relatively stable. It just did not get the increases we would like. In Victoria it is jumping all over the place because of global markets.

The CHAIR: Again because most of that product goes into manufactured product which is more open to effect—

Mr IRVIN: And is highly transportable, yes.

The Hon. MICK VEITCH: Woolworths representatives spoke about the need for future structural reform of the industry. Do you have any idea what the next structural reform of the industry is?

Mr IRVIN: And without being wanting to go too much above the industry, I have always thought that 2015 to 2020 would be an extraordinarily difficult time for the Australian dairy industry. I will be very frank about this, it has been made worse by the behaviour of Murray Goulburn and the behaviour of Fonterra. But it was always going to be extraordinarily difficult. I would note that both those organisations are cooperatives. Murray Goulburn had more farmers sitting on that board than anybody else and they made decisions not in the interests of farmers. I sometimes think in terms of the ACCC report that was studiously avoided with some philosophical view that cooperatives must be of a higher level of behaviour than others. It is notable to me that none of the

private companies, none of the listed companies, none of the internationally owned companies but two cooperatives elected to do that.

The reason why I say 2015 to 2020 was going to be very difficult was simply because the supply caps in Europe were coming off. So you had a generation of pent up supply growth about to be released and it was very difficult to know what that would mean in the world markets. On top of that you did have the world's second-largest importer close their borders in Russia. You had two factors that meant global supply was more than likely going to outstrip global demand, and it has.

The Hon. RICK COLLESS: Including in Australia?

Mr IRVIN: Australia is deeply affected by it, is the point. When people talk about rise-and-fall pricing in their contract there is an association back to those international markets, either directly or indirectly. When we talk about farmgate price in Victoria as a guide, guess what is driving that? International markets. So if you use that as a guide, of course, that then begins to reflect through on to local pricing. That is why we see across the country farmers saying it is just too difficult. Part of the reason why it is too difficult—and we are sitting here again today having watched the markets go down for the past four months internationally on the back of a bumper season in New Zealand. But the particular change in global supply—there is no problem with demand. Demand has kept going up—was that lifting of caps in Europe. I always had the view that it would take five years for that growth spurt—

The CHAIR: To wash out.

Mr IRVIN: Just to wash out and settle down.

The Hon. SCOT MacDONALD: I have a supplementary question.

The CHAIR: Just let him finish.

Mr IRVIN: My view in terms of structural change is that I think trust has been lost in the industry and confidence has been badly lost. Whether it is part of the ACCC putting in a mandatory code which worries me a little in the fact that it will not solve the price issue. The two key issue are: the one I mentioned at the beginning, cost and productivity and the second is price. If you see global markets do what I expect them to do in the longer term you will be amazed when you see a lot of the rest of the industry structures look after themselves, if you like. I might add that we have got a lot of farmer advocacy bodies and I think we are increasingly a national industry and we have a lot of State-based farmer advocacy bodies that would—

The Hon. SCOT MacDONALD: A consolidation would be good.

Mr IRVIN: I think they could actually achieve a little more if they were consolidated.

The Hon. SCOT MacDONALD: On the line of questioning of Mr Veitch, is your average dairy farmer well tuned into all those sort of global supply demands? I will make a comparison. If you are out at Moree and you talk to a wheat farmer, he or she has their smart phone. If a header driver in the Ukraine has a flat tyre—

Mr IRVIN: They know.

The Hon. SCOT MacDONALD: They know—

The Hon. RICK COLLESS: The price goes up.

The Hon. SCOT MacDONALD: Yes, the price goes up, sort of thing. Is that level of commercial awareness in our dairy industry?

Mr IRVIN: I would say it varies. I have spent the past however many years in my life, every supply meeting I go to I have a graph that basically shows a mix of global price, Australian currency, farmgate milk price.

The Hon. SCOT MacDONALD: And correlation.

Mr IRVIN: And correlation. I would argue that most of my suppliers, no, it does not make them feel any better when they see the price going down and then not being able to make a dollar but I do think that they are aware. The thing that I have to be careful of is, again, I tend to move my mind to manufacturing and global pricing because that is the market that we play in. I can absolutely understand why New South Wales and southern Queensland farmers, in particular, say "Yes, but every one of my litres goes into a retailer's carton or bottle. Why do you want to keep showing me this?" I have to admit, I do not have any white milk suppliers, as suppliers to me, so I cannot speak for them.

Most of my guys do know it and I am sure, given what you were talking about earlier, you would equally know that you tend to get those who are interested coming to the meetings, and those that are not, do not. We try

to communicate as much as we can but you would have to say there is still part of the industry given the discussions that continue that are fully across those things.

The Hon. MICK VEITCH: There has been testimony around the suggestion that there should be some sort of a dairy farmer advocate or a dairy farmer commissioner's role in New South Wales. No one has articulated what the role would encompass or look like but at a macro level what are your views about that? Would it add value to the dairy industry in New South Wales?

Mr IRVIN: It could. I have to admit I had not put a lot of thought into it. I will use the analogy I used when we were talking about extension services or whatever. Sometimes I can be talking to suppliers and they will say "You've got your book to talk to so, of course, you're arguing your position. How can I be sure that your position is actually the position?" An advocate who could be seen as an independent person who was reviewing all the information that was available to them and, indeed, could be talking about the industry as a whole, it would not bother me, would be the thing I would say. If you added to that some discussion what does the industry look like in five or 10 years time? What do things like agtech do on the one side and what is the likelihood of the market changing on the other side?

As I said earlier, what are the two things that I think the industry has lost that are affecting it probably more than anything else: trust and confidence. I will put my farmer hat on in the minute. I understand that I get droughts. I understand that sometimes I will get a drought and no matter how nice my processor is, there is not enough money in the world to cover every farmer's loss on an extreme drought. I understand I will get them. I need to understand—I am speaking as a farmer now—what are the opportunities? What other ways to better manage the drought in the future? What are the ways to better manage my costs. Whether that is an advocate or independent person, it is like all things about where you are best to put the limited capital you have, whether it is government or business. I would be happy to discuss and think about that further.

The CHAIR: Given who you are, your background and your current role, you will have seen recently that the royal commission criticised the ACCC for a lack of robustness in its treatment of major industries. Of course, I am talking about the banks. I am not going to accuse Coles or Woolworths of abuse of market power, but increasingly anecdotally and in committee hearings like this one and in ACCC hearings, you hear people like dairy farmers—as you said, smaller and some larger family-owned companies, generally with a long tailback in history—take the view that no matter what they do they will be price takers. You are us telling that the price is not much different from what it was under regulation. There are also price payers when it comes to fodder, water or whatever. They are trapped.

Do you believe that perhaps in circumstances like this—looking at whole industries—there could be some benefit in the Federal Government moving towards providing extra powers for the ACCC or a similar body, not so much an ombudsman or a commissioner? What about the introduction of antitrust legislation like they have in the United States? It seems to be effective in giving its regulators some teeth. Do you think there could be any benefit in that sort of thing for our small nation?

Mr IRVIN: Obviously as I described the business, we have grown, expanded and purchased lots of businesses. I have had lots of chats with the ACCC over the years—

The CHAIR: Lots of dealings.

Mr IRVIN: —because it has been concerned about what our market power or position might be. In fact, our recent acquisition was made only on 17 August. It was \$250 million acquisition, so it was not small. It was as a result of Murray Goulburn being sold to Saputo and Saputo then being told by the ACCC that it had to divest because the ACCC was not comfortable that there was enough competition in western Victoria. My experience in dealing with it is that it has adequate powers and, indeed, is extraordinarily focused on ensuring that competition remains. Sometimes I feel that it is perhaps more focused in some areas than others. How it helps price is the question. Does it help price?

The CHAIR: Competition and consumerism go hand in hand, hence we have the "Australian Competition and Consumer Commission". It seems to me that the investigations it has done do not seem to acknowledge the effect of market power on the supply chain. We have not had 40 dairy farmers giving evidence and lying to us.

Mr IRVIN: No, I know.

The CHAIR: We have had dairy farmers giving us detailed, audited accounts showing exactly what is happening. These people are not dreaming; there is something wrong. I think you have explained it; you have said, "Maybe it isn't the price side, maybe it is the supply side because demand has gone up and they have not been able to compete." We have the ACCC saying that the retail price does not drive the farmgate price. I am

sorry, that is bullshit; of course it does. If Australian consumers could cop a 50¢ increase in the price of whole milk sold in supermarkets, that would definitely affect some of those consumers. That is part of the ACCC's ambit. If you destroy an industry—let us take something very different and use the greyhound industry as an example—by fiat or by lack of action, the same people will suffer down the track.

Mr IRVIN: I will come back to the ACCC in a second. My great challenge to that is that 40 per cent of Australia's dairy production is still exported.

The CHAIR: Not whole milk.

Mr IRVIN: No, not whole milk; that is exactly right. Here is a question that challenges my mind all the time.

The CHAIR: They are two separate markets.

Mr IRVIN: Yes, they are two separate markets. We might say, "Let's increase the price to \$1.50 a litre. Let's give all New South Wales farmers a price rise."

The CHAIR: I understand where you are going with this.

Mr IRVIN: What will the Victorian farmers say? They will say to themselves, "So, I get \$6 while New South Wales farmers get \$7, \$7.50—

The CHAIR: Or \$8.

Mr IRVIN: Yes, or \$8. "Why can't I go into that market?" Or they will immediately say—

The Hon. SCOT MacDONALD: "Send the trucks."

Mr IRVIN: Yes, "Send the trucks." What really happened with the \$1 milk? Again, Murray Goulburn—

The CHAIR: I am not arguing for reregulation. It appears to me that we are a small provincial government upper House committee trying to grapple with things that other people have grappled with. It seems obvious to me that when people tell personal truths, it is very difficult to shrug our shoulders and say, "I'm sorry but we can't do anything about it."

Mr IRVIN: I agree. What would I love to see? I would love to see prices in the whole dairy cabinet increase by 10 per cent.

The CHAIR: Everything?

Mr IRVIN: Yes. Will the consumer really mind? No, they will not.

The CHAIR: It does not appear that way.

Mr IRVIN: That is my view. I know the retailers have their job to do.

The CHAIR: How the hell do you find a mechanism to do that?

Mr IRVIN: That is exactly right.

The CHAIR: If you cannot get the price draggers to cooperate for whatever reason—I cannot understand why—perhaps you say, "You do that and you can keep a percentage on the bottom line for your shareholders."

Mr IRVIN: That is generally the way it is attempted to be done. That is why I go back to saying that the best countervailing power is strong international markets that take the whole floor price of Australian production up—

The CHAIR: You have just told the Committee that it will go the other way.

Mr IRVIN: That is what I am—

The CHAIR: Probably. As those lakes of milk break open across the world—

Mr IRVIN: I will put my dairy farmer hat on again and argue that we are all terrible optimists. We have seen it with beef in recent years. Suddenly we went from really struggling for many years to very good and very healthy beef prices.

The Hon. SCOT MacDONALD: The same thing happened with lamb.

Mr IRVIN: Yes, it was the same with lamb.

The CHAIR: Two highly transportable products.

Mr IRVIN: Yes. But it is a transportable product out of Victoria, and particularly Tasmania, going elsewhere to a premium market that will ultimately see a price lift in New South Wales.

The Hon. RICK COLLESS: You might have heard me talk about the cherry market. We can now get fresh cherries to China in four days. That underpins the entire Australian market and puts the cherry industry in another sphere.

Mr IRVIN: It has a different bargaining position.

The Hon. SCOT MacDONALD: We were talking about extension transfer technology and technology adoption, and you have touched on it. Is there a need for better business skills? Is there a role for State Government departments to uplift financial skills to get across some of these issues?

Mr IRVIN: I will be cheeky and go back to the ACCC in answering that question. One thing I would observe about the commission—I observed it particularly about Murray Goulburn and Fonterra—is that I thought it had all the powers necessary but it simply elected not to use them. It was not about it having more powers; it simply needed to use the powers it had. I think that would have made a significant difference. Around this trust and confidence issue, rather than having a year-long inquiry, if the existing powers covering unconscionable conduct had been used the day that those decisions were made, it would have made an enormous difference to the entire Australian dairy industry.

The CHAIR: Unfortunately it is the old minimum sentencing argument.

Mr IRVIN: In terms of business skills, I mentioned the ACCC because Dairy Australia and a number of other organisations have some wonderful programs. I would absolutely agree that our most successful farmers have extraordinarily good business management skills, budgeting skills, financial planning skills and so on. It is that question of extension again. I think the programs are out there, we just need to get them to more and more people.

The CHAIR: I wish we had another hour to spend with you. This has been very good given what we have had to put up with the rest of the day. Thank you very much for agreeing to appear before the Committee. I am sure members will want to ask questions on notice. We would appreciate your answers within seven days, and I acknowledge your busy schedule. That will assist the Committee because we do not have a lot of time left.

(The witness withdrew)

The Committee adjourned at 16:04.