

Submission

29 May 2023

ACCC
GPO Box 3131
CANBERRA ACT 2601

Submitted via email: mergers@acc.gov.au



QUEENSLAND
FARMERS'
FEDERATION

PO Box 12009 George Street, Brisbane Qld 4003
Level 8, 183 North Quay, Brisbane Qld 4000
qfarmers@qff.org.au | (07) 3837 4720
ABN 44 055 764 488

Dear Sir/Madam,

Re: ACCC - Coles' proposed dairy acquisitions from Saputo Dairy Australia Pty Ltd (Saputo).

The Queensland Farmers' Federation (QFF) is the united voice of agriculture in Queensland. It is a federation that represents the interests of 20 peak state and national agriculture industry organisations and engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- EastAUSmilk (formerly QDO)
- Australian Cane Farmers Association (ACFA)
- Turf Queensland
- Queensland United Egg Producers (QUEP)
- Queensland Chicken Meat Council (QCMC)
- Pork Queensland Inc
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallowa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd
- Eton Irrigation Co-operative Ltd
- Lockyer Water Users Forum (LWUF)
- Queensland Oyster Growers Association (QOGA)

QFF welcomes the opportunity to provide comment on the ACCC - Coles' proposed dairy acquisitions from Saputo Dairy Australia Pty Ltd (Saputo). We provide this submission without prejudice to any additional submission from our members or individual farmers.

Overview

The ACCC has recently released a public merger review of Coles proposed acquisition. The Coles Group Limited (ASX: COL) (Coles) is proposing to acquire two fresh milk processing facilities from Saputo Dairy Australia Pty Ltd (Saputo). Saputo produces and wholesales a wide range of dairy products from processing facilities across Australia.

Coles proposes to acquire Saputo's facilities in Laverton North (Victoria) and Erskine Park (New South Wales). These facilities produce fresh milk for Saputo's Devondale brand, and for other parties, including Coles, for on-sale as own brand products at the retail level.

Coles is the primary customer at both facilities with its own brand fresh milk products accounting for the majority of the current annual volumes produced. Coles does not currently own or operate any dairy processing facilities in Australia and as such, this merger poses a significant step change for the Australian dairy industry.

Saputo's milk supply contracts are not included in the proposed acquisition, with the contracts Saputo holds with New South Wales and Victorian dairy farmers being retained by Saputo on current contractual terms.

Key Concerns

The ACCC is currently undertaking a review of the proposed acquisition of two Saputo processing plants in NSW and Victoria by Coles. QFF submits the following key concerns for dairy farmers and the Australian dairy industry more broadly, should this acquisition take place.

This acquisition would effectively see Coles owning the dairy equivalent of 'paddock to plate' and would see this retail giant further expand its colossal market power across the entire dairy supply chain.

The effects on competition from this proposed acquisition would be significantly different and much larger than an individual processor acquiring another processors facilities. This acquisition, due to Coles' already large buying power and monopolised market, could lead to the demise of processors, processor brands and dairy farmers via Coles' opportunity to undertake full control of the supply chain which ultimately could have a devastating impact on the dairy industry through a substantial erosion of market competition.

The negative impact this acquisition could have on competition for farmers and processors cannot be understated. There are Saputo suppliers that are concerned that this acquisition could have a negative impact on Saputo. The potential fall out of this could potentially see Saputo leave the industry or some regions, which have significant further flow on declining impact on competition.

Should this acquisition proceed, this would be the first time that a processor would be setting both the wholesale and retail price of their products and for all their competitors. Allowing this acquisition to proceed will allow Coles to dictate the economic viability of all dairy processors and their associated brands.

Summary

QFF submits that the proposed merger will result in a weakening of the supply chain across the dairy industry from farming to processors and end of chain retailers. QFF calls on the ACCC to block this

acquisition and furthermore, investigate the impacts this and future proposed mergers will have on a dairy industry that is already under pressure.

QFF seeks that the ACCC investigate the historical processor and farmer margins, which have previously been destroyed by Coles, that is expected to recur, due to the large purchasing power and reduced competition in the market that Coles will implement.

QFF calls on the ACCC and the Federal Government to further investigate the above concerns and historical margins between processors and farmers and assess the potential monopolised power that this acquisition would create in the market for Coles, and the subsequent impacts on the future economic viability of dairy industry as a whole.

It is critical that the farm gate price paid to dairy farmers is fair and transparent, and no negative pressures are placed upon the Australian dairy industry through increased monopolised market power that would be achieved through an acquisition such as this.

Ensuring fair and competitive trading across agricultural supply chains as farmers continue to be challenged by lack of transparency and unfair power imbalances in many areas of the market is absolutely critical.

Queensland's farming sector is mostly made up of regional, family-run small to medium enterprises. Effective competition policy is therefore critical to prevent these farmers from exploitation by companies with significant market power.

Our dairy farmers produce arguably the best dairy products in the world from a health, sustainability and animal welfare perspective. Dairy farmers continue to be challenged by workforce shortages, increasing costs of production and supply chain disruptions. They are responding via further on farm efficiency measures, innovation and technology improvements. Dairy farmers continue to be squeezed at the farm gate in spite of many consumers indicating they would be prepared to pay more for milk to ensure their continued access to quality, fresh Australian dairy products.

A fair and transparent market environment is critical if we are to maintain a viable dairy industry in Australia so that future Australian generations can access quality, fresh, locally produced dairy products.

QFF submits that this acquisition will not be in the best interests of the Australian dairy industry, but rather will simply provide an avenue for further market power and profits to be delivered to the Coles Group Limited business. QFF supports eastAusmilk in their strong concerns regarding this proposed acquisition.

If you would like to discuss this submission or require further information, please do not hesitate to contact myself at ceo@qff.org.au.

Yours sincerely

Jo Sheppard
Chief Executive Officer