SUPERMARKET PRICING SELECT COMMITTEE

Members present:
Mr TJ Smith MP—Chair
Ms A Leahy MP
Mr SJ Minnikin MP
Mr JP Kelly MP
Mr TJ Perrett MP
Ms JC Pugh MP

Staff present:
Mr T Horne—Committee Secretary
Ms K Guthrie—Inquiry Secretary

PUBLIC HEARING—INQUIRY INTO THE SUPERMARKET PRICING

TRANSCRIPT OF PROCEEDINGS

Monday, 29 April 2024

Brisbane

MONDAY, 29 APRIL 2024

The committee met at 9.00 am.

CHAIR: Good morning. I declare open this public hearing for the committee's inquiry into supermarket pricing. My name is Tom Smith. I am the member for Bundaberg and chair of the committee. I would like to respectfully acknowledge the traditional custodians of the land on which we meet today and pay our respects to elders past, present and emerging. We are very fortunate to live in a country with two of the oldest continuing cultures in Aboriginal and Torres Strait Islander people, whose lands, winds and waters we all now share.

With me here today are: Ann Leahy MP, the member for Warrego and the deputy chair; Steve Minnikin MP, the member for Chatsworth; Tony Perrett MP, the member for Gympie; Jessica Pugh MP, the member for Mount Ommaney; and Joe Kelly MP, the member for Greenslopes, as a substitute for Joan Pease MP, the member for Lytton.

This hearing is a proceeding of the Queensland parliament and is subject to the parliament's standing rules and orders. Only the committee and invited witnesses may participate in the proceedings. Witnesses are not required to give evidence under oath or affirmation, but I remind witnesses that intentionally misleading the committee is a serious offence.

I also remind members of the public that they may be excluded from the hearing at the discretion of the committee. These proceedings are being recorded and broadcast live on the parliament's website. Media may be present and are subject to the committee's media rules and the chair's direction at all times. You may be filmed or photographed during the proceedings and images may also appear on the parliament's website or social media pages. Please ensure that your mobiles phones are turned off or switched to silent mode.

CHAMBERS, Ms Rachel, Chief Executive Officer, Queensland Fruit & Vegetable Growers

CHAIR: I welcome Rachel Chambers, Chief Executive Officer of Queensland Fruit & Vegetable Growers. I invite you to make an opening statement and then we can go to some questions.

Ms Chambers: Today I am before this committee representing thousands of growers too fearful to be here themselves due to commercial retribution. Each has their own unique story. Each grows various commodities in different regions of Queensland. They use various business models and utilise a variety of supply chains to get fresh produce from farm to consumer. It is this variety that really complicates all our conversations. It is our role as the state industry body to collate and aggregate these stories to identify the themes they all share and to turn these themes into industry-wide narratives for decision-makers such as yourselves.

It was due to this process that last November we launched the We Give a Fork campaign. The premise behind the campaign was that, regardless of commodity type, size or operation, we were consistently hearing three main themes—three main risks to the future of horticulture in Queensland. These were margin squeeze, policy pile-on and the reputation of the sector.

Margin squeeze has become the cliff from which many of our Queensland growers are about to be pushed off. Across Queensland, and indeed nationally, we cannot find a grower whose costs have not increased by 30 to 65 per cent since 2020. What sets our industry apart, however, is its inability to transfer these expenses to its sale price. Unlike other business models, production costs do not heavily influence product pricing. Certainly there is no cost-plus-profit business model.

Horticulture operates within a free market based on supply and demand. It is this business model where prices are dictated by the balance between the quantity of commodities ready for sale and the demand from consumers. Supermarkets possess exclusive knowledge regarding both supply and demand, including consumer preferences, which raises questions about the validity of labelling this market as a 'free' one.

Every rise in expenses—be it due to hikes in interest rates; government initiatives to boost worker wages; clean-ups after natural disasters; implementation of biosecurity levies; or escalations in costs of electricity, diesel or fertiliser—is shouldered only by growers. These costs cannot be incorporated into the selling price as to do so would render growers uncompetitive in the national market.

In Coles and Woolworths own submissions to this inquiry, they mentioned that they received an increased number of supplier requests for pricing. This should come as no surprise to anyone given the squeeze our growers have been dealing with. What it neglects to say, however, is how many of these requests were actioned and by how much, if it all. The irony that the supermarkets also felt a need to make very clear in their submissions to you that they have been subject to their own increasing costs when they themselves do not factor our own costs of production into any of their negotiations with growers on price further highlights an imbalance in the market. With four years of escalating costs and stagnant returns, growers have used up all their equity and capital and have further become entrapped in debt.

For too long the affordable supply of fresh fruit and vegetables has not been a consideration for Australians. We have all taken this supply for granted. The reputation of our industry has taken a beating over the years. This cannot continue. We want our growers to be proud of what they do. For too long we have sat back and watched our growers be dragged through the mud. Make no mistake: our growers care about their workers, our growers care about the environment, our growers care about growing the highest world quality produce, and they care about kids in school today seeing a future in agriculture. We are so thankful that Queenslanders have demonstrated that they care about growers too.

What we offer you here today is a moment in Queensland history where we say to you: our food security is at risk, our growers livelihoods are at risk and their lives are at risk, and our regional areas which predominantly house the industry are at risk. This is a hugely complex issue which will require change from retailers, growers, consumers and government for there to be a reliable supply of Queensland-grown fresh fruit, vegetables and nuts for generations to come. I thank the committee.

CHAIR: Thank you, Rachel. I know that you highlight the fear that many farmers across Queensland have about coming out publicly. In Bundaberg last week Trevor Cross came out. Trevor has been very brave, and I believe he is the face of the campaign. What are some of the tactics that farmers are telling you that the big supermarkets are putting on them? I have heard stories of when there is a special on they are made to drop their price and also supply a larger intake than what they would at the standard price. Are these tactics that you are hearing about as well?

Ms Chambers: Absolutely. At the moment you are hearing from Trevor. Trevor is not a direct supplier into supermarkets anymore. The growers who have come forward are not direct suppliers into supermarkets, because we cannot get a grower to take the stand who is a direct supplier into supermarkets. That is because their fear of commercial retribution is real. Even in the Emerson report, they found enough evidence to say that is so. The tactics that they use are wide and they are varied and they are not illegal. They may be what we would deem unconscionable but they are not illegal, and they are very well skilled and resourced in every legal avenue possible.

The growers say that the supermarkets tell them when they are going on special. It does not matter about what it costs. It does not matter about supply et cetera. The supermarkets will deem it. It has been said that supermarkets use specials to suppress or escalate the market. That is them manipulating their own market. All of those things are perfectly legal to do but it puts growers at risk. There is a whole range of other behaviours that we have listed in many submissions.

Ms LEAHY: Rachel, you talked about one of the tactics. Could you elaborate on some of the other tactics? I am specifically looking at your recommendations on page 7. It might be good to talk to the submission.

Ms Chambers: In the submission there are probably two points that we really need to home in on immediately, and that is the supermarket use of rebates. It is not so much a tactic but a process. Supermarkets have something that is called a rebate. It is between 3.5 per cent and five per cent to growers. Growers cannot actually tell us what the rebate is for, but the rebate comes off their invoice price. Sometimes the grower says that they use the rebate for a faster payment on invoice—so instead of a 60-day term, potentially it is a 30-day term. We have heard some commodities say that. Some commodities say that the rebates are used for marketing. Some commodities say that the rebate is used for product placement. What is guaranteed is that nobody actually knows. There is no transparency over the rebate. If you take growers at the moment who are really skirting the line between not breaking even and losing money, that rebate of 3.5 per cent to five per cent is huge, and it has a huge impact on industry. That is one thing that the government can absolutely try to get some transparency around on our behalf.

We also say that there is purposeful oversupply. This is one of the biggest tactics that we believe government should be interested in. We are all concerned about waste, particularly food waste. There should be no reason why anyone in Australia goes hungry. We are a nation that absolutely provides the best quality fruit, vegetables and nuts with some of the highest nutrient value in the world.

We see purposeful oversupply from entities that have so much data. If you think about it like this, between the two entities they have 65 per cent to 70 per cent market share. They have already said that they work with their growers across Australia, and indeed across Queensland, to understand every week what each grower has to offer them in the market. They also have a very thorough understanding of what consumer demand is that same week due to loyalty cards, due to all of those shopper data experiences.

You cannot tell me that, when two entities across Australia are in charge of 65 per cent of the market and they know what is coming into the market and what is going out of the market week on week, that we have an oversupply. The data the growers are giving us is what the supermarket has signed for in their supplier agreement, which is not a contract. Once again, it is not a legal document. Once the grower knows what the supply is in that document, a lot of them are only receiving 60 per cent of that total. That means that 40 per cent then gets dumped on the wholesale market, gets dumped on their own farms or gets sent through to hunger relief.

They are the two big issues currently, let alone the buyer tactics. The buyer tactics use the perishability of fresh as a weapon. If you are a grower, you have to put in your prices on a Monday, let's say. You will then get a buyer who may say, 'Your price is too high. It is not reflective of the market.' As a grower I take your word for it because I actually do not know what the market is doing. I can see the market and I can feel what is going on, but the buyer has total control.

The only KPIs at the moment wrapped around buyers are KPIs to push the grower margins as low as possible. We need to see sustainability of growers. This is what we would like to see: the sustainability of our growers be written into KPIs, the sustainability of food production be written into KPIs and at the same time a focus on waste. Supermarkets are very clear that they have a focus on waste. Unfortunately, it is not within their own systems; it is always looking outwards.

Ms LEAHY: When you talk about the oversupply, you have not even got to the seconds which are not permitted to go in. I think it is important that people watching this understand that. We heard that with capsicums potentially up to 30 per cent could be discarded because they are not a smooth rounded vegetable.

Ms Chambers: Absolutely. Lettuce has to have a certain number of leaves. Plant material has to have a certain number of stalks et cetera. There are very strict retail specifications. I am not even touching on the waste that does not make retail. I am talking about the waste that they have ordered through a supplier agreement that they never take up.

Ms PUGH: You have the oversupply of ordering where you might be throwing out what is perfectly good saleable produce even by the supermarkets' own standard, but then you also have this secondary wastage that is happening which is what I would deem the ugly produce. I asked one of our witnesses in Bundaberg last week about the percentages. Would you be in a position to comment on the oversupply percentages? I am very happy for you to take that on notice if you feel you could get hold of that information but you need some time to do so. There are really two questions there: what is the percentage of ugly produce that gets rejected and then what is the percentage of produce that is actually being rejected?

Ms Chambers: I think even if I took that on notice, with all due respect, I would not be able to get you that data. I think part of the issue is how we define 'waste'. There are so many different ways. There is on-farm waste, so the fruit and vegetables that are not fit for purpose get ploughed back in. There is the retail spec in the wholesale market. Not every grower in Australia grows for the retail market. A large number of growers grow just for the wholesale market. The wholesale market takes all different sizes and shapes of fruit and veg, which is perfectly fine for human consumption. I think it is worth noting that even the excess or the oversupply that is rejected by the supermarkets through one of their many rejection criteria still goes to food hunger relief. There is nothing wrong with it if it still goes to food hunger relief. There is a whole range of things that we need to get some better data on over the waste caught up in each part of the supply chain and the reasons why.

Ms PUGH: You are saying that there is leakage in every part of the supply chain. There is the ugly stuff, there is the overordering and therefore oversupply. At the other end we also have what the supermarkets may not be able to sell. We are hoping that most of it gets used for things like hunger relief, but of course we do not have that data either. That is something that happens in other countries.

Ms Chambers: To touch on one thing that you just said, growers have a role to play here, too. I often get asked: why is there an oversupply in the market? Why did growers grow so much? My answer to that is because they are without the data. Growers do not ever set out to lose money. Until they understand the data about who is growing what, in what area and at what time of year, the supermarkets have a role to play. They want to feed consumers consistently during the year. They need to sometimes overorder, potentially. What we are seeing is an overordering of about 40 per cent. We believe that that is a purposeful oversupply to drive down market prices and not a purposeful business decision to keep consistency of food.

CHAIR: Along that line, we heard last week that the oversupply goes in and the produce that is rejected goes back to the market. The supermarkets then go back to the market to buy that at a reduced rate, so it is a deliberate rejection to go back and drive down the price.

Ms Chambers: There are many cases where growers are saying that they have seen the produce that was rejected back on the wholesale market and brought up through the mechanisms on the wholesale market to go back into retail at a lower price.

CHAIR: So farmers are not just getting ripped off at the farm gate; they are getting ripped off every step of the way.

Ms Chambers: We cannot find a step of the way where the grower actually is on top.

Mr PERRETT: I am reflecting on your opening statement where you mentioned policy pile-on and then that leading into grower costs increasing in recent times between 30 per cent and 60 per cent. Following on from that, the fifth recommendation you have for the committee is, 'Investigate governments' own role in the impact of policies, regulations and legislation as part of the burden on growers' shoulders...' Could you expand on that policy pile-on and government's own role as part of our inquiry?

Ms Chambers: People ask: how did we get to this point? There has been a free market operating very effectively for a big number of years and we have certainly been around for 101 years this year. How did we get here? We got here because, in 2020, the cost of fertiliser and energy and transport and everything else went up. It went up like this. Nobody was untouched. However, with what the government has done with policy pile-on, in the past 18 months particularly, we have also seen an increase of wages.

I want to be very clear: there is not a grower who denies paying anyone appropriate wages. The problem that we have is when the grower themselves, who is a worker, is not getting a wage either. When the grower is not getting enough money to pay their bills then every one comes out of their savings for the past four years—their capital, their equity—just to keep going. When you are so deep and when you live on farm, there is no other opportunity. You cannot just close the doors like a normal shop, call it a day and walk out. They are struggling to keep going.

Thank you for your question because it was interesting that we actually thought that the term 'price taker' was well known up until the beginning of this year when we have had a conversation with government. We said, 'Did you understand that with every levy that you have been putting on and every price rise that you have been putting on, actually the growers themselves have been shouldering that burden?' It does not get passed through. It does not go to the consumers. We understood that they actually did not know that was the case. We are saying that government needs to understand their role in this as well in that the cost to the grower and any changes in the business model, if we are not getting the price at market, is stifled and it becomes a grower burden.

CHAIR: You are talking about the federal and state there?

Ms Chambers: Absolutely more federal than state.

Mr PERRETT: As a follow-up question, the debt burden that is now being carried by horticulturalists across this state is linked ultimately to their survivability. Obviously you get that feedback directly from your members. It is at a key point in the crossroads at the moment. Do you have any indication as to how many growers are likely to exit the industry in the next 12 to 18 months?

Ms Chambers: The only clear data is the AUSVEG survey. Initially, last year, 37 per cent of Australian growers who filled out the survey were looking to exit in 12 months. We also had the Australian pear and apple industry note that there was a big plough in at the end of last year. However, anecdotally, there is not a grower currently who is not reassessing their business model and who is not reassessing their need to stay in business.

I think what is interesting is that, at the same time, we have housing supply shortages. The same land that the growers own, with water and electricity and sometimes accommodation et cetera, may do very well being sold for a housing shortage. That is happening all over Australia. What is happening is that, instead of it being sold as rural real estate or commercial real estate, those properties are being sold residentially because that is where the market is.

Mr KELLY: Ms Chambers, you mentioned behaviour that you describe as potentially unconscionable conduct. Has there been any legal action taken or attempts to take legal action in relation to unconscionable conduct?

Ms Chambers: That is a really interesting question and this is part of why we are giving so much evidence to the Emerson review as well. There is a voluntary code of conduct that the supermarkets are a part of. In that voluntary code, they have signed up to it but it actually has no teeth. Instead, the growers feel like the process still does not protect them. Yes, there is a $5 million chequebook with the arbiters. Coles, Woolworths and Aldi all have arbiters with a $5 million chequebook. If it is deemed that the retailers have been found to have engaged in unconscionable conduct or even are not negotiating in good faith—and we would say, and the independent reviewer report absolutely backs this up, fresh fruit and veg, particularly, are not satisfied that the supermarkets are acting in good faith, which is part of the whole legislative policy. I think that the Emerson review offers some really good insights and we look forward to seeing what the outcome is because currently there is not a grower, potentially, who is even resourced enough to tackle a major corporate such as Coles or Woolies at their own game.

Mr KELLY: I want to ask about the structure of the industry. Is it characterised by a lot of what I might describe as owner-operators or are there corporate entities that own large portions of the industry and are able to hedge against these sorts of issues?

Ms Chambers: It is a mix. Certainly our members are a big mix of that as well. They are what I would call that mum-and-dad operation—a small family business. When I say a 'small family business', in horticulture it could have 50 to 100 employees. When we say 'small', it is not small like two employees. Then we have the big corporates. Of course, underneath the big corporates they have aggregates of smaller growers. Even when you are talking about a big corporate, potentially you are talking about 15 growers as part of supplying that big corporate. There is a difference. We found that it actually does not matter what size you are. Potentially, at the moment being larger is a buffer because it is the same as Woolworths: a three per cent bottom line spread across a vast quantity is a business model in itself. The bigger growers may be able to withstand this for a bit longer, but they are still notably affected.

Mr KELLY: I asked that question because you mentioned in your opening statement the fact that you do not operate in a free market so, from an economic perspective, you immediately think, 'Well, how do we correct that?' My question is really around the mechanisms we might take to try to correct that market imbalance. Are we taking a risk by interfering in the market? Are we just facing what might be a cyclical fluctuation in prices and if we start to interfere now that may have consequences when the market fluctuates in a different direction?

CHAIR: Rachel, I would ask for a concise answer to that because I do not want to leave out my friend the member for Chatsworth.

Ms Chambers: Noted, Chair. The majority of growers do not want interference in a free market. The majority of growers want the behaviours to change so that they can get a fair deal.

Mr MINNIKIN: Rachel, thank you so much for your time and also for the comprehensive submission. I am referring to the submission and specifically the section on what our regional grower groups say. There is the old adage that knowledge is power. You talked about the knowledge of the big two supermarket firms with their loyalty card data et cetera. A bullet point on page 21 states, 'Improve state horticulture data as it is inaccurate at present'. Could you talk about that bullet point in more detail? Obviously growers, because of the supply-demand equation, are desperate for accurate and timely market data.

Ms Chambers: It is a conundrum. I am big on data and evidence-based decision-making. In horticulture, data is the one thing that we cannot rely on. Growers themselves have been accountable for this. Growers have not been willing to share their data for many years, particularly cost of production data. Cost of production data they do not share because they say it is the only thing that the supermarkets do not have currently so they protect that. It is about the data imbalance in that, at the moment, we are trying to make decisions against an entity, or more than one entity, that has all of the data and we are trying to make decisions with none of the data. That is what we are saying in that case.

CHAIR: Rachel, could you take us through the supply agreements a little more and the frequency with which suppliers are forced to change the nature of the agreement?

Ms Chambers: I will give you an example that we have used many times. The example is of a lettuce. In Queensland there is a 14-week lettuce season. If you plant lettuce, you need to plant one row this week, another row next week et cetera so that you can supply on an even basis. A supply agreement may come from one of the retailers and it says, ‘For 14 weeks I need one pallet’—and this is very low, but let us use it—‘of your lettuce in Sydney and Melbourne DCs.’ That is, let us say, a thousand head of lettuce for the 14 weeks, so that is what the grower does. The grower plants a thousand this week and a thousand next week and all the rest. The first week might go well and that grower might sell a thousand head of lettuce just as in the supply agreement. The second week might go well and the grower sells a thousand head of lettuce at the price negotiated that week—and, remember, it is not the same price.

The third week it does not go so well and the buyer says, ‘Actually, the market’s a bit full at the moment. We probably don’t need a thousand. We probably only need 800,’ and then the grower says, ‘Well, I grew a thousand as part of our supply agreement. What am I going to do with the other 200?’, and the buyer says, ‘Well, we only need 800 and this is the price.’ So not only in an oversupply market is his or her price now going down; now there are 200 fully edible lettuce that they thought they were growing for the retailer that now get dropped on the wholesale market. There are three things that can happen: they are either dropped on the wholesale market which further depresses the price in the wholesale market for all of the other growers in Queensland, or they plough it back in or they give it to hunger relief. That is what I am talking about with the supply agreements. They are not legal documents and nobody holds them to account.

CHAIR: Thank you very much, Rachel, for coming to the committee today and speaking to us and enlightening all Queenslanders with your appearance here today. Thank you. There were no questions taken on notice, so we thank you for your time.

Ms Chambers: Thank you.

HAMILTON-BATE, Ms Clare, Chief Executive Officer, Australian Macadamia Society Ltd

CHAIR: I now welcome the representative from the Australian Macadamia Society. Good morning, Clare. I invite you to make an opening statement and then we will go to questions.

Ms Hamilton-Bate: As the CEO of the Australian Macadamia Society, we are the representative body of growers, handlers and processors of macadamias in Australia, so a whole of supply chain representative body. I represent an industry that stretches from the mid north coast of New South Wales through to the Tablelands in Far North Queensland, with the majority of production between the Northern Rivers of New South Wales and Bundaberg. We have approximately 800 growers whose product funnels into between 15 and 30 handler/processors who then supply that product on to the market. Of the 41,000 hectares of planted macadamias—and I know several of you have within your constituencies a large number of those plantings—only two-thirds of them are in full production. As Australia's native nut now fully commercialised as a horticultural crop, there are a lot of macadamias and a lot of growth. There is also a lot of growth in other origins around the world. In 2023 the crop was 48,000 tonnes of nut in shell. That is forecast by 2029 to grow to 98,000 tonnes.

Historically the crop has been largely an export crop. Eighty per cent of macadamias are exported to the world either nut in shell to markets like China or as kernel particularly into markets where we as Australia have a trade advantage like Japan, Korea and Taiwan and to a lesser extent to more traditional markets like Europe and the US. The supermarkets in Australia have been a relatively small part of what the Australian industry has supplied. There is no imported product aside from a little bit of organic product coming in, so the nuts you see on the retail shelf are largely Australian.

Several of us are processors, not all. Of those 15 to 30 handlers, 12 are actual processors here in Australia of varying sizes and probably four of those supply the major retailers. I think it would be fair to say that they have built a category—not built it enough because, historically, demand exceeded supply and with macadamias you will find us in that little corner behind the potatoes and onions with the other nuts—but that the growth was limited by the supplier product historically. However, there is massive opportunity for growth because as a world population less than two per cent of us eat the recommended daily intake of nuts and it is my pitch for people to eat more macadamias. As a product, we sit in the space between fresh produce and grocery, and you heard from Rachel all about the fresh produce space. We are sort of fresh produce because obviously as it leaves the farms in Gympie or Bundaberg it is in big produce bins nut in shell, but to transform that product into a product that sits on the retail shelf in a 400-gram pack we almost cross into that grocery space. We have a long shelf life and a whole lot of things which make us much more akin to grocery than to our colleagues in the fresh produce sector.

The submission we made on behalf of the industry—and remembering that we do represent both the growers and the handlers and processors who supply into the retailers—was focused on two elements. One was the critical importance of understanding our supply chain and the fact that the transformation of a nut in shell, which is two-thirds shell and one-third nut, then has to be dried from a 20 per cent moisture level on farm to a 10 per cent moisture level at receival at handlers to a one per cent moisture level before you can crack it to then crack out just the nut, and then there is the milling waste and all the processing elements to take place to come up with a price that is the base price of a processed macadamia. In all of the discussion around the multiple inquiries on supermarket pricing, even within our own industry, that understanding of that very complex supply chain is not always there and it is part of our role to make sure that from growers all the way through the supply chain that understanding is understood.

Our submission focused on the fact that we need that understanding because we need all the players in that supply chain to be profitable and sustainable so that we can continue to supply nut through to the retail market, both here domestically and building the journey for the Australian nut in overseas markets. Coupled with that—and Rachel touched on it in her comments earlier—one of the biggest challenges for our industry is the increasing costs of production. Our focus in the submission was not so much on dealings with the supermarkets but the recognition that for the supply chain for macadamia growers and processors the costs have continued to escalate, be that input costs or power or water, agrichemicals, the packaging, the costs of transportation and labour costs for us as an export industry into export markets. There are two that are quite significant at the moment, and, yes, absolutely they are federal government costs but there are additional levies that are imposed. We are signatories to the Plant Health deed, so the varroa incursion and now the transition to management for varroa has left macadamia growers with a very significant additional levy cost which we will pay off over the next 10 years. The proposed biosecurity protection levy is another cost that is being imposed, so those are challenges that add to the cost of production that then in turn relate to the cost at the retail shelf.

Just to give some dollar numbers to what we are talking about, 2023 was, as the Queen called it, like the annus horribilis year for macadamia growers. It was the year when the farmgate prices fell from a high in 2020 of over $6 a kilo nut in shell at farm gate—remembering one-third is nut, two-thirds are shells, so essentially that translates to a $22 to $25 kernel price at farm gate—to when the price crashed to less than $2 nut in shell, so that is then translating to a kernel price of around about $6. With that significant change in cost, obviously input costs escalated for a grower. We are an industry where we have a lot of facts and figures at our fingertips, so production costs are around $3.40. It depends on whether you are a very small grower or a large grower, where you are growing and whether you are irrigated in Queensland or irrigated in New South Wales, but somewhere around $3 to $3.50 a kilo is the cost of production with all of those escalating inputs, and that is going up. So obviously last year was a year when nobody in macadamias made money. The growers made no money. A lot of our processors are also vertically integrated businesses and they have their own farms. Two of the major ones, accounting for 60 per cent of production, are grow cooperatives, so there is a flow through from the grower through the processing sector.

CHAIR: Thank you, Clare. In Bundaberg we have seen a big diversification away from cane towards trees. That comes with a lot of different input costs, as well as the grow price of water. For a lot of the growers throughout my region, their money is in the ground waiting there as an investment until the trees mature. Could you maybe talk through the risks and the financial impacts of growers when they decide that they are going to go into macadamias and that they are investing in a product that is not going to fruit for three or four years and then the compliance that they have to pay in-between those years and how that is impacting on them in terms of those extra levies and so forth?

Ms Hamilton-Bate: It is typically five years to come into full commercial production. Obviously you have the input costs of water to irrigate, fertilise and manage the trees. There are no levies paid by growers and the levies are charged on kernel, so those growers with trees in the ground not yet producing are not paying. We have statutory levies. We have a marketing levy of about 15 cents a kilo a kernel and an R&D levy of eight cents a kilo. We contribute to the National Residue Survey, but that is important into our export markets, and then the biosecurity levies which I alluded to which will come back in at around about 25 cents per kilo of kernel. In a year when the price dropped to around about $2, that means approximately four per cent of your farmgate return is being paid in levy, but for those with just trees in the ground yet to bear they are not paying these levies.

Ms LEAHY: I am interested that in your opening statement you mentioned that the price crashed. Can you tell us what happened to growers? Obviously they would have supply agreements and things like that at that time with supermarkets, so can you just expand a bit more on that and particularly what happened with the growers?

Ms Hamilton-Bate: The price crash in 2023 was largely driven by world supply increasing significantly. South Africa, which are major producers of macadamia nuts in the world, underestimated their crop by 25 per cent—and they are a 90,000 tonne crop nut in shell—so that put the international market out of kilter. That was coming off the back of COVID where demand for macadamias internationally was reduced, so for our processors—remembering that we are 80 per cent supply into export markets—basically the market just flattened.

The other thing for macadamias is the crop is 100 per cent fully utilised. You are familiar with seeing a snacking nut, which is a whole or a half, and that is what most of our retail shelf has, but they then go through a set of grades down to the seventh grade which is a chip of macadamia. There is a home for all of it, but for the more snacking style, which we can never supply enough of, only 40 per cent of nuts convert to that. The other 60 per cent are ingredient styles. In COVID new product development stopped and the demand for that 60 per cent of the crop fell away, and so right across the world in the macadamia market that is what caused that anomaly. It is growing so that prices are much better this season—not back to where they were but much more positive.

Ms LEAHY: In relation to your growers, do they sell on a wholesale market or are they direct contracted to supermarkets?

Ms Hamilton-Bate: Neither. The growers supply the processor. As a grower I might choose just to go with one processor who I may be a shareholder of or to several, the focus being on the supply into export markets. The supply to the domestic retailers, as I said, happens through where four or five of our processors have those contracts. So they process the nut in shell into a kernel product and then they have the agreement with major retailers to supply. Growers are contracted for a season, usually with a notional price to start the season which is set. All processors come out with a notional price and the growers react to that offer and take that offer or go elsewhere and negotiate and then it is chopped up at the end of the season on final returns.

Ms LEAHY: Thank you.

Ms PUGH: Thank you for your submission. You outline the importance of people understanding—and that includes the committee here today—the supply chain from the grower to the retail shelf. We have heard from previous submissions and previous witnesses that there are a variety of ways that a grower can get their product on a major supermarket shelf. Would you be able to outline some of those different pathways for the committee if possible?

Ms Hamilton-Bate: Yes, sure. Macadamias are a little bit different. We sit in that no-man's-land between fresh produce and essentially a grocery item. It is probably more akin to a canned tomato in terms of the tomato ending up in a can rather than a fresh zucchini on the shelf. The nut that is delivered to the processor is a nut in shell. It is then cracked, goes through all the steps of grading and processing, roasting and salting and all the other things that you expect on your macadamia or you may buy them raw. It is the processor; no growers deal directly with the major retailers because, to convert a macadamia into a product that sits on the retail shelf as kernel, you need that processing step.

Some of our processors are also growers. They are about to be integrated so they have their own orchards. They may also source products from other growers. They supply their own products through their own processing facilities. Others are large grower cooperatives with hundreds of growers supplying them. A major one that represents almost half the industry has processing facilities in both Bundaberg and Northern Rivers. They are the ones who take the product and convert it and, depending on the product on the retail shelf, may supply it on to a value-adder who may honey coat or add extra things depending on where it sits in that retail offer.

Mr PERRETT: A common theme that we are hearing with agricultural production is the increase in costs of that production that ultimately is putting further pressure on the bottom lines of those producers. Some of those relate to government involvement, being federal and some state, and obviously we talk about biosecurity levies and some of the issues around labour costs. Some of them do relate to the state around power and water cost. I take your point before where you mentioned drying the nut back to a certain moisture percentage to be able to process it satisfactorily. Can you expand on some of those costs that your growers have seen increase in recent times that are then putting further pressure upon the bottom line?

Ms Hamilton-Bate: The most common one that is flagged to me by buyers is the cost of inputs such as chemicals, fertilisers—agronomic inputs to the farm. As an industry we try to operate as sustainably as possible. The little green coat—the jacket, the husk that sits around a macadamia nut—is taken back onto the farms. The nut, when the shell is cracked, is also either used in furnaces to power the processing or used as biochar that goes back onto the farm. We do as much as we can but there are obviously always external input costs, so the price is there. There are the prices of fuel; many growers last season made decisions not to do their final harvest round because the cost of operating the machinery in terms of fuel to harvest the nut and the labour to run those machines was not worth it compared to the value they were going to get back for that final round of nut.

It is those key agronomic inputs. It is the power. Obviously water is a major issue for Queensland producers and will become more so as those orchards come into production in the irrigated areas; and then the cost of labour. We are fortunate compared to many industries that we do not have a high requirement for pickers and packers, but we do have a labour requirement and we are trying to look to be more mechanised within the processing facilities. Investment over the years has not kept up with technology, so we still have labour within those facilities.

Mr KELLY: It sounds like your major issues relate to global competition. With that impacting on prices, I assume you are looking to expand your domestic sales, particularly through supermarkets and various products. Do you find that because you are not a fresh food producer your suppliers perhaps have more power in terms of being able to refuse to sell product if they are not getting the prices that they want because they have some sort of storage capacity?

Ms Hamilton-Bate: Certainly the storage and storability of macadamias with generally a two-year shelf life gives us a great advantage. You are quite correct: the domestic market is one on which we are very focused. As the Australian Macadamia Society, we run the generic marketing program for Australian macadamias both in export and domestic markets. There is going to be a greater focus on domestic because among our colleagues around the world the supply of macadamias is increasing rapidly—South Africa, Kenya, Guatemala, Brazil and China allegedly, although no-one is quite sure about the volumes. Therefore, for us the domestic market will be critically important. Only 12 per cent of Australian consumers currently purchase macadamias—hopefully the whole committee have all purchased regularly. That is where there is a great opportunity to grow, so there will be greater engagement between our processors who supply to retail moving forward.

Anecdotally, in talking to those suppliers, they have not raised major concerns. Obviously concerns are raised by growers that, 'My farm gate price of nut in shell is only X and the price at Woolworths or Coles is $50.' This comes back to my understanding of the supply change because obviously to convert a $2 nut in shell to a $48 kernel price there are multiple steps and costs in the chain. There is also the fact that those contracts are entered into like a grocery contract for a 12-month period so, therefore, the price you were seeing on the retail shelf in the middle of last season when farm gate prices were terrible was a contract that was entered into when the base price was much higher.

Prices currently—I am a constant macadamia watcher in Coles and Woolworths—are around $34 to $37 and they have come down to a point where volumes are moving quite fast. I am obviously not a commercial player but, from my conversations with our suppliers and processors, there is good engagement there and recognition of price and this message that we are all trying to push around understanding the supply chain so we can get the right product onto shelf, working with you. It is more akin to the grocery negotiations and engagement. It is certainly something on which we as a peak industry body are going to reach out to the retailers to ensure there is an understanding of the whole supply chain and the implications back to grower of both costs and process.

Mr KELLY: You mentioned there are significant cooperatives operating in your industry. Do you feel that improves market power for people in the macadamia industry?

Ms Hamilton-Bate: I think the market power has probably come about because up until three years ago demand far exceeded supply. Having said that, I come from the fresh produce world and the retail world as well. Coming into nuts, the collaborative nature of the industry and the amount of data we have on every element of our markets and supply costs are very different to anything else I have experienced before. Yes, I think you are right that having those large cooperatives representing many growers and providing a through chain is quite important.

Mr KELLY: Given your experience, do you think that data and the approaches taken in your industry would be beneficial in other segments of the fresh food industry?

Ms Hamilton-Bate: I think the nut industry is such a different model. As an avocado grower and a mango grower, which is my previous hat, we had a thousand paths to market which retailed domestically as one and all the export buyers and wholesalers. As a macadamia grower, I have a single path to a choice of 10 or 15 processors to get my product to market, so the dynamic is very different.

Mr MINNIKIN: You have mentioned today and also in the written submission several times the whole notion of supply chain management. Would you be able to focus specifically on the cost of transport as it relates to supply chain management and the impacts on industry?

Ms Hamilton-Bate: Sure. There are several points of transport. There is obviously the transport from grower to their processor. When I came to the industry 18 months ago, I thought, 'That's not a big cost. They are all relatively local to the processor.' We have growers, depending on the allegiance they choose, largely based on the price they are offered and they accept, where the nut may be transported from the Northern Rivers to Bundaberg. It may go from Bundaberg to Toowoomba. There is a transport cost of bulk nut in shell and you are transporting a lot of shell. Two-thirds is not kernel. The transport cost to then go into export markets is a critical factor for industry as well as the availability of that transport alongside the cost. That has been a significant increase for all our processors in getting product into market.

CHAIR: You said we are a larger exporter of produce and you mentioned South Africa, a number of other African nations as well as Brazil and China. Are they producing for their domestic market or are they also exporting? Where are we exporting to? What is the country in the world that really loves macadamias?

Ms Hamilton-Bate: Historically, Australia has done all the heavy lifting and it has done all the promotion. We were No. 1 in the world for quite some time until other origins said, 'What a brilliant nut. We'll plant that.' All the other origins are largely export producers. South Africa hardly consumes anything domestically, nor does Kenya. They export into the US as their primary market and into Europe. Because of our scale of things there is a need to be niche and to get recognition for our product where we have a natural advantage. We have trade and tariff advantages into Japan, Korea and Taiwan. The current push and a lot of our marketing activity is in the Indian market where we also have a reducing tariff from 30 per cent down to 17 per cent currently and by 2028 it will be zero, so there is a natural advantage. There is also a transport advantage for us.

We try to build kernel markets, but that requires a consistency of supply and a quality kernel to support those markets. Africa is very focused on the nut-in-shell market; 75 per cent of their crop last year went offshore as nut in shell to China to then be processed in China or sold nut in shell with little nuts in the cup where you do the little clicky thing—those ones. China consumes a lot of its own nut, but there is a real unknown there as to what their volume is. Kenya is growing and they are also an exporter to the US, Europe and China.

We are trying to build markets where we have a natural advantage and the domestic market is a massive opportunity if the price point is correct. There is a position where there will be enough volume to supply and the price is at a point where Australian consumers will purchase and hopefully we can grow that demand.

CHAIR: Are the international producers undercutting Australian producers? Are South Africa and Kenya willing to go lower?

Ms Hamilton-Bate: Yes. Their costs of production are significantly less than ours. In terms of inputs, a lot of their inputs are a lot less. Their labour costs, where there is labour, are significantly less. Their whole handling and processing costs are less. That is a challenge. We cannot compete on price. We cannot really compete on quality, particularly with South Africa, because they produce a very good nut and they follow a lot of our examples, so we need to compete on differentiation. That differentiation is that we are the natural home of the macadamia. It is a Queensland nut. It is all of that. There is the added value that, as Australia, we give in servicing markets and the commitment of our processors in adding that extra value. That is where we need to differentiate.

CHAIR: We talk about how the other countries are not paying the same wages and so forth. Is there evidence of unethical treatment of workers in some of those countries? Is that something that Australia could pride itself on when we talk about ethical sourcing and making sure we are actually supporting the industry? Is there any anecdotal evidence of unethical work overseas?

Ms Hamilton-Bate: That is a very challenging one because the level playing field in those markets—their whole market infrastructure—is completely different as is their whole labour set up. Having said that, there are origins purchasing macadamias that actively come to Australia to buy because they much prefer the standards we have across employment, quality and the concerns they raise around the subsistence farming type model. That is how a lot of nut is grown in Africa: you may have five or 10 trees and you supply a bag of nuts and you harvest it. Thousands and thousands of growers operate that model. I think as we push into new markets, the strong foundations we have and the strong legislation that underpins everything we do is an advantage to us.

CHAIR: Thank you so much for coming in today. We very much appreciate it. I managed not to put in any shameless plugs for Bundaberg. You should all come to Bundaberg and have macadamias.

Ms LEAHY: It originated in Gympie.

Mr PERRETT: It originated in Gympie as a popple nut, which is in my electorate.

Ms Hamilton-Bate: A popple nut, exactly. We are just going to take it as a Queensland nut.

Mr PERRETT: Gympie can lay claim over Bundaberg and rightfully so.

CHAIR: The committee will take an intermission and resume at 10.20.

Proceedings suspended from 9.59 am to 10.14 am.

BRADLEY, Mr Joe, President, eastAUSmilk

SMITH, Mr Mike, Government Relations Manager, eastAUSmilk

CHAIR: Government members will note that of course we have worked with Mr Smith in his former professional role with the Queensland government. Gentlemen, I invite you to make an opening statement and then we can go to some questions.

Mr Bradley: Thank you, Chair and committee, for giving us time here today. I will just give you a little bit about eastAUSmilk. We are the peak industry body for dairy farmers in Queensland and New South Wales. We are only made up of active dairy farmers. You have to be an active dairy farmer to be a member of our committee. Our board is purely made up of dairy farmers. Our organisation is a voluntary organisation. At the moment, just under 80 per cent of all dairy farmers in Queensland have chosen to be members of eastAUSmilk, so we must be doing something right to get that voluntary membership. Mike is our government relations manager and handles that part of our operation for us. Other than that, I will hand over to Mike. That just gives you an introduction of what we do and whom we represent.

Mr Smith: When I was reviewing our submission to the committee before coming in today I noticed a couple of typos and errors that had not been corrected. I am very sorry about that; I was crook and it was reflected in the document. As the chair noted, I have met all of the government members in my previous capacity as a ministerial staffer. We have been making a lot of submissions to a lot of inquiries lately. As part of our submission we copied one of the most substantive, which was our submission on the review of the food and grocery code nationally. It has a fair amount of meat in it, some of which was quite tangential to the business of this committee but some of which is fairly relevant. I have a couple of general comments and then we look forward to questions, of course.

Efficient markets are supposed to generate a sustainable balance between supply chain margins, consumer price, product quality and other aspects of the product that it processes. It is our strong submission that the markets in the supply chains for supermarkets—big supermarkets in particular—are not efficient. We are addressing that in our submissions to the various Commonwealth inquiries into the Food and Grocery Code of Conduct and the Dairy Code of Conduct, all of which are about making markets more efficient.

The Australian Competition and Consumer Commission has identified that the markets in both dairy and food and grocery more broadly are not efficient. There are significant barriers to efficient price setting and efficient relations between growers, suppliers and the supermarkets, especially barriers to making the prices ultimately set on an efficient basis. They are quite unequivocal about that. Fixing those markets may not result in big or immediate price cuts, and that has to be acknowledged. Sometimes an efficient market does not produce price cuts but provides confidence that prices are being set fairly without gouging and they are, generally speaking, more appropriate. We would urge that the Queensland parliament, the organisation that will receive your report before very long, should support the direction being taken in the review of the food and grocery code which has recommended that the food and grocery code be made mandatory and that it needs to include significant components addressing the issue of retaliation. We will not go into any more detail about our submission because those things are addressed in our submission and we do not want you to go over time, as I am sure you do not.

In our submission we also address some of the other possible sources of price increases. Our members have made it very clear to us that, while there is a notional CPI, the rate at which their farm input costs are increasing is significantly above the CPI. Some of them say double; some of them say 50 per cent higher. Farming input costs do not necessarily increase at the same rate.

CHAIR: We might move to questions. I will waive mine for the member for Mount Ommaney, who is very keen to talk about retaliation.

Ms PUGH: You talked about the federal food and grocery inquiry and the Emerson review. I note that in your submission you have included a lot about retaliation and retribution. I certainly think the submission you put in must have had some impact, because I can see those words peppered quite liberally throughout the interim report they put out. In your submission to us you outlined that retribution and retaliation are something your members are in fear of. Can you give some examples of the kinds of things that have happened if your members have attempted to take on the big two?

Mr Smith: Only a small proportion of our members have a direct relationship with the big supermarkets. Most of them sell their milk to a milk processor, and the milk processor then sends on to the supermarket and sells to the supermarket. A comparatively small number of our members have a direct contract with Coles where Coles buys the milk direct from our members. They will contract with a milk processor in a process called tolling to get the milk processed and then shipped to Coles. Our members do not have a very direct relationship with the supermarkets and they do not get to observe some of the behaviour of supermarkets. However—and I will get Mr Bradley to supplement this—the relationship is as much one of fear of retribution as actual retribution because the processors and the suppliers know the markets have a reputation. They all hear stories and they all know that, if they are selling to one processor or to one supermarket, it takes one bad event in that relationship and their business is in a lot of trouble. What we have said in our submission is that it is not so much that the food and grocery code regulates the relationship, but where supermarkets are in the mix it is the fear of retribution that regulates the relationship.

Mr Bradley: I fully support what Mike is saying. Over the years I have sat on various committees which the processors talk to their farmers through and they tell us various stories. For example, I can remember recently I was talking to a processor and they said they went to the supermarket about a price review for one of their dairy products. They wanted to increase the price. All the processor wanted to talk about was their cut. When they could not get anywhere they said, 'No, you should agree with this.' They said, 'No, we can't. This is our cost. Do you realise that we need to review your other products that happen to come onto the supermarket shelves?'—in other words, a direct 'be careful or your other products are in trouble'.

CHAIR: Would you call that a shot across the bow?

Mr Bradley: Absolutely, and there are other things. We have all been in supermarkets when all of a sudden your favourite milk item might not be there or might not be refilled today. Why? If you go and ask someone in the back room or the counter they say, 'Yes, we'll go and get it for you', but you are not the favourite person so your product is not being refilled. That happens all the time. They just have the power, the processors tell us, so they cannot speak out against the supermarkets. If they speak out against the supermarkets, the old saying is they get a little red mark in the book. They are not game to do that. I would nearly bet my last dollar that you would have very few submissions from processors here today. They will only come through us because we can speak. We are not speaking on behalf of a processor; we are speaking on behalf of the dairy industry. There are examples like that all the time: your product is not at eye level, your product is not being refilled, the threat or suggestion about your products now needing to go under review, and good luck with any price increases. It is all that fear that somehow needs to change. We keep saying that there needs to be fair input for everyone through the whole chain. That has to change. Especially from the dairy industry point of view, it has to change very quickly.

Ms LEAHY: Thank you very much, Joe and Mike, for coming in and talking to us today. We have heard a lot about the imbalance between producers. We have heard a lot about the tactics of supermarkets. If the food and grocery code was to be made mandatory, as you have outlined here in your submission, what guarantee is there that there would be no impact, financially or through retribution, on primary producers?

Mr Bradley: That is a difficult question. I suppose there is no guarantee, but if you are asking me whether the code should be mandatory I will answer that very simply: it is a no-brainer. It has to be mandatory. Any other suggestion that it is not is a failure in our system. The years have shown that the supermarkets do not play fair. Making the code mandatory is not the be all and end all, but it puts a framework in place that allows things to happen. Just recently when they made the dairy codes mandatory people questioned whether there would be a benefit to us. We believe there is. It is part of being a stone in the wall, to build the wall completely. It really made me happy when I saw that the Emerson draft report recommended that the code be made mandatory because I fronted the Senate inquiry and they asked me a similar question. I gave them the same answer: it is a no-brainer. It has to be mandatory. If you do not do that, I believe you have failed the population by not making it mandatory. It has to be done.

Mr Smith: As Mr Bradley says, what dairy farmers have noticed is that, while making the dairy code mandatory did not solve all of the problems—and we think that code needs review—it certainly improved the lot of dairy farmers quite significantly and was a very good step forward. Making it mandatory cleans up the relationship somewhat. In the case of the food and grocery code, the other important recommendation from the review is that there must be something in there about retaliation. We think—and we will be making submissions on this to the draft report—that there needs to be a number of significant elements to the retaliation component in the food and grocery code in order for it to be working properly. It is not as if making it mandatory on its own solves the problems: making it mandatory plus addressing retaliation and some of the other things will make it a much better environment for producers.

Ms LEAHY: Are there any examples in other parts of the world where there is a food and grocery code or dairy code that is mandatory? Let us stick to dairy. Are there any others you are aware of?

Mr Smith: The little research we have done says no. We have a very different economy from many others.

Mr Bradley: We are the only country in the world where supermarkets control 70 per cent to 80 per cent of the retail dollar. I think Australia is in a unique situation. I am not aware of any other country. I saw a report just recently—I do not know where it came from—that says we have a duopoly where they control it, and no other country in the world has that. We are unique in a lot of ways, I suppose.

Mr Smith: I did do a search before making these submissions and I could not find anything comparable, but there are still some command and control economies in the world. I imagine North Korea has a dairy code that is mandatory.

Ms LEAHY: It might be more command than control.

CHAIR: It is becoming very clear that, whether it is processors or producers, the big supermarket duopoly, Coles and Woolies, control the market and they are standing over people, putting on their tactics, using strongarm tactics, and the further down the chain you are, the more you lose. When I was talking to a local grower in Bundaberg, he was talking about the potential of capping the price. You are selling your produce—and he was doing cherry tomatoes, which I know is different to milk—and he was saying his cost for a punnet of cherry tomatoes is a dollar. The big supermarket is only purchasing at 70 cents, so his theory is they can match that 70 cents and then increase the charge by 50 per cent of that but that is where the cap has to be on the shelf. You cannot have big supermarkets coming in, driving down the price at the farm gate and then tripling, or even more, the cost. Is that something that is actually workable in Australia's capitalist society?

Mr Bradley: Yes, it is. Some of my members have said to me that the first question they often get asked is 'What do you get paid for a litre of milk? This is what we are paying in the supermarket. What do you get?' Some of my members think—similar to your constituent—we could put on a bottle of milk the price the farmer gets paid. I have heard a lot of sillier suggestions. That way then you would know what the farmer gets paid.

Every step of this supply chain has to work. We have to make a profit, but the processor has to make a profit and the supermarket, and we have to try to make the product as cheap as we can for the consumer. I understand that, but we have to make sure that, by doing that, we as farmers who are at the bottom of the chain do not get screwed over. That is what we are really worried about. The pressure comes from the top and keeps coming down, and we are at the bottom. We have a perishable product. We have a product that we cannot store, because by its nature it goes off. Cows have to be milked twice a day all the time. You cannot put it away in a silo somewhere and say, 'I'll sell it in a month's time.' It is not practical. We are very much at the mercy of the powers that be.

CHAIR: Is there a market watch website that dairy farmers have considered implementing? Dairy farmers and processors could put up how much they are getting per litre of milk and that way consumers can go on that website and see what the fair go is, or is not.

Mr Smith: The way farmers are paid for their milk can be quite complicated. We cannot speak knowledgeably of other products but milk can be quite complicated. One of your next witnesses sat me down for about 1½ hours and worked me through a complicated slide presentation about how their organisation pays for milk. Adjacent farms—which might have a different fat content or a different protein content, might be contracted to different amounts of milk or different schedules—can be paid a different amount of money for something which looks to the average consumer as if it is exactly the same. There are national averages published annually which tell you, for example, that in this particular year the average farmer might have been paid 80 cents per litre of white milk. However, within that, there is an awful lot of variation. For example, when Coles has the direct relationship with some dairy farmers, they tend to pay a bit more than the average. It is in fact quite complicated. If you really want to go into it, I am sure Mr Tessman can bring his 1½ hour presentation to you.

CHAIR: Thank you.

Mr PERRETT: Thank you for your presentation this morning. I take your point about farming input costs obviously increasing significantly and ultimately breaching that bottom line. You have come from a heavily regulated industry 20 or 25 years ago where there was a guaranteed farm gate price, to the deregulation of the industry and then of course some of the challenges that have stemmed from that, particularly for the producers. I note point 35 in your submission deals with the dollar a litre of milk. I do not think we have seen anything quite as ruthless on industry, and particularly dairy producers, than that dollar a litre of milk promotion. In my opinion, it had very little regard for the survivability or profitability of producers; it was to get consumers into the supermarkets and ultimately walk out with dollar-a-litre milk. I note your comments there, but point 35b of that submission is that you are still concerned. You state—

b. There is no reason to suspect a similar level of ruthlessness will not be applied to future dealings with wholesalers.

The fear would appear to be still there. Could you expand on that whole dollar-a-litre milk issue within supermarkets and the fear that still remains from producers back through that supply chain?

Mr Smith: Are you talking about our food and grocery code submission, not our submission to this committee?

Mr PERRETT: Yes. Point 35 on page 9.

Mr Bradley: Dollar-a-litre milk absolutely decimated the dairy industry, especially here in the northern dairy industry. In my own farm, and I will use that as an example, I was getting paid the same for my litre of milk in 2019—58.9 cents a litre—as I was in 2000. You do not have to be Einstein to work out that my cost of production went through the roof between 2000 and 2018-19, yet what I was getting paid for milk stayed the same. Dollar-a-litre milk took out the whole supply chain. They just changed the scenario.

We all know that the dairy cabinet is at the back of the supermarkets. If you want a litre of milk, you have to go past everything else so that is why they introduced it, but they had no idea the effect it had on the dairy industry. We lived with that for a long time—from 2010 to when it finally changed—but that is still in the back of every dairy farmer's mind. If dairy farmers are given the choice of exiting this industry or sticking it out, the signal we get is that there are no positive signals. As a good mate of mine said to me, there are easier ways to make a living, or in that case lose a dollar, than dairy farming and they just take the alternative, which is to exit the industry.

We are an ageing industry. We are no spring chickens anymore. I am 68. A lot of our dairy farmers are in my vintage. The young ones are not coming back on to the farm. They have watched what mum and dad have gone through. They have seen what their friends can earn in a job where they only have to do 35 hours a week and they can turn off at 5 o'clock in the afternoon and they do not have to do weekends. They are not going back into the dairy industry and the dairy industry is losing production, not only in Queensland but Australia-wide, left, right and centre.

In the House of Representatives report on these food requirements, dairy got a real big mention. It is one of the industries, along with seafood, which is in danger of not having enough in this country. It is a real issue. All governments need to turn their attention to it, otherwise they are going to wake up one morning and it will be very hard to find.

CHAIR: Thank you. I apologise that we are out of time. Thank you for coming in and giving a unique perspective on your industry that is absolutely vital to Queensland.

Mr Bradley: Thank you for listening to us.

McINNES, Mr Ross, South East Queensland Director, Dairy Farmers Milk Co-operative

TESSMAN, Mr Damien, Northern Regional Manager, Dairy Farmers Milk Co-operative

CHAIR: Welcome. Would you like to make a brief opening statement and then we will go to questions from the committee?

Mr Tessman: We appreciate the opportunity to be able to come along and speak to the select committee here today and we look forward to the report being handed down. In terms of a brief introduction, sitting next to me is Ross McInnes, our DFMC South-East Queensland director and a dairy farmer from Harrisville. Ross has been a former chairman of the Subtropical Dairy Program, the Queensland dairy industry's research and development body for Dairy Australia. He and his brother milk 500 cows, which you will see from our submission is well over twice the state average. I am the northern regional manager for Dairy Farmers Milk Co-operative based here in Brisbane, and I have been with the cooperative for two years. My family dairy is at Kingaroy and I am the fifth generation of my family to be in the dairy industry.

DFMC is a milk supply cooperative with a commercial supply agreement with Bega Dairy and Drinks. We have contracts on about 30 per cent of the milk here in Queensland. DFMC sees this select committee as an opportunity to highlight the realities our industry now faces, exploring some of the reasons for the decline in supply and a call to the state government for help in planning our industry's future, not just for farmers but for the blue-collar workers in the milk processing sector as well.

Without question, adverse activities of the supermarket duopoly have destroyed farmer confidence in our industry and delayed years worth of on-farm investment needed to meet the production goals that Queensland now requires. It is true to say that farm exits had stabilised and flatlined by 2008 following industry deregulation in 2000. During this period there were weather extremes like droughts and cyclones but, overall, dairy in Queensland had adjusted to post-deregulation life by 2008.

Then 2011 marked the start of the dollar milk campaign by the supermarket duopoly, and since that time the number of farms in Queensland has contracted by 60 per cent. Yes, there were droughts and floods in that same time that impacted decision-making, as there were during the period of stabilisation. However, Queensland now leads the way in farm exits at twice the national average. This is more than a coincidence. We are seeing the real life consequences of dollar-a-litre milk play out.

I have to admit it is hard not to feel like the ghost of Lord Banquo, here to remind *Macbeth*, being the supermarkets, as to their guilt and role in the demise of the Queensland dairy industry. However, it is broader than that. This is a moment to check in on the consequences of unfettered and unchecked regulation on the retail grocery sector. Section 2c of the terms of reference commits the committee to examine—

… the long-term trends in profits accruing along the supply chain for perishable produce, with particular regard to impediments to the profitability of primary producers

Undoubtedly, Queensland, as a fresh milk market state, has been disproportionately affected by the effects of supermarkets. We now have the smallest average herd size in the nation and, as I said before, a decline in actual farm numbers that is twice the national average. This has wideranging impacts on fresh milk supply, broader food security concerns and considerations in terms of investment from the processing sector.

With less than 50 per cent local supply capacity, Queensland is reliant on milk moved here from interstate. Given we are the most decentralised state in the Commonwealth, this brings with it some unique challenges. We are one major weather event away in the annual low-supply period from not being able to meet demand due to the likely disruption on transport infrastructure linkages. We respectfully ask that the committee take into consideration these impacts on the Queensland dairy industry from supermarket activities and encourage the Queensland government to actively work with our industry to address the challenges facing supply and grow the industry—not only for the wellbeing of farm businesses but for job security in the processing sector. We feel this is best done with the creation of a northern dairy industry strategic plan.

Mr McInnes: Damien touched on the risk. I suppose when you sit back and look at it we are the smallest industry in Australia, but at the same time we are a vital industry with a state product. Autumn production is about 30 to 35 per cent less in Queensland than what it is in spring so if we are impacted in late February or March by a significant weather event in Northern New South Wales that stopped transport, Queenslanders would not have fresh white milk on the shelves. I cannot stress that enough. We need a base of industry in this state and we need some help with it.

As Damien said, going back to the supermarkets and the impact of $1 a litre milk, farm numbers are down 60 per cent and production is down 40 per cent. You have had 27 farms leave on average per year for 13 years. You have more than 50 per cent of milk coming in from interstate. The biggest thing when you look at the effects in a marketplace is the ability of an industry to reinvest. The average Queensland farm, under the typical system, needs four to eight cents a litre to reinvest into their business, whether it is a new dairy, a new tractor, a new hay shed, everything—somewhere in the range of four to eight cents—and that is without taking into account any new technology. For an average farm that is $50,000 to $100,000. Production is 1.2 million litres for an average Queensland farm. That is what you are talking about.

When you do not reinvest for three or four years and then something happens—the tractor breaks down, something significant happens—it is a lot easier to get out than go into debt. The fact is for eight years farmers were told exactly what Joe Bradley said here before: the price could not move while $1 a litre milk was on the shelves. When you get told that repeatedly it does not take Einstein to work out you are going to make decisions. As Pat Rowley, our esteemed leader, said years ago, 'If I've got a cow on heat and I've got a store of beef semen and a store of dairy semen, you'll only know in three years time which store I've picked out—when you are short of milk.' There has to be something done. Because there is a potential shortage of milk in Queensland, a very legitimate question to be asked is: when a supermarket has a contract with a processor, is there an obligation to fill the supermarket brands before their own brands? I believe that is the case, but I think that is a question that needs to be put back to supermarkets to put them on the record.

Mr KELLY: Thank you to both of you for your presentation. I have to say that in my lifetime, perhaps when I was fairly young, it was not unusual for things I considered to be staples not to be available, particularly in regional and Western Queensland, but since then it would be rare to go to a shop and not be able to get all the basics that you need. Since COVID I think I have seen three or four times where eggs, milk and other things have been unavailable, and it is not related to COVID, I have to say. The question I have is really around whether or not there is any dialogue or relationship between your organisation or the previous one and the supermarkets. It would seem to me that it is in their interests to have a sustainable industry so that they have product on shelf. Do they engage in an ongoing dialogue about what your industry needs to remain sustainable and viable?

Mr Tessman: The short answer is no. As the previous speaker has mentioned, there is the dairy code of conduct that was brought in at a federal level and that would be an ideal opportunity for supermarkets to be involved there. As I say, we have contracts on milk with our members. The dairy code of conduct is a very live issue for us. It sets the rules. In a Rugby League analogy, we all know what a forward pass is. We all know the rules. Whereas when it comes to supermarkets there is just not that level of transparency or engagement. I think there really does need to be that. Perhaps with the mandatory code of conduct that is being talked about at the federal level there is a real opportunity for that engagement, but there is no genuine engagement at all and it is quite a shame.

Mr Kelly: Do the two major supermarkets compete with each other for your product?

Mr Tessman: Not directly with us, no. There are contracts that are put out for the supply of the generic milk. When you go into the shopping centre you will see the Woolworths brand milk and the Coles brand milk. Different processors have access to those contracts, but it is not directly with us. We all know that the highest selling milk brand on the shelf is the Woolworths brand milk because Woolworths has a greater market share, followed by Coles and then at No. 3 is Dairy Farmers brand which is who we supply, but that is only because we have a wider imprint than perhaps some of the other brands. The take-home message is that consumers are still buying that generic brand product as No. 1 and No. 2.

Mr McInnes: In the last couple of years, because of interest rates going up, there has been a movement to the lower priced milk on the shelves. Just to your question, we are a milk supply co-op group and all our milk at the moment goes into Bega. It would be Bega, Lactalis, Norco that would have the conversations with the supermarkets at that level.

Mr MINNIKIN: Gentlemen, thank you for your time. My question is to either of you. You mentioned transport a bit earlier. Do you have any suggestions about programs or policies the Queensland government could adopt to reduce the power imbalance in the dairy industry?

Mr Tessman: Because it is a national industry there are some unique challenges there. As I said, going back to the Northern Dairy Industry Strategic Plan, there is real opportunity for the Queensland government to take a role there. Obviously, we would advocate on behalf of the farmers and the blue collar workers in the milk processing sector—we all know where they are, there is one across the river; the factory that our milk goes to is in Logan—but there are some real concerns about what happens, if the level of milk in Queensland drops to a certain level, to those jobs. We have seen factories close. There was one that closed in Victoria only a fortnight ago or announced that it was going to be closed. As I say, we respectfully reach out to the committee and to the Queensland state government to be involved, not just for farmers but for the whole supply chain that goes back to those workers as well. That is where we see the scope. Then perhaps, given that we are so highly reliant on milk coming in from southern states, conversations around transport corridors because there is genuine concern with floods and how we distribute that milk around.

Mr McInnes: I will add to that that there is a belief that if the inland rail came to pass the efficiency of delivering milk up here would improve. That is not in my best interests at the moment in negotiations with processors, but that is a fact and it should be recognised.

Ms PUGH: You have touched on, as has the member for Gympie in his questioning, the $1 a litre price wars. Can you walk us through how that actually occurred back in 2011? It is amazing to think that the big two, using in my view their duopolistic powers, were able to come in and set that price in a way that had very little regard for your actual costs. Can you walk us through how that actually happened?

Mr Tessman: It started on Australia Day 2011 and it really came as a shock to the industry. We all know that milk is a staple product in so many houses. As we say in our submission, 88 per cent of general practitioners recommend dairy as a key part of a balanced diet so we know that we have a popular product and so do the supermarkets. I think they just realised the activities that had occurred in Europe. There was some movement of senior management staff from the UK that came into Coles and that model had worked over there and so it was brought in here. Essentially, when you have a heavily concentrated retail grocery sector like we do in Australia, if one big supermarket says, 'This is what we are doing,' the other one is going to very quickly match it. That is essentially what we saw. As we say in our submission, one of the speakers from Woolworths acknowledged that it just reset the price of milk overnight because of that issue. Essentially then what it did was just bolt that price in for the industry. The $1 a litre milk price was lifted in 2019 after a lot of sustained pressure, but it stayed at that price for that entire time. I think by 2019, $1 was worth 88 cents in terms of inflation and the like so it really had a devastating impact. But it had a great impact for Coles and Woolworths because they now dominate with their generic milk products. I could wax on all day about it, to be fair, but the key take-home message is that one started it, the other one followed and then that just set the market for everybody else. Farmers were at the bottom of that and there is nowhere further in the supply chain to go below farmers.

Mr McInnes: When $1 a litre milk was introduced, $1 for a loaf of bread was introduced at the same time. I am not sure what type of bread you use. The bread I get is $3.90. They could not make it work with bread. Carrot growers tell me they were blaming us at that point because they said, 'We talked to the supermarkets and they would like to see under a dollar a kilo for carrots as well.' It was a theme that was taken through, but it did not work in the other industries. But they very dogmatically kept it there for eight years.

Ms PUGH: Just a quick yes or no follow-up: when the big two supermarkets lowered the price they came to the dairy farmers, your members, and said, 'You have got to drop your price so we can do this': is that correct?

Mr Tessman: Essentially, yes, but it came through the processors. There is that gap between farmers and the supermarket. The pressure came on the processors which then cascades down through the supply chain.

Mr McInnes: It could not go up.

Ms LEAHY: In relation to the dairy code, say there was another dairy product, cheese or something like that, does the dairy code prevent a supermarket from going and doing $1 per kilo of cheese?

Mr McInnes: No.

Ms LEAHY: My next question is with a food and grocery code, would it prevent—I know your area is dairy—that sort of behaviour from a supermarket in the future on other products?

Mr Tessman: Predatory pricing is very key in it. The ACCC and the dairy industry might have different ideas as to what predatory pricing is, but if you can demonstrate that a supermarket is going out there and deliberately trying to drop the price and not be reflective of the costs of production to get market share then, yes, I think that should be included and prevented through a mandatory code of conduct. The reality is it took a number of years for the federal code of conduct to be established just for the dairy industry. I imagine it will take a number of years to get a code of conduct sorted for the supermarkets, but that is a conversation that I think we really need to have and perhaps lawmakers need to have that conversation as well: what is deemed appropriate activity, just to give some extra context. Something like 65 per cent of the grocery retail sector is tied up between two companies in Australia. In the UK there is eight and in the US there is 12. There is genuine competition in those other comparable countries when it comes to the retail grocery sector. We just do not have that in Australia with two major players. I think that is why it has to be treated a bit differently and be a wider conversation because it is genuinely not a free market in that situation, particularly for farmers.

Mr McInnes: There are very few things that they could do that with on a supermarket shelf. Dairy suffers because it is such a staple item—95 trolleys out of 100 will have milk in them. If you have the cheapest milk, you will get extra customers in. That was the incentive, and there were executive bonuses on offer to go down that path.

Ms LEAHY: I think the question is though: can a code prevent that from happening to another perishable product?

Mr Tessman: Not at the moment because supermarkets are not included in it. That was criticism by farmers at the time: why does it stop at the processor? Why does it not go further? We all know the answer to that question. They were never going to tolerate it. At the moment that cannot be prevented. The question perhaps should be: should it be prevented with the inclusion of a mandatory code of conduct?

Mr PERRETT: A mechanism to identify what farmers are getting paid for their product was mentioned before. I note that previous submitters indicated that it took Damien an hour and a half to explain the different price structures. I understand about protein and butter fat and how that links in with pricing. Is it possible for that to be done in an accurate way given the different price structures that your farmers are paid?

Mr Tessman: The Dairy Code of Conduct requires all buyers of milk to release their minimum prices on 1 June by two o'clock. If you do not, there is a fine in the mail for not doing so. As we mentioned, it is hard because milk is not milk when it comes to pricing. The lower the fat and protein the lower the price. The higher the fat and protein the higher the price. Even in Queensland there is a different price for Far North Queensland. It is the most expensive milk in the country that farmers up there are paid based on fat and protein. Then it cascades down to Victoria, where a cheaper price is paid. Essentially, those prices are published by two o'clock on 1 June, but to the average punter they will not make a lot of difference. For farmers, it is me coming along and knocking on their door—I do it to Lactalis suppliers and I do it to Norco suppliers—trying to compete with their business based on our price and what works. It is super complicated and it is very hard to explain to the average punter how milk is paid for. There are some real challenges there in doing that.

CHAIR: Gentlemen, thank you so much for appearing before the committee today. It has given us wonderful insight.

Mr McInnes: Could I just make one extra point?

CHAIR: Yes.

Mr McInnes: If a dairy farmer goes out of production in Queensland tomorrow, just under three suburbs of milk will have to get their milk from interstate.

CHAIR: That is a very good point to end on. Thank you so much. That now concludes this hearing. Thank you to everyone who has participated today. Thank you to our Hansard reporters. Thank you to the secretariat and media present in the room. A transcript of these proceedings will be available on the committee's webpage in due course. I declare this hearing closed.

The committee adjourned at 11.02 am.