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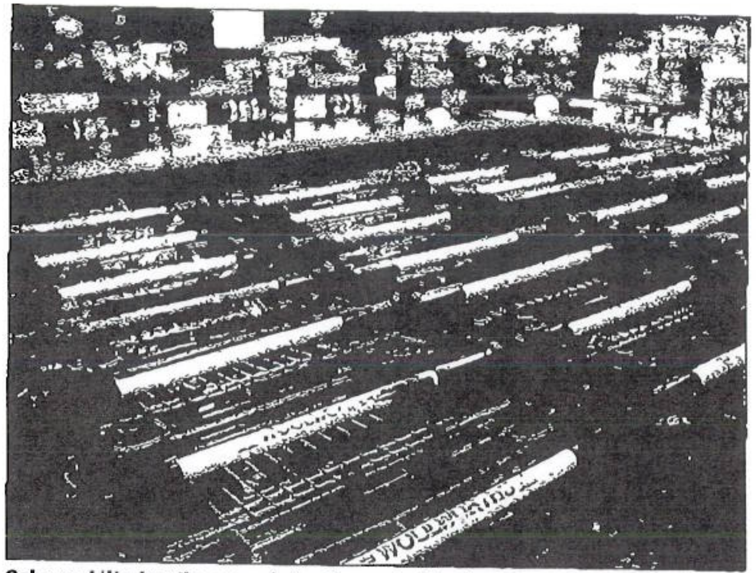
Academic questions cut-price milk battle



Coles and Woolworths are reducing the cost of food staples such as milk.

The competition between supermarket giants Coles and Woolworths to have the lowest prices, may be undermining the work of campaigns such as 'Buy West Eat Best' and opening the door to cheap food imports.

Queensland University of Technology economics and finance senior lecturer Mark McGovern said it was interesting that Coles and Woolworths were reducing the cost of food staples at a time when, globally, prices were increasing.

"There are several reasons why the supermarkets may be choosing to reduce prices now," Dr McGovern said.

"One may be a short-term focus to put them in a better position when renegotiating their supply contracts with processors."

Dr McGovern said the supermarkets could use the situation to consolidate the commercial gain of their home-brand products and therefore negotiate a 12-month price before any big increases in global prices occurred.

Dr McGovern said their campaigns to reduce the cost on items such as home-brand milk not only had the potential to hit farmers in the hip pocket, but was also spreading the perception that food should be cheap.

"This strategy preserves the profits of the organisation but undercuts its competitors," Dr McGovern said. "When looking at price discrimination for commercial gain you need to look at how this behaviour affects the supply chain of processors and producers as well as if this practice is in the best interests of the public."

Dr McGovern said the supermarkets' aim could be to increase their share of the fresh milk market, while raising prices across dairy products such as ice-cream or cheese.

Another possibility could be that they are happy to make a loss on dairy products, but will raise the price of other products such as fuel.

Dr McGovern said the supermarkets should be in a position to explain how they can do this and why it is in the best interest of the Australian public.

"If they are not able to, then it may be an abuse of power," he said.

In addition, with the Australian dollar still strong, Mr McGovern said bringing in imported produce would be cheaper than buying Australian produce.

For example, if the fresh milk sector started to shrink in Australia as a result of it being unsustainable to produce milk at such a reduced cost, this could see long-life milk come into Australia to meet consumer demand.

With the move away from fresh milk and towards long-life milk, not only could supermarkets benefit from a cheaper product with a longer shelf life, but manufacturers would be able to reduce their costs by importing cheap milk powder.

"Multinationals have been doing this for a long time; moving cheap product from low-cost to high-cost markets," Dr McGovern said.

This practice does not just apply to the dairy sector. Australia's pork industry is under threat from a rise in cheap pork imports, while a change in legislation has allowed cheap beef imports into the country. "Australia has been a bit of a babe in the woods when it comes to these market tactics; it might be time to grow up," Dr McGovern said.

Coles under pressure to end discounts

Reports Rebecca Turner

A parliamentary inquiry that aims to protect the livelihoods of dairy farmers is set to get underway in March.

Last week, independent senator Nick Xenophon — with the support of the Coalition and the Australian Greens — successfully moved a motion for an inquiry into the price war on milk.

"This latest grab for market share by the big two supermarket chains could have a devastating impact," Senator Xenophon said.

The inquiry will examine if supermarket giants Coles and Woolworths have engaged in anti-competitive and unsustainable practices.

Australian Greens deputy leader Christine Milne said the inquiry must deliver for dairy farmers or risk undermining their confidence in the Parliament.

"The time for talk is over. It's time Australia's dairy farmers saw something being done to protect their livelihoods," Ms Milne said.

Liberal backbenchers and dairy industry leaders gathered at Parliament House last Thursday to voice their concern for the industry's future.

The group has urged shareholders of Coles' parent company, Wesfarmers, to take action to stop the "predatory pricing".

They are asking shareholders to gather 100 signatures in a bid to call an extraordinary general meeting.

Joining them was Opposition agriculture spokesman John Cobb, who said executives at Coles were "quite happy to get their bonuses over the dead bodies of farmers".

Mr Cobb, who hails from the rural NSW electorate of Calare, said Coles selling milk at $1 a litre would eventually entrench a dominant player that could set any price.

Australian Dairy Farmers (ADF) vice-president Chris Griffin urged truck drivers and owners of corner stores to use their shareholder power.

"Let's stop this unsustainable pricing," he said.

WAFarmers has also called for a Wesfarmers general meeting to explain Coles' pricing strategy and how this was consistent with the origins, values and corporate social responsibility of the company.

WAFarmers president Mike Norton said many of Wesfarmers' shareholders were farmers.

"Coles' actions are likely to be the tip of the iceberg and have the potential to damage a range of agricultural industries, including dairy," Mr Norton said.

"WAFarmers is calling on its members who are also Wesfarmers shareholders, along with other Wesfarmers shareholders, to sign a request for a general meeting so that Coles is forced to explain its actions."

The request form can be accessed from the ADF website, www.australiandairyfarmers.com.au.