



The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

28th February 2011

Sent via email: economics.sen@aph.gov.au

Dear Sir / Madam

The Western Australian Farmers Federation (Inc) (WAFarmers) thanks you for the opportunity to make a submission to the ACCC regarding the 'predatory pricing' tactics being employed by Coles across a range of products.

The Western Australian Farmers Federation (Inc.) (WAFarmers) is the State's largest and most influential rural lobby and service organisation. WAFarmers represents approximately 4,000 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, horticulturalists, dairy farmers, pastoralists, commercial egg producers and beekeepers.

Although media attention has been predominately focused upon milk prices, it is the view of WAFarmers that this is a multi commodity issue. Marketing tactics employed by Coles in recent times have also seen disruption to both the pork, beef and egg industries. Coles' sharp reduction in the price of bread also threatens to provide the consumer with a distorted understanding of the cost of grain production.

The marketing tactics employed by Coles target the consumer who has little understanding of the value of Australian agriculture, nor the cost of production for everyday items. By dramatically slashing prices in such a way Coles seeks to undermine the viability of the agricultural industry in Western Australia in order to increase their own profit margins. The prime example of Coles' strategy is the current unsustainable milk war. The last time milk was priced at \$1 per litre was in 1992.

Despite Coles' recent assurances there will be a major impact on dairy farming families as processors and dairy farmers rely on the margin from branded milk sales for their profitability.

Unsustainably priced Coles generic home brand milk is taking market share away from branded products. This reduces the amount farmers receive from processors as more Coles home brand milk is being sold at little or no margin and less of the sustainably priced branded milk is being sold.

Farmers whose milk payments are linked to branded milk sales will see a reduction in their milk cheques over the coming months.

Industry data shows that in the most exposed region of southern Queensland and northern New South Wales a 10% shift toward home brand alone would halve farmers' 2009/10 profits should the processors be forced to pass the impact on to farmers. Coles has already said that the increased sales of its' home brand milk have climbed above 10%.

The impact of Coles' pricing decision will ultimately flow on to hit dairy farmers at a time when they are struggling to respond financially to years of drought and now devastating floods.

We support the Australian Dairy Farmers (ADF) call for an ACCC inquiry on behalf of dairy farmers and understand they have written to the Government and the ACCC asking them to take action.

We believe that Coles' actions constitute predatory pricing under the Trade Practices Act and impacts the viability of branded dairy products and will lead to less product variety on supermarket shelves.

It is our view that these actions will ultimately lessen competition for consumers through increasing prices and decreasing product choice as the experience in the United Kingdom has shown.

Coles actions are not only hurting farmers. They will also damage Coles' competitors such as small businesses like local corner stores, independent service stations and other small retailers of milk. The industry's that service these stores, such as delivery drivers will also be affected. Lower sales for corner stores and independent service stations will lead to a substantial lessening of competition in the market place and leave consumers with less choice.

Coles Managing Director Ian McLeod claims that the price is predominately set by export markets and external influences. Although this argument may have some truth in Victoria and Tasmania, Western Australia is yet to export large volumes of milk products and as a domestic consumption market, lower shelf prices inevitably lead to lower farm gate prices.

Coles' predatory pricing of milk products is heading down a road already well trodden by lamb producers. Low profitability of the lamb industry has resulted in fewer lambs being produced and a subsequent more than doubling of shelf price to the consumer. Consumers purchasing cheap milk whilst bemoaning the price of the Sunday roast would do well to remember the lessons of the past.

The scant disregard demonstrated by Coles towards the agricultural industry is worsened by the parent company Wesfarmers origins. Originally developed as a farmer driven co-operative run by farmers for farmers, Wesfarmers owes its legacy to the Western Australian agricultural industry. Unsustainable shelf prices and short term marketing tactics hardly suggest industry understanding.

Please help us to help our farmers.

Yours sincerely

Mike Norton

President

Western Australian Farmers Federation