

7 March 2011

John Hawkins
Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Mr Hawkins

Re: Senate Inquiry – Inquiry into Impacts of Supermarkets Price Decisions on the Dairy Industry

Woolworths welcome the opportunity to provide a submission to the Senate Inquiry into the Impacts of Supermarket Price Decisions on the Dairy Industry.

Situation Overview

Woolworths is committed to offering our customers choice, convenience and the most competitive prices for their groceries and everyday needs. This involves providing the best possible value across their entire grocery basket. At the same time, Woolworths is also committed to working with the Australian farming sector to ensure its long-term viability - 100% of our fresh meat and milk is sourced from Australian farmers as is approximately 97% of all fresh fruit and vegetables sold in store. (The balance of 3% is imported counter-seasonally). Our key focus is having long term, mutually suitable and sustainable supply and pricing agreements with our suppliers.

As part of our commitment to providing choice and value, Woolworths currently offers customers the choice between an extensive range of branded products in addition to a selection of Private Label products (under brands including Woolworths *HomeBrand*, *Select*, *Macro* and the Woolworths brand). Specifically in relation to milk, Woolworths offers customers the choice between a number of branded products including Pauls, Pura Milk, Dairy Farmers, Riverina Milk and A2. In recent years Woolworths has also introduced Private Label milk to our range under the Woolworths *HomeBrand* and/or *Woolworths Brand*.

Price Reduction Background

As the Committee is aware, on 26 January 2011 (Australia Day) Coles Ltd launched a national price promotion campaign focused on reducing its prices for Private Label white milk product to \$1 per litre.

Milk is a key staple and value item for customers and they have an expectation that we will uphold our commitment to provide grocery items at competitive prices. Woolworths therefore matched the equivalent product of our main competitor – as such, we reduced the price of our HomeBrand 1 litre, 2 litre and 3 litre fresh white milk and our Woolworths label lite fresh milk to \$1 per litre.

As the Committee would also be aware, other retailers, including ALDI, Franklins, some IGA stores and other independent retailers took a similar decision to match.

This clearly demonstrates the retail sector's price competitiveness, and the importance customers place on price competitiveness, and Woolworths supports a free market as the determinate of a price.

Woolworths has absorbed the cost of reducing the price of our Private Label milk since 26 January 2011. The reduction has had no impact on the price paid by Woolworths for its Private Label white milk products. Woolworths purchases those products under supply arrangements with National Foods Australia Limited, Parmalat Australia Limited and Murray Goulburn Co-Operative Co Limited. Each of these contracts is for a fixed term of 12 or 24 months and the price paid by Woolworths is fixed for the duration of those terms.

Woolworths has no contractual arrangements with Australian dairy producers. Woolworths does not have any insight into, or control over, the contractual arrangements, such as price, that dairy processors enter into with dairy farmers. That is, Woolworths has little or no ability to directly influence the farm-gate price paid to dairy farmers by processors. To the greatest extent possible, however, Woolworths does look to support farm-gate price through ensuring that it does not enter into a Private Label milk contracts that would, based on Woolworths' estimates, result in a dairy farmers receiving less than an economic return for their milk.

Woolworths' Responses to the Committee's Terms of Reference

(a) Farm gate, wholesale and retail milk prices

Woolworths has a number of concerns about the impact of the rapid price drop on the Australian dairy industry.

We have publicly expressed our concern that this rapid price drop is unsustainable for the Australian dairy industry. This was a concern also widely expressed by other participants in the Australian dairy sector and, we understand, is one of the key reasons for this Senate Inquiry.

In making this comment, we are specifically referring to the fact that this price move has effectively re-based the price of white of milk across Australia overnight, and for an unknown period into the future, which also potentially devalues the whole milk category in the eyes of the consumer. In effect, the consumer baseline for price is now at 1990s levels, but with 2011 input costs for all parts of the supply chain.

Table 1 indicates the scale of the price cuts:

Category	Pre-January 26 price	January 27 price
HomeBrand		
2L	\$2.29	\$2.00
3L	\$3.39	\$3.00
Woolworths Brand		
1L	\$1.47	\$1.00
2L	\$2.67	\$2.29
3L	\$3.96	\$3.29
Lite 2L	\$2.69	\$2.00

Ultimately, these prices set a new benchmark, and can be expected to flow back to processors and farmers as new supply and pricing agreements are negotiated over the coming months and years.

Of equal concern is the fact that this price cut has been introduced at a time when the Australian dairy industry is facing a number of key challenges and is particularly vulnerable. These challenges arise from the significant impact of the recent adverse weather events – Cyclone Yasi in Queensland, flooding in southern Queensland, northern NSW and Victoria, and drought in WA. These events are in addition to the ongoing longer term structural issues already facing the industry, such as lower yields in northern regions and limited access to export or manufacturing market alternatives.

Overall, Woolworths is concerned that the end result of this rapid price drop has effectively forced an unnecessary round of massive changes onto the Australian dairy industry without adequate consideration about the medium to long-term impact of these changes.

(b) The decrease in Australian milk production

Woolworths understands that there are varying structural issues in the fresh milk market across regional Australia. To consider the Australian dairy market as a single homogenous industry would be incorrect. Whilst we would not expect overall milk production to decrease, we would be concerned that some regional fresh milk supply chains may face some renewed cost pressure (for the reasons discussed above). These increased cost pressures on the fresh milk market may threaten future investment in new technologies in the processing sector.

(c) Whether such a price reduction is anti-competitive

The reality is that the new milk price in the supermarket sector highlights the extreme level of competition among food retailers. However, whilst we are committed to providing our customers with the best possible prices, we do not believe that extremely low prices should come at any cost. While the major dairy processing sector is now foreign owned, they are supplied by local farming families and therefore any future contract negotiations will ultimately impact at the farmgate price. We do not believe price discounting should be implemented in a timeframe or manner that itself threatens that long-term viability of Australia’s farming or food manufacturing sector.

Woolworths is committed to supporting the Australian dairy industry through working together with our suppliers on a long-term sustainable basis to deliver the best possible prices and product range to our customers.

(d) The suitability of the framework contained in the Horticulture Code of Conduct

Woolworths maintains full transparency in its arrangements with our suppliers. Woolworths is also a party to the voluntary Produce and Grocery Industry Code of Conduct (PGICC). The PGICC has overall coverage of the supply chain, and includes commercial relationships between suppliers and purchasers of goods or services in different stages of production or distribution in the retail grocery industry supply chain (excluding consumers).

Woolworths has long held the concern that extending the Horticulture Code of Conduct to retailers would impose burdensome record retention and administration and compliance costs upon retailers and suppliers without any additional benefit beyond what is provided by the PGICC. Woolworths therefore does not support extending the scope of the Horticulture Code of Conduct either in relation to the horticulture or dairy sector.

(e) The recommendations of the 2010 Economic References Committee report:

Woolworths participated in the original Senate Inquiry into the Dairy industry and has no specific further comments in relation to this term of reference.

(f) The need for any legislative amendments

Australia currently has a fragmented legislative and government approach to managing its food supply chain. Production is the responsibility of the agriculture portfolio, logistical distribution sits with transport, food safety is health's responsibility, labelling sits across several portfolios, and consumer law resides with treasury. Overlaying all of this are eight state and territory departments with varying legislative approaches to all of the above portfolios. The federal government is making notable inroads by establishing a National Food Working Group, of which Woolworths is a member, to advise the government in the establishment of the National Food Plan.

The National Food Plan requires a long term vision for the security of our food chain that feeds the country, sustains our regional communities and is a major driver of the economy. The plan needs to begin with a comprehensive review of Australia's food supply risks and opportunities in light of a growing world population. We must have a holistic strategy that transcends political cycles and focuses on the delivery of short, medium and long term sustainable goals.

Those goals must address the following:

- Increasing the productivity and yield of our land under cultivation without jeopardising our environment
- The creation of new commercial opportunities for food producers, particularly around the value add opportunities that so many overseas producers are seizing.
- Increasing knowledge, skills and capacity in the agricultural sector to enable us to truly lead the world in the delivery of best practice sustainable food production. And we need to make sure the industry is attractive as a career for the brightest and most brilliant young minds.

But there must be commitment from all stakeholders along the food supply chain, from the farm to the retailer, to take a long term view to protect our assets for future generations and grow our opportunities along with our bountiful produce.

(g) Any other related matters

Woolworths wishes it to be known that, while Woolworths does not have any direct contractual relationship with dairy farmers, we do have a strong track record in helping the agricultural community deal with the aftermath of devastating events.

A recent example of this is the support that we have given Queensland Dairy farmers who have been particularly hard hit by the floods and cyclone.

On 5 February 2011, Woolworths announced that it was making a donation of 5c per litre of milk sold in all stores nationally to the Queensland Dairy Farmers Organisation in the 2 week period commencing on 6 February. This donation applied to every brand and variety of fresh milk sold at any Woolworths supermarket nationally raising \$1 million.

We note that Woolworths undertook this initiative as recognition of the extreme circumstances and hardship prevailing at the time – we recognise that it will not, and it is not intended to, address the broader issues facing the dairy industry.

Overall, Woolworths welcomes the inquiry to enable a further understanding of the challenges facing the dairy industry. If we can be of any further assistance, please feel free to contact me

Yours sincerely

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Woolworths Limited