

29 August 2011

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

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

Dear Sir/Madam

We would like to thank you for the opportunity to make a submission to the *Senate inquiry into the impacts of supermarket price decisions on the dairy industry*.

As background, we are fourth generation dairy farmers, farming in the south west of Western Australia. Our eighteen year old son has recently returned to our farm after completing Year 12 at Secondary School, to follow his dream of farming the land.

Has the action of Coles and their “down, down” campaign impacted on our farm gate milk price?

At a recent Supplier Function held on 21 June 2011 by our processor Lion (formerly National Foods), Mr Murray Jeffrey, General Manager, Milk Supply and Inbound Logistics, Melbourne made a presentation on behalf of Lion. He provided an update on the World Market and current trends, the Australian domestic market and the local Western Australian market, which for Lion consists of white milk and flavoured milk sales.

As the milk our farm produces goes solely into the Western Australian local market, this was our main interest. During Mr Jeffrey’s presentation, he made us aware of the escalating costs of both electricity and gas at the processing level and how their Western Australian, Bentley plant, consumed large quantities of both in their processing systems. We understood this, as we too are consumers of electricity at our dairy and have to absorb these rising costs.

However in the next breath, Mr Jeffrey announced that we would be receiving an average of one cent per litre reduction in our farm gate milk price for the coming 2011/12 year, as a result of the milk price discounting war.

A reduction of one cent per litre probably sounds insignificant. In reality it is just the rounding that occurs at the supermarket checkout, which often goes unnoticed by the consumer. However, to a dairy farmer, one cent per litre can be the difference of any particular dairy farmer remaining in the dairy industry. For a farmer producing three million litres of milk annually, this equates to \$30,000!

It seems logical to ask the question, “Why supply white milk to the supermarkets under generic/home branding at all?”

Company’s usually fight for their “brand names” and place great importance on them. A lot of money is invested in developing brands and gaining market share. So why provide generic/home brand milk to the supermarkets? The answer is simple. The supermarkets would not shelve the myriad of other product lines that your company produces and you risk having your product removed from the shelves or given smaller, less attractive shelf space. In our eyes this is predatory and quite simply a bullying tactic by the supermarkets. Fresh milk and dairy products have a short shelf life. Dairy products can’t be used as pawns against the supermarkets, unlike beer, in a recent successful fight against supermarket price discounting.

As primary producers involved in the dairy industry, we find it demoralizing and degrading that the supermarkets devalue our product in the eyes of the consumer. We have millions of dollars invested in our business and are extremely proud of the high quality product we produce. We need consumers to appreciate the value of Australian agriculture and be realistic about the cost of production for everyday items such as milk. **It is our belief that the supermarkets are not promoting a realistic value of our milk.**

Resilient, is what you have to be, if you want to be part of this industry. The Western Australian dairy industry has endured difficult periods over the past decade. Deregulation of the dairy industry, followed by unfavourable seasonal conditions and a challenging retail and processor environment have all taken their toll on the dairy industry. Dairy farmers are resilient people but there is only so far someone can be pushed and only so low your cost of production can be reduced, before cracks begin to appear in the industry.

We want to be part of this industry, as does our son, but if the supermarkets are allowed to dictate the price that is available to us through their predatory actions, we fear that we won’t have a Western Australian dairy industry to be a part of.

Has the action of Coles and their “down, down” campaign impacted on our farm gate milk price? We certainly know that it has, as our farm gate milk price for the coming year has been reduced.

Again, thank you for the opportunity to make a submission to this inquiry.

Yours sincerely

Lisa Armstrong

Graham and Lisa Armstrong