

4 March 2011

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

Dear Sir/Madam,

I am writing in regards to the recent unsustainable price cuts by Coles on their home brand milk, cream and butter.

My husband and I are Queensland dairy farmers who operate a family dairy farming business with my husbands' parents. We are typical of many dairy farming families who support a number of generations with our farming business and hope that our two young children will be able to carry on the dairy farming tradition. Therefore it is with much anxiety that we are witnessing the devaluing of an important staple such as milk, into which we invest so much time and effort to produce.

The prices that Coles are offering the public on home branded milk are unsustainable. 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 as early as this month in some cases.

Industry data shows that in the most exposed region of southern Queensland and northern New South Wales a 10 percent 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 by some 15 to 20 percent.

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 and cyclones.

We support the Australian Dairy Farmers (ADF) and Queensland Dairyfarmers' Organisation (QDO) 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 Competition and Consumer Act 2010 (formerly 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 dairy 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 corners stores and independent service stations will lead to a substantial lessening of competition in the market place and leave consumers with less choice.

We also believe that the public statements by Coles such as *“Coles is not reducing the price it pays to its milk processors either so this move will not impact them or the dairy farmers who supply them. In fact both farm gate milk prices and contract prices with processors recently increased. Coles is fully absorbing the price cut, bringing great value to customers whilst supporting Australian dairy farmers”*, is tantamount to false advertising. Coles is seeking to promote to consumers that if they buy Coles branded milk at this dramatically discounted prices it will not have a negative impact on dairy farmers whom supply Coles and that milk prices have recently increased.

The facts are that the discounts will and are already impacting of returns to dairy farmers and milk prices to many farmers have actually dropped by approximately 10 percent in NSW and Victoria and 15 percent in Queensland in the last 12 months, which includes farmers that supply milk for Coles supermarket branded milk.

As such we believe there is a prima facie case of false advertising that also should be investigated by the ACCC.

Please help us to help our dairy farmers.

Yours sincerely

Raelene Rosevear