BAROSSA MID-NORTH
CO-OPERATIVE DAIRYMEN LIMITED

REGISTERD OFFICE: PO Box 33,
BLYTH SA 5462

3 March 2011

Dear Sir,

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

We represent a group of 22 dairy farming businesses from the Barossa and Mid-North regions of South Australia that supply milk to National Foods Limited and also Murray Goulburn. We are a Co-operative that gives each farmer a sense of belonging and mutual support, also a combined voice to speak to milk companies and to share and address industry concerns.
Our farmer members have declined from 75 only 15 years ago to 21 today. A further decline in farms could threaten the industry in our region.

We forwarded a submission in October 2009 to the Senate Inquiry for Investigating Pricing and Competition in the Australian Dairy Industry and since then the situation has developed negatively. Of the 16 recommendations that came out of that Inquiry we endorsed recommendations 3, 7 and 8 as being ones that would have long term benefits providing sustainability to our industry.
It is interesting to note the current situation that we have with Coles and Woolworths. We believe this has been a direct result of the failings of these recommendations being implemented.
We are pleased to see the second inquiry instigated, as this is clearly now a national issue, with the powerful supermarket duopoly being free to dictate to the dairy industry.

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. This makes milk cheaper than water. Coles and Woolworths are naive thinking this will not affect the farm gate price, as their direct competitors focus on branded sales and they are already seeing a marked reduction in their sales.

Members of our Co-operative have contracts that are due to expire with National Foods in June 2011. We have grave concerns what the pricing will be, given that Coles and Woolworths have put so much downward pressure on all milk and therefore the processors really have only one place to recoup this loss – from the farmers.

Coles are persistent on their 'down, down prices are down' campaign saying milk will stay at $1.00 per litre. 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.

As dairy farmers we are asking what will drive farm gate prices **up, up, up** so that we can keep up with inflation on our input costs because domestically this is now the driver, the supermarket duopoly driving the prices – **down, down down**!!!

A representative from Coles gave evidence to a Senate inquiry last year that margins were about 20% on the prices then of approximately $1.20 per litre. They have now reduced the price by 33% to $1 per litre. You work out the maths?

Do you believe, as we do, that Coles' actions constitute predatory pricing under the Trade Practices Act? The ADF believes there is a prima facie case under section 46, including 46 (1AA) of the Trade Practices Act 1974 (now the Competition and Consumer Act 2010) that Coles' actions constitute predatory pricing. This obviously impacts on 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.

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.

Please help us to help our dairy farmers.

Yours faithfully,
<u>BAROSSA MID-NORTH CO-OPERATIVE DAIRYMEN LIMITED</u>

<u>AP KOCH</u>, Chairperson
<u>KJ SLAPE,</u> Vice Chairperson
<u>JR NIETSCHKE</u>, Board Member
<u>GD ZWECK,</u> Board Member
<u>NK MASTERMAN,</u> Board Member