The Secretary
Senate Standing Committee on Economics
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Committee Secretary,

I am writing to express my concern at the continuing unsustainable discounting by Coles of its home brand milk.

My name is Warrick Tyrrell, in partnership with my wife and parents I own and operate a dairy farm in the shire of Dardanup, in South Western Australia.

I would like to draw the committee's attention to three key impacts of Coles discounting policy on its home brand milk.

Firstly the shift in the proportion of sales from branded product to Coles private label milk represents a significant downward squeeze on milk processor margins and that will ultimately be passed back to dairy farmers, there is some evidence of this happening already in QLD. Coles claims so far returns to dairy farmers haven't suffered, yet in export orientated markets such as Victoria and Tasmania prices have risen substantially this season. This price rise is driven by a strong current international dairy market - which in the past has provided a minimum pricing from which buyers of domestic market milk work off. So instead of prices rising in domestic based markets they have come down slightly since July 2011.

Secondly it is important to understand the production lags inherent in dairy farming systems. Dairy farmers in the short term only have a limited ability to alter their production system in response to decreased prices - usually spending less on bought in feed is about the only option available. This may decrease milk production some 15-20%. Sale of lactating cows is often not an option in times of lower milk prices. However, dairy farmers can make much more profound changes to their production over the longer term, by making decisions on how many replacement heifers to keep and how many cows to get back in calf for the following year. These changes can make substantial changes to milk production in the order of 20 - 100%.

This scenario has been seen before in the West Australia domestic milk market - where processors paid dairy farmers near or below the cost of production milk prices for several years. During the first few years milk production held and even slightly increased, but after a few years there was a large number of producers exiting the industry and producers selling large numbers of replacements heifers to the live export market. This resulted in a shortage of milk within the state for the summers of 2007 and 2008 with processers having to pay higher prices for local milk and even higher prices for milk to be trucked many kilometres from Victoria and SE South Australia.

Finally the decision to select a fresh, perishable, high quality locally produced product as a loss leader seems, given the above a risky one. For reasons of maintaining long term food security, and keeping efficient local food producers viable.

Industry benchmarking programs show West Australian dairy farmers to be as efficient and competitive as any dairy farmers in Australia. Australian dairy farmers internationally rank a close second behind New Zealand farmers as the most efficient in the world.

In Australia due to there being such a concentration of market power between the two major grocery retailers, the decision of Coles to discount it's home brand milk has the ability to cause such an erosion of margin for milk processors - namely by shifting proportion of sales from branded to home brand discounted product, will over the longer term cause lower returns to flow back to dairy farmers such as ourselves. Due to the inability of dairy farm production systems to respond quickly to these price signals, milk production may hold steady in the short term (6-12 months) over the longer term milk production will drop away so markedly it would likely cause local supply shortages.

Yours sincerely

Warrick Tyrrell