



Australian Egg Industry Association

A united voice on egg industry matters...

John Hawkins
Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

28 March, 2011

Re: Inquiry into the impacts of supermarket price decisions on the dairy industry

Dear Mr Hawkins,

The Australian Egg Industry Association (AEIA) is the national peak industry body for egg farmers in Australia.

AEIA would like to thank the Senate Economics References Committee for the opportunity to provide a submission to the inquiry under the "Any other related matters" heading.

AEIA believes that Coles' egg pricing and egg ranging strategies are matters very closely related to the heavy discounting of milk across Australian supermarkets and therefore relevant to this inquiry under section (g) of the Terms of Reference.

This increased squeeze on margins will, over time, shift shoppers to supermarket-labelled branded eggs, reduce the turnover of farm-labelled eggs and result in a number of farm-label eggs being de-listed during annual range reviews (due to the resulting reduced sales). This will lead to less consumer choice, less product innovation and less productivity gain, thereby lowering investments in technology and innovation, reducing the sustainability and long-term viability of egg farmers.

Coles' anti-competitive behaviour is having an extremely detrimental impact by squeezing the margins for egg farmers of both free range and caged eggs, forcing many out of the industry when new contracts are renegotiated by Coles within the next two to three years. Coles' behaviour must be viewed with Australia's role as a food bowl for the region in mind. Not only is the Coles strategy bad for shoppers who may be hit with higher prices in the long-term, but it also threatens the capacity of Australia to feed itself as egg farmers leave the industry. The egg prices Coles are imposing simply do not match the economic realities of egg production.

In November 2010, Coles announced it would slash the retail price of Coles branded free range eggs by up to 20% or 89 cents per dozen¹. This significant price reduction was made with no notice to the egg industry and little notice to egg farmers supplying Coles. This strategy clearly shows that Coles has no regard for their own commitment and partnership mantra, that "Coles is committed to the strong, loyal and rewarding relationships we maintain with our valued suppliers"². Instead of strength, loyalty and reward, egg farmers on this occasion have been served with deceptive conduct leaving them depleted and disillusioned for their farming futures.

Over the last six months, Coles has abused their market power by dictating the retail ranging policy for their

¹ Coles media release: Coles Cuts Free Range Egg Prices, 18th November 2010

² Coles Supermarkets, <http://www.coles.com.au/about-coles/suppliers.aspx>

purchase of numerous fresh food products, while simultaneously forcing an unsustainable pricing policy for eggs. These policies continue to reduce farmers' terms of trade and 'real' returns in what is an increasingly marginal domestic market, with the nominal retail price of eggs at \$4.30 per dozen in 2010 well below the real cost of eggs using CPI as the deflator of \$5.83 per dozen³. The inevitable outcome of this trend is the loss of our domestic food production capacity. Coles' British executive team have demonstrated experience with this strategy. They applied the same strategy in the United Kingdom; starting a price war on groceries, destroying the local farming sector and increasing imports. In doing this, they were able to drastically increase their own market share and then drive prices higher over the longer term, leaving shoppers with even less choice and no sustained price reduction.

The food retailing duopoly is a situation that is unique to Australia. Unlike other countries, Australian farmers have even less capacity to negotiate a fair price for their produce. Eggs remain a staple product in Australian households, being a versatile, convenient and highly-nutritious, perishable food for families on a tight budget. Costs of egg production are relatively inelastic, and as egg farmers trade directly with supermarkets there is no way that they can recoup the kinds of losses that they face should the current pricing strategy continue.

The Australian egg industry is currently valued at \$365.4 million p.a.⁴. Over the last 5-8 years the Australian egg industry has invested hundreds of millions of dollars in new capital infrastructure for all egg production systems taking active steps to ensure ongoing food safety, animal welfare and hen health. This investment has been as high as over 60% of the total asset base of the business reflecting a significant re-investment program. We are definitely farming for the future now by ensuring that our eggs are accessible, affordable and sustainable. With the current squeeze on margins, it would be difficult to argue for this kind of investment again. Failure to innovate will guarantee the demise of the egg industry in Australia over the longer term.

Given this scenario and the emphasis farmers must place on productivity gains into the future, we will find it impossible to feed the 35.9 million Australians expected in 2050⁵.

AEIA is dismayed by Coles' lack of regard for the implications their pricing and ranging strategies will have on egg farmers. Members of this Committee have raised the expectations of farmers across Australia that Coles' destructive retailing strategies will be viewed in the context of ongoing food-production viability. To fail to do so would be a disappointing outcome of this inquiry. The impact of loss leading strategies must be investigated.

We believe it is essential that the Committee make time for the AEIA representatives to present at a hearing, and are extremely keen to participate at your convenience.

Yours sincerely,

Jeff Ironside
President

³ Australian Bureau of Statistics, Publication No. 6403, 2010

⁴ Australian Bureau of Statistics, Publication No. 7501, 2010

⁵ Australian Treasury, 2009