



Hon Robert Brokenshire MLC
FAMILY FIRST PARTY
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Department of the Senate
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Dear Senators

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

I write by way of submission to this inquiry into the decisions, principally by Coles Supermarkets Pty Ltd ("Coles") but subsequently matched by Woolworths Ltd ("Woolworths") and other retailers, to reduce the price of milk to one dollar per litre in Coles' "Down Down" campaign. I address my comments also to the subsequent price competition opened by the supermarkets into other dairy products as part of the same campaign.

I disclose that whilst I am a member of Parliament in South Australia I am also a dairy farmer from the Mount Compass region of South Australia. I make this representation in both capacities. I have a concern in both capacities that the long-term viability of Australian dairy farming and also a major economic contributor to our state and national economy is put at risk by this pricing behaviour.

I ask that I be given opportunity to address the public hearing of the Inquiry to be conducted in Melbourne on 8 March 2011.

I am very concerned about the impact that this price war will have on the dairy industry not only in my State but also across the nation. I have recently heard that in Queensland dairy farmers are already suffering as high as a fourteen cents per litre reduction in their prices at farm gate, which flies in the face of the commitment that Coles gave in a media release (and subsequent media appearances) that they did not believe farmers would be impacted at the farm gate by this price war.

I disclose that I have:

- written to Coles about their pricing behaviour and so-called price assurances for farmers at the farm gate and whilst I have spoken with a representative of Coles on the telephone, to date I have not received a substantive response;
- written to the Australian Competition and Consumer Commission ("ACCC") expressing my concern that this price war may be equivalent to predatory pricing, as I think there is an argument that Coles are using their market dominance to price smaller competitors out of the market. As at the date of writing I have not received a response from the ACCC; and
- spoken to the South Australian Minister for Agriculture Food and Fisheries the Honourable Michael O'Brien MP concerning this price war and the need for his Government to make representation to Coles about the impact of their pricing behaviour. I will not speak for the Minister in terms of how he proposed responding, I will simply say he has the matter under consideration.

Dairy farming is already a difficult enterprise after a restructure last decade which saw a considerable consolidation of dairy farms. This price war with a retail price of one dollar a litre takes milk below the cost of production. The last time milk was priced at one dollar a litre was in 1992, yet wage and other input costs have risen considerably since then.

I am advised that:

- In 2009/10 the Australian dairy industry produced 9.1 billion litres of milk of which 55% was consumed domestically
- Per capita, Australians consume 102.4 litres of milk per annum
- Australian milk production in 2007-8 accounted for 13% of all food production in Australia with a gross value of \$4.9 billion, of which \$2.8 billion of milk products were exported, and a total value-added benefit to the economy of \$10 billion
- Industry analysts expected farm gate returns could begin to reduce as soon as mid-March 2011
- In the last 10 years major supermarket chain 'house label' milk sales have risen from 25% to 50% with the price differential between branded and house label milk more than tripling from 21c/L to 71c/L

Branded milk is the means by which dairy farmers yield income from dairy farming. House brands compete with branded milk and I believe there is an extent to which shoppers will choose branded milk over the house brand milk in normal circumstances. Shoppers will use their discretion in favour of branded milk if, say, they are sensitive to the need to look after our dairy industry or they may be attracted to the health benefits of some of the selected range of low fat, skim, high calcium or similarly differentiated milk on the supermarket shelf. This shopping discretion I believe goes further in the favour of the house brand milk the lower that the prices go, as shoppers abandon their reasons for buying branded milk as the price differential becomes too great to merit the choice for branded milk. I have heard anecdotal evidence that branded milk sales have plummeted on the back of this price war.

Coles' decision is also down-valuing all milk products. The price is now cheaper than a bottle of water and this sends the wrong message to consumers on the important nutrition of dairy products.

I note that in Western Australia Coles agreed to pay five cents a litre to a dairy processor there after the beginning of the price war. I believe this is tantamount to an admission from Coles that this price war was going to hurt processors and dairy farmers at the farm gate.

As you can I see I am very concerned about the impact that this pricing behaviour will have on the Australian dairy industry long term and I look forward to presenting further evidence to you in person in Melbourne on Tuesday 8 March regarding the specific South Australian industry's Dairy Plan and the negative impact of Coles' price war.

Should you have any queries please contact me or my office via the details above.

Yours faithfully

Robert Brokenshire MLC