

12 February 2010

Mr John Hawkins
Secretary
Senate Economics Reference Committee
PO Box 6100
Parliament House
Canberra, ACT 2600

Dear John,

Inquiry into competition and pricing in the Australian Dairy Industry

Thankyou for the proof Hansard which we have enclosed with minor edits as requested. We also provide answers to questions which we took on notice during the evidence we provided on the 4th February. These are outlined sequentially below.

1. (E2) Senator Milne: In relation to the percentage of Coles branded milk sold in our stores relative to other brands in Tasmania. About 50 percent.
2. (E4) Senator Milne: In relation to product differences between Coles branded and other branded milk sold in Coles. Coles provides its own specifications for its Housebrand milk products. As milk has common national standards, Coles' specifications are likely to be similar to those developed for other Brands. Smaller or regional Brands may have higher Fat content on Full Cream Milk and may or may not use Permeate, in order to differentiate their products from the major processors but this is a question only the processor could answer.
3. (E9) Senator Back: In relation to transport costs. Costs for Coles Housebrand supply, including transport, are built into a single nett price.
4. (E10) Senator Milne: In relation to the Tender Process. Coles typically follows the following process for each of our Houseband tenders on a State by State supply basis.
 - Prepare Invitation Letters with Estimated Volumes, Specifications, Terms and Conditions for Supply, and desired supply period. Typically this supply period is 1-3 years.
 - Issue documents to all suppliers with the potential to supply all/part of the range or all/part State. Small local processors typically do not have the volume or efficiencies to supply Housebrand milk but will be sent Tender documents if they express interest in supplying Coles. Coles does range local or regional branded dairy products in regional stores/centres.
 - Allow 2-3 weeks for submissions to be received by Coles.
 - Review/Negotiate submitted pricing to each participant. 1-2 weeks
 - Allow for final submissions including Coles' advice to incumbents if there is a change in

business supply. 1-2 weeks

- Interim advice to successful/unsuccessful suppliers 1 week
- Contracts raised and signed by Coles and Supplier. For each state/region/awarded product range and supply period.2 weeks

Historically Coles has awarded single major supply of Housebrand within a State. In recent times, following market consolidation among major processors, Coles has actively sought and encouraged participation by all suppliers who have capability, and structured Tenders to allow for regional or product range specific supply. Whilst this adds complexity and is not necessarily the most cost effective method for Coles, we believe that it broadens our options, increases competition and provides regional suppliers with an opportunity to build greater scale.

To assist the Committee with its deliberations and facilitate better understanding we have also included two documents.

The first is a report by Fresh Logic¹ outlining factors affecting milk prices. This includes industry returns, farmgate prices, packaged milk and prices through the chain. While each of these will be of interest to the Committee, the sections on packaged milk and prices through the chain provide a good insight to the diversity of milk products in the market and the financial share of the retail price of milk shared by farmers, processors and retailers.

The second is a confidential document with actual buy and sell prices for Coles 2 Litre Housebrand milk bought and sold in Tasmania for the last two years. The graph in this document shows two things of interest. One, it confirms the gross margin Coles makes on Housebrand milk, as per our verbal evidence, which follow cost price movements over time. Two, it shows that Coles prices remain stable, despite fluctuations in dairy commodity prices, because of longer term contract prices Coles has with processors.

Thank you for the opportunity to provide evidence to the Committee. If you require any clarification please contact the writer on (03) 98294141 or chris.mara@coles.com.au

Yours sincerely



Chris Mara
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Corporate Affairs

¹ Fresh Logic is an independent business specialising in food chain pricing. This Dairy Category extract is from their report prepared for the ACCC Grocery Inquiry in 2008.