



BEGA CHEESE
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The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

RE: Submission from Bega Cheese Limited into the impacts of supermarket price decisions on the dairy industry

Dear Sir/Madam,

Bega Cheese is not only an iconic Australian brand but is very much part of the fabric of the community and life blood of the local economy in several regions or rural NSW and Victoria. The company employs over 1200 people directly with the supplying dairy farms employing over 1500 people. Numerous regional support services and contractors are engaged by either Bega Cheese or our supplying farmers. Over \$300 million is injected each year into rural economies directly due to our business activities. Bega Cheese is a part owner of a domestic liquid milk company, Capital Chilled Foods Australia, and also sells milk into processors for domestic milk consumption.

A fundamental activity of the business is converting raw milk into dairy products such as cheese, powders and other dairy nutritionals. It is vitally important to Bega Cheese that a strong, efficient and profitable milk supply base exists for our business to succeed. We are concerned that the recent decision by Coles supermarket (followed by Woolworth, Aldi, Franklins and numerous other smaller outlets) to heavily discount the price of milk will have long term negative impacts on the whole Australian dairy industry. The industry sectors do not work in isolation, an impact in one area or category will have flow on effects into another area or category.

In responding to the Committees questions we offer the following:

a. Farm gate, wholesale and retail milk prices;

We are particularly concerned that this action will drive down the overall price of milk destined for the Australian retail market and consequently impact on farm gate prices in particular in NSW and Queensland. These actions have far more reach than just impacting the domestic milk supply market; the industry is extremely integrated with single impacts influencing multiple operations.

For example the floods in Queensland has created a milk shortage felt in Victoria for export manufacturers, the melamine scare in China changed buying habits of major customers and affected world pricing, the drought in Russia has impacted butter pricing and demand. These all flow through to a processors ability to secure and pay for milk off farm. This issue will influence the market negatively due to the integrated nature of the industry.

b. The decrease in Australian production of milk from 11 billion litres in 2004 to 9 billion litres in 2011, of which only 25% is drinking milk;

Even though domestic drinking milk is only 2.75 billion litres, an estimated 4 billion litres needs to be produced to ensure year round fresh supply, due to seasonal fluctuations on farm. Therefore based on the above closer to 44% of supply will be directly affected by this

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action. Following the impact of deregulation and then 10 years of drought, the total Australian milk pool has dropped by over 2 billion litres. The GFC and the uncertainty in world markets has led to years of below acceptable farm gate milk pricing which has impacted on the dairy farming communities confidence in the industry. The good season and increasing commodity market pricing was rekindling confidence back into the farming sector. This action by the supermarkets will once again erode confidence, slow sector growth, reduce capital expenditure on farm and weaken our world class position as a dairy product provider to the world.

c. Whether such a price reduction is anti-competitive;

It appears Coles is selling milk at close to cost. It would appear difficult to supply milk at \$1 per litre in rural areas and not be supplying milk below cost (inc freight to store) We are concerned that Long term that the current actions will remove competition from the milk sales market and significantly weaken processors and brands. Due to the strength of the duopoly in the supermarket sector the ability of a single large player to affect the overall market is significant.

d. The suitability of the framework contained in the Horticulture Code of Conduct to the Australian Dairy Industry;

No comment.

e. The recommendations of the 2010 Economics Reference Committee report, Milking it for all it's worth – competition and pricing in the Australian Dairy industry and how these have progressed;

No comment.

f. The need for any legislative amendments;

We do not believe any move towards re-regulation would be positive for the industry. We also feel anti competition laws as they currently stand are adequate. We would however like to explore in collaboration with Government the development of Market Based Instruments (MBI's) that would allow farmers and processors to invest in their operations to be in a stronger position to withstand future market volatility and adversity. This could involve tax reform for capital expenditure to improve efficiency and productivity, structured grant support for investing in the environment and green house gas abatement projects, and increased investment in R&D and extension services for the dairy industry.

g. Any other related matters

No comment.

We appreciate the opportunity to express our concern about this pricing issue and we look forward to the outcomes and recommendations of the Senate Committee. If we can be of any further assistance to your enquiry or need any clarification in regards to our comments please feel free to contact me.

Regards,

(...)

Barry Irvin
Executive Chairman
Bega Cheese Limited