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Member for O'Connor

Committee Secretary
Senate Standing Committees on Economics
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CANBERRA ACT 2600

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Dear Committee

INQUIRY INTO THE IMPACTS OF SUPERMARKET PRICE DECISIONS ON THE DAIRY INDUSTRY

I am pleased to make the following submission on behalf of dairy farmers living in my electorate of O'Connor to the committee's inquiry into the impacts of supermarket price decisions on the dairy industry.

On January 26, Coles announced that they would reduce the price of their home-branded or supermarket-branded milk to one dollar a litre.

While Coles has publicly stated they would absorb this price reduction, this has forced the market to act accordingly, and as such, other major retailers have reduced the price on home-branded milk to match the price set by Coles.

This price reduction of up to 33 per cent will have flow on effects to dairy farmers, small retailers and deli's, which will not be able to compete with Coles and major retailers.

The short term impacts and long term impacts of this move by Coles will be disastrous.

Advice I have received from key stakeholders, including local dairies that I have consulted with and the WA Farmers Federation is that this move could very well lead to the end of the WA dairy industry.

In the following I will be outlining the important need to create legislation to protect the dairy industry from supermarket price decisions.

I hope this will help you in making the right decision – to allow the Australian dairy industry the best possible chance to continue to operate without an undue impost places on them by large, multi-national corporations.

Short-term and long-term impacts

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The short-term and long-term impacts of this price cut will be significant, and we have already seen many negative short term effects already.

In the immediate short term, we have already seen the negative impact this move by Coles has presented to the local dairy industry.

Within days of the announcement by Coles, Woolworths and IGA announced that they would also reduce the price of their home-branded milk to match at one dollar per litre.

While Coles has guaranteed to absorb any additional costs, the other retailers have not promised the same, and Woolworths has already commented publicly that the current prices will not be sustainable.

"This is certainly not a sustainable price level for milk and it will inevitably lead to pressure at the farm gate." – Clare Buchanan, Spokeswoman for Woolworths, *The Courier Mail*, January 27 2011.

A number of dairy farms in the Great Southern have already been forced to lay off staff or sell stock to recover the costs they have incurred since this announcement by Coles only one month ago.

One family run dairy farm that I have spoken with has reduced their stock from 1000 cows to 700 since January 26. They have also released three full time staff members in that period of time.

This same dairy farm has reported a decrease in white milk sales by 30-40 per cent since Australia day.

A second local, family run dairy farm, has also confirmed to me that they have been selling off cows to help cover costs.

This farm has indicated they may abandon the business as early as June if the market does not improve.

Both of these farms have told me they are very concerned that these market pressures will force local produce out of the market.

Advice I have from the WA Farmers Federation echoes this, and between the drought in WA and the floods in Queensland and other parts of the country, many dairy farmers are already in a difficult situation without this additional financial impost.

While Coles may claim they will not pass these price cuts onto farmers directly, it is expected that dairy farmers will be forced to absorb the costs when dairy contracts are negotiated later in the year.

The WA industry will be further hit in the long-term, as this extra cost to farmers will hinder the establishment of an export market for fresh milk into Asia.

While I understand this business proposal was in early stages, it showed much promise, however it has all been abandoned as dairy farmers struggle to stay on top of business locally as a result of this price cut by Coles.

Dairy is Australia's third largest rural industry and a major exporter.

In 2009/10 the Australian dairy industry accounted for 10 per cent of the world's dairy trade.

Over 100,000 people are employed in the dairy industry in Australia.

The majority of these people are employed in regional and rural areas.

It should be considered that any damage to the dairy industry will flow on to other aspects of the economy, and will be of particular damage to those towns in regional Australia that support the industry.

The town of Harvey in WA, famous for Harvey Fresh milk, is but one example of this.

Consumers will also be impacted by this decision. As noted by Woolworths, this pricing is not sustainable, and will result in consumers paying more for other goods. This may include petrol.

The media has also reported that this pricing may force fresh milk out of the market entirely, leaving consumers with only the option of long-life, UHT milk to purchase.

One can see the benefits to the multi-national corporations if they move entirely to UHT sales. UHT milk lasts longer and can be purchased from anywhere in the world due to its shelf life.

Of particular concern to the people of Australia, a UHT only dairy system would see milk being purchased from overseas countries which may have a much lower health and safety food production standard than in Australia.

Unsustainable pricing

Remarks by Woolworths and other retailers indicate that the sharp reduction in pricing will not be sustainable over the long term.

This includes the sale of milk, cream and butter.

The Australian Dairy Farmers (ADF) has calculated the cost to Coles of the milk price cut alone at \$30 million per annum. *(Based on the difference between December price data and the announced price cuts).*

This is a significant cost that will not be able to be absorbed for any length of time. Instead, it will be passed on to consumers through higher prices of other products and/or recouped from processors and dairy farmers.

Price difference between home-branded milk and branded milk

This price drop has increased the price difference between generic supermarket home-branded milk and milk processor branded milk.

Generic supermarket home-branded milk, due to its lower price and margins, gives a lower return to processors and farmers than branded milk. The same applies to cream and butter.

In 2009/10 Australia sold 2.269 billion litres of fresh milk.

Of this, 1.161 billion litres, or 51 per cent of total domestic milk sales was through major supermarket chains.

In the period from 1999-2010, major supermarkets have doubled their home-brand labelled market share.

In 1999/2000, home-branded milk sales accounted for 25 per cent of total supermarket sales.

In 2009/2010, home-branded milk sales accounted for 50 per cent of total supermarket sales, or approximately 585 million litres.

In 2000/2001, the difference in price between branded milk and home-branded milk was \$0.21 per litre.

In 2009/2010, the difference in price between branded milk and home-branded milk was \$0.71 per litre.

There now exists a very significant price difference between home-branded milk and branded milk.

Consumers who may have been happy to pay an extra 20 cents a litre to support a local product are not likely to continue to support that product when the difference in price sees branded milk at almost double the price of home-branded milk.

The increased market share of home-brand labelled milk has also seen reduced returns to the Australian dairy industry.

While consumers and the major supermarket chains will benefit from the reduced deregulation of the dairy industry and the growth of the home-brand market, this has come at the cost of the dairy industry production and processing sectors.

Recommendations

1. The Senate Economics Committee must revisit the list of recommendations outlined in the 2010 Economics References Committee report, *Milking it for all it's worth – competition and pricing in the Australian dairy industry* and re-evaluate each of these recommendations.
2. Legislation is required to bring into effect Recommendation 7 as a matter of priority.

Recommendation 7 – That the Trade Practices Act be amended to reinstate specific anti-price discrimination provisions and inhibit firms achieving market power through takeovers or abusing market power and that 'market power' be expressly defined to that it is less than market dominance and does not require a firm to have unfettered power to set prices. A specific market share, such as, for example, one third (set based on international practice) could be presumed to confer market power unless there is strong evidence to the contrary.

3. The Government must formally respond to the original report and any results of the current inquiry with their views on a solution to this current situation before any additional damage is caused to the Australian dairy industry.

Conclusion

The lack of legislation to protect the Australian dairy industry from multi-national corporations will result in the end of the dairy industry as we know it.

As mentioned in the above, through a combination of retail dominance and predatory pricing, major super-market chains are forcing branded milk off the shelves and replacing it with home-branded milk.

This increase in home-branded milk has significantly reduced returns to the Australian dairy industry and the 100,000 people employed by the industry.

Many small and medium sized dairies have already been affected by the Coles price cut. They have incurred losses and have had to sell stock to survive. It is expected many local dairies will cease operations entirely.

Regulation through legislation is required to protect the dairy industry, and the Government needs to act on this inquiry before further damage is done.

I thank the committee for taking the time to read this submission, and I hope my concerns, and the concerns of the WA dairy industry, are taken into account during this process.

Yours sincerely



TONY CROOK