Leppington Pastoral Co. Pty.Ltd.
A.B.N. 83 000 420 404
1675 The Northern Road, Bringelly NSW 2556 Telephone (02) 4773 4291 – Fax (02) 4773 4104

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

RE: Submission from Leppington Pastoral Company into the impacts of supermarket price decisions on the dairy industry

Dear Sir/Madam,

Leppington Pastoral Company is one of the largest dairies in Australia, milking over 2,000 cows in a single operation. It is a family operated business that has been involved in the dairy industry since 1951. The operation is located in Bringelly NSW, 1 hour west of Sydney. We also run a cropping operation near West Wyalong in the western area of NSW.

We run a large modern facility which was fully upgraded in the year 2000 at a cost in excess of $15 million dollars. This enabled us to expand our operation and increase productivity to help reduce the impact of deregulation, as well as allowing us to setup an operation focused on animal welfare. All animals are housed in an environment that reduces the environmental stresses that can occur in the natural environment such as rain, heat and humidity. This also reduces the carbon footprint in the production o each litre of milk. The operation runs 24 hours per day and employs over 80 full time equivalent staff members.

Terms of Reference Questions

(a) farm gate, wholesale and retail milk prices;

We are concerned about the impact of the low pricing that is being offered by the major supermarkets to consumers in relation to home brand milk. There is no direct link from the dairy farmer to the supermarkets. We rely solely on the processor to negotiate a fair price for the product that we produce.

It seems illogical that Coles can say that a reduction of retail price will not have an impact on the farm gate price. As consumers purchasing trends change to home brand milk this will shift the margin that processors receive, and logically reduce the price processors can pay farmers. Milk is not a cheap commodity and should be valued fairly. Unfortunately supermarkets use milk to get people into stores.

The price that farmers in NSW, Queensland and Western Australia receive for their milk should have little influence from the export market as we are in the domestic market supplying fresh milk.

(b) the decrease in Australian production of milk from 11 billion litres in 2004 to 9 billion litres in 2011, of which only 25 per cent is drinking milk;

Milk production in Australia is very seasonal in most regions. For domestic market purposes farmers are encouraged to produce milk all year round which in turn adds costs to production. With the drinking milk market at 2.75 billion litres this generally means that we need an annual production of 4 billion litres to limit seasonal fluctuations.

With excessive periods of drought, especially in Northern Victoria, milk production has fallen to record lows. In addition to this, the recent drought and flooding in Queensland and Northern NSW has impacted heavily on dairy farming operations. With farmers unable to capture a fair price for milk, they are left with no choice but to leave the industry or export replacement heifers overseas to China, Vietnam, Russia or Mexico to survive.

The ability for farmers to increase volume in the short term is very difficult. There is a 3 year cycle in being able to naturally increase numbers in a herd.

(c) whether such a price reduction is anti-competitive;

With supermarkets selling milk at, or below, cost they are squeezing the other competitors out of the market. Coles has the ability to increase margins by increasing margins on other store consumer goods to compensate for the reduced margins on milk. However, competitors in the liquid milk market do not have this ability.

Not only is the price anti-competitive, Coles has also reduced the facings of other branded milk products on shelves, which also limits consumers' choice.

The milk vendors in Australia have also been treated harshly in this action by Coles as they only sell branded milk. Coles has brought on more trucks into their online store operations to help supply restaurants and cafes. A local cafe can purchase 40 2 litre bottles of Coles milk for $2 each plus a small freight charge. This is putting the milk vendors out of business.

(d) the suitability of the framework contained in the Horticulture Code of Conduct to the Australian dairy industry;

We are unable to comment on this as we do not understand this issue sufficiently to add value to the debate.

(e) the recommendations of the 2010 Economics References 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 believe that the charter of the ACCC is too focused on the short term advantages of competition. There needs to be greater power given to the ACCC to see the long term effects of competition. The supermarket chains are too powerful. For example Kirin, who own National Foods and Lion Nathan have limited options in who they sell their products through. Most of the items that they sell will go through a Wesfarmers or Woolworths owned outlet at some point. This in our opinion is one of the reasons the processors are somewhat silent on this issue.

Home brand products are generally inferior products to the branded products. The power of the supermarkets allows them to influence the processors to cut corners and produce a product that does not represent milk, as it was known. They have pushed the processors into a corner. Home brand milk and branded milk produced by large processors has no point of difference anymore.

Permeate, for example, is added to milk to help standardise the product. Labelling laws should be changed so consumers can see if milk is 100% fresh milk with cream being either removed or added to standardise. If permeate or milk powder or any other additive is to be included it should be highlighted on the bottle.

(g) any other related matters.

Due to the size and power of the 2 major chains (controlling over 80% of the grocery space) they exert immense power and have the ability to modify consumer habits in a very short time frame. Milk is treated as a traffic generator to get consumers into the stores.

The action by Coles is imitating the UK market where farmers are constantly challenged and continue to leave the industry. Most consumers know the price of 2 litres of milk but would not know the price of 2 litres of Coke or bottled water. Many consumers would purchase more Coke or bottled water than they do milk, yet milk is more expensive to produce yet less expensive to purchase for the consumer.

Milk is a valuable product and should be treated as one. We do not feel that regulation is the answer but feel there needs to be the ability to sell the product at a fair price. In Australia we do not understand what a food shortage is. If consumers want fresh Australian milk then they need to support the branded milk. Otherwise we may be drinking UHT milk from New Zealand or even China where food safety is very limited, proven by the recent melamine scare.

We thank you for the ability to express our concerns and feel that we have the support of many. The owners of Coles, Wesfarmers, need to be held accountable for the devastation they are causing to the agricultural sector.

Michael Perich
Director
Leppington Pastoral Company