

Tabled by
Robert Brokenshire MLC
10 March 2011

Brokenshire, Robert

From: Lambert, Rikki
Sent: Monday, 7 March 2011 5:02 PM
To: Brokenshire, Robert
Subject: FW: Milk Prices
Attachments: Picture (Device Independent Bitmap) 1.jpg

Among other things there is **a telling admission here** that could see the Inquiry recommend processor price transparency laws...

Rikki Lambert
Legal, Media & Policy Advisor to the Hon Rob Brokenshire MLC

website: <http://sa.familyfirst.org.au>

From: Burton, Cherise **On Behalf Of** Brokenshire, Robert
Sent: Monday, 7 March 2011 8:50 AM
To: Lambert, Rikki
Subject: FW: Milk Prices

From: Chris Mara
Sent: Friday, 4 March 2011 4:29 PM
To: Brokenshire, Robert

Subject: Milk Prices

Dear Rob, thanks for your letter and discussions over the phone.

As you know there is a Senate Inquiry into this matter and we will be making a submission to the Inquiry and appearing to give evidence later in March. While much of the specific information you have requested from Coles about milk pricing is commercially confidential, we are happy to provide an overview of our position as it relates to the Down Down campaign of which milk is a part.

A central pillar of Coles' turnaround from day one has been to deliver truly better value to consumers and engender higher levels of customer trust. In the last year, Coles has cut prices on more than 5,000 products including milk to help stretch the weekly pay packet for Australian families.

As you would appreciate, many Australian families earn less than the average wage. Rising utility bills, mortgage payments and higher health costs are making it hard for many of these families to make ends meet.

By reducing grocery prices, Coles has helped turn *food inflation* from 4-5 per cent a year, to *food deflation* in Coles of around 2 per cent a year. This has saved Australian families about \$1 billion dollars a year on their total grocery bill. As a result, more and more Australians are trusting Coles as a shop that offers real value every day of the year. For milk we estimate the lower prices are saving consumers \$1 million dollars a week.

Despite claims to the contrary, Coles is not out to hurt dairy farmers by cutting retail milk prices. The simple fact is that Coles does not buy milk from the farm gate. We buy processed milk from several foreign-owned dairy processing companies. These milk processing companies determine the farm gate price they pay to Australian dairy farmers.

As a dairy farmer you would appreciate that 75 per cent of milk produced in Australia is for export or for manufactured dairy products. Drinking milk represents around 25 per cent of production, of which only half (12%) is sold via supermarkets. Coles purchase of drinking milk represents 5% of production and 17% of all drinking milk sold.

I can assure you that Coles has made every attempt to prevent its retail price reductions having any flow on impacts at the farm gate. As you know, Coles cannot guarantee that farm gate prices will not change because it does not buy at the farm gate and there are a range of other forces at work, both global and domestic that effect farm gate milk prices.

However, the measures that Coles has taken that are within its power to protect dairy farmers include:

- Coles fully funded the retail price cut in its Coles brand milk product from its own profit margin. Coles did not ask milk processors to fund the retail price reduction;
- Coles extended volume commitments for up to three years under new contracts with milk processors signed on 17 January 2011. In those contracts, Coles included rise and fall clauses that ensure higher farm gate prices are reflected in the commercial price we pay to milk processors.

While retail milk prices are available on shelf every day for everyone to see, we do agree that there is a lack of transparency about what milk processing companies pay Australian dairy farmers at the farm gate. Why processors have not passed on to dairy farmers some of price increase received from Coles at the start of 2011 is a question dairy farmers need to be asking their processor.

Murray Goulburn, a farmer owned dairy cooperative, publishes its farm gate price - a farm gate price that has increased by around 17 per cent last year - none of the multinational dairy processors have. Why not, is a question dairy farmers should be putting to them.

We understand dairy farmers are concerned about the impact lower retail prices may have on farm gate prices but believe we have taken appropriate steps, such as increasing prices to processors and fully funding the price cut, to minimise this possibility.

Chris Mara

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Corporate Affairs



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