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The Secretary
Senate standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

I am writing in regard to the Milk Price War between the major supermarkets and the effect it will especially have on the WA Dairy Industry and many other family businesses involved in supply, distribution and retail milk.

The WA Dairy Industry is made up of 170 Dairy farmers who supply three major milk Processors (National Foods, Fonterra and Harvey Fresh) each of these Companies WA Businesses are primarily liquid fresh milk (80%). The State requires even supply of fresh milk through out the year and it's farmers are efficient at producing to it's market needs. (There is a much higher cost to produce milk out of season).

Because WA doesn't have a large farmer owned Co-op or a significant manufacturing processor we don't have access to a world market and therefore a floor price. The industry solely relies on the domestic market for it's returns to processors then to the farm gate. (the average farm gate price is unsustainable without anymore "Down, Down, Down" pressure).

The liquid milk sales are so important to the processors, this is evident in the amount of discounting by the branded products compared to other states discounting doesn't sell more milk it just shifts market share between processors. In general processor discounting is only for short periods of time.

After Deregulation both Coles and Woolworths introduced home brand milk where the processors were asked for tenders to bottle and supply the generic brands. This devalued our industry and shifted more power to the giants. The generic brands are sold for less than branded product, but it wasn't a lot less.

MILK WAR:

This is a whole other destructive blow and a total abuse of market power with no regard to its consequences. Both Coles and Woolworths introduce a second tier generic brand, 1st Woolworths \$2.09 for 2 litres, then Coles \$2.00 for 2 litres.

This has devastatingly devalued 80% of milk produced in this State. There is no way Coles are going to absorb this industry loss.

The strong in the market place act and the weak in market place (farmers) pay, there is no other way this will pan out.

The West Australian farm gate price is averaged at 38c (which is below the world export commodity price) the average cost of production is 35c- a significant number of farmers are losing money. West Australia's only Co-op which 30% of farmers supplied to went into receivership and these farmers didn't receive any payment for three months. These suppliers have been taken on by (HF, NF & Fonterra). This is a cost that farming and processing sector has to absorb.

Last season WA had its worst drought in 100 years which put our largest cost (feed) up by 50- 100%. (When a cow is milked dry there is no more). Unfortunately the cost of production has no impact on the retail price, but a reduced retail price will have a negative effect on farm gate price. This is because we have no market power, this has been taken away by Government in 2000.

I believe there is such an imbalance of power in the food supply chain, and when somebody has too much power they can tend to abuse it. That is exactly what Coles and Woolworths are doing. Surely when an organisation has so much power they have a responsibility to behave in a reasonable way.

OTHER POINTS:

- Super markets only sell food
- Farmers produce it
- Processors, collect, manufacture, and distribute
- Australia need strong food production sector
- Consumers want fresh quality local food
- Is the milk price war more about destroying family owned food retailers than providing cheap milk to consumers
- Will the consumers pay in the long run
- This action will mean less choice for consumers

I would like to thank you for the opportunity to put our case and would ask you what you think is a fair go. When is too big too big or too much too much? What kind of Australia do we want in the future and what are we going to eat?!

Yours sincerely

Michael Partridge