

2nd March, 2011

To whom it may concern,

I am writing in regards to the recent unsustainable price cuts by Coles on their home brand milk, cream and butter.

In January 2008 we invested our lives and millions of dollars into the Northern Dairy Industry, purchasing a dairy farm north of Gympie. At this point in time, with assistance from our accountant we were of the opinion that our debts would be manageable with the current price for milk and the business would be capable of operating to break even or better yet produce a marginal profit.

In our short time in the dairy industry, we have only ever seen our milk price drop. Employing three staff and continually making improvements on farm, we contribute substantially to the local community. Supporting businesses such as irrigation, semen, feed suppliers and all the necessary places associated with growing feed for cows and milking them. How can we continue to support these businesses and survive if our income reduces constantly beyond our control as a result of the supermarkets cut throat discounts, using milk as a marketing agent, while all our expenses continue to increase? It's just not right and we feel someone needs to take action on this matter. How many other industries have the same scenario?

The prices that Coles are offering the public on home branded milk are unsustainable. The last time milk was priced at \$1 per litre was in 1992.

Despite Coles' recent assurances there will be a major impact on dairy farming families as processors and dairy farmers rely on the margin from branded milk sales for their profitability.

Unsustainably priced Coles generic home brand milk is taking market share away from branded products. This reduces the amount farmers receive from processors as more Coles home brand milk is being sold at little or no margin and less of the sustainably priced branded milk is being sold.

Farmers whose milk payments are linked to branded milk sales will see a reduction in their milk cheques as early as this month in some cases.

Industry data shows that in the most exposed region of southern Queensland and northern New South Wales a 10 percent shift toward home brand alone would halve farmers' 2009/10 profits should the processors be forced to pass the impact on to farmers. Coles has already said that the increased sales of its' home brand milk have climbed by some 15 to 20 percent.

The impact of Coles' pricing decision will ultimately flow on to hit dairy farmers at a time when they are struggling to respond financially to years of drought and now devastating floods and cyclones.

We support the Australian Dairy Farmers (ADF) and Queensland Dairyfarmers' Organisation (QDO) call for an ACCC inquiry on behalf of dairy farmers and understand they have written to the Government and the ACCC asking them to take action.

We believe that Coles' actions constitute predatory pricing under the Competition and Consumer Act 2010 (formerly Trade Practices Act) and impacts the viability of branded dairy products and will lead to less product variety on supermarket shelves.

It is our view that these actions will ultimately lessen competition for consumers through increasing prices and decreasing product choice as the experience in the United Kingdom has shown.

If these discounts continue, we have no choice but to cut our wages and reduce our purchases in local businesses therefore, creating a flow on affect to all the businesses and their staff in this town. We will also need to diversify in another crop or industry, which takes time to learn and implement, just so that we can repay our debts. Selling our farm is not an option as no-one in their right mind would want to buy a dairy farm with the lack of confidence in the industry, would they?

Coles actions are not only hurting dairy farmers. They will also damage Coles' competitors such as small businesses like local corner stores, independent service stations and other small retailers of milk. The industry's that service these stores, such as delivery drivers will also be affected.

Lower sales for corners stores and independent service stations will lead to a substantial lessening of competition in the market place and leave consumers with less choice.

We also believe that the public statements by Coles such as *“Coles is not reducing the price it pays to its milk processors either so this move will not impact them or the dairy farmers who supply them. In fact both farm gate milk prices and contract prices with processors recently increased. Coles is fully absorbing the price cut, bringing great value to customers whilst supporting Australian dairy farmers”*, is tantamount to false advertising. Coles is seeking to promote to consumers that if they buy Coles branded milk at this dramatically discounted prices it will not have a negative impact on dairy farmers whom supply Coles and that milk prices have recently increased.

The facts are that the discounts will and are already impacting of returns to dairy farmers and milk prices to many farmers have actually dropped by approximately 10 percent in NSW and Victoria and 15 percent in Queensland in the last 12 months, which includes farmers that supply milk for Coles supermarket branded milk.

As such we believe there is a prima facie case of false advertising that also should be investigated by the ACCC.

Please help us to help our dairy farmers.

Yours sincerely

Natalie & Craig Mellor