



10 March, 2011

Your Ref:
Our Ref:

Mr John Hawkins
Secretary
Senate Economics Committee
Department of the Senate
PO Box 610
Canberra ACT 2600

By email: economics.sen@aph.gov.au

Dear Mr Hawkins

Inquiry into the impacts of supermarket price decisions on the dairy industry

Parmalat Australia Ltd (Parmalat) has been supplying fresh milk to Australians for over 70 years. We are known for our strong brands such as Pauls, Oak, Vaalia and Ice Break. We employ over 1700 people across Australia. We strongly believe that profitable, growing brands is fundamental to the sustainability of the dairy industry. In order to invest and innovate for the long term a basic profit level is required. The dairy industry depends on enormous capital investment by processors over long periods to ensure the quality and variety of products consumers demand. The bulk of the capital investment and risk lies with the farmer and processor.

Australia has a very high quality industry developed over many years and supports a high per capita consumption when compared to other developed countries. Australia has one of the leading portfolios in the world in terms of functional health benefit milks. These include brands that support higher calcium, lactose intolerance and low fat high protein. Parmalat leads the way in the health category of dairy.

Of particular importance in the Australian landscape is the recognition of regional circumstance when reviewing the total industry. For example the bulk of fresh milk produced in Queensland is used for drinking milk whereas Victoria is the opposite. The cost of milk production on farm also varies considerably across Australia due to a number of factors such as climate and production patterns as the market requires. Hence the farm gate price and the factors driving it can vary greatly. Whilst the retail market may operate on a national basis, the farm and processor costs must be understood regionally, to properly identify the full impact of the price cuts on the Dairy industry.

Item	Unit	Time Period	Total	Qld	NSW	Vic	SA	Tas	WA
Milk Production	Litres ,millions	Cal.2010	9,026	523	1,060	5,804	588	687	363
Fresh Milk Sales	Litres ,millions	Cal.2010	2,074 23%	462 88%	656 62%	492 8%	183 31%	52 8%	229 63%
Major Grocery <i>Share of Fresh Market Sales</i>	Litres ,millions	Cal.2010	1,134 55%	240 52%	363 55%	276 56%	105 58%	23 44%	128 56%

From the table above, 65% of milk in Australia is from Victoria, with lower cost dairy production. If the reduced pricing results in dairy farmers exiting in other states (e.g. Qld, NSW) then the lions share of Australian packaged milk supply would have to be sourced from Victoria. Because of the refrigerated supply chain issues, it is reasonable to assume a shift from fresh to UHT is possible which opens the door for New Zealand supply. The longer term implication therefore for other states and fresh milk supply, could be devastating.

Processors play a critical and essential role in the milk value chain. Parmalat pays on average the highest farm gate price in Australia and was the first to have a collective bargaining agreement with an ACCC endorsed farmer representative group. Our goal is to create a sustainable industry over the long term. Parmalat Australia makes a very low return from white milk, well under our cost of capital. The best way to ensure value flows down the supply chain to farmers is for processors to market and develop high quality branded products underpinned by a fair return.

Historically private label contracts have been done on a marginal basis to fill excess capacity. A large shift of branded volume to private label will create a significant gap in the processors' earnings model and put at risk future investment. The challenge for the processor is to differentiate and create value for supply chain participants in a market with aggressive retailer discounting.

In conclusion Parmalat Australia believes that heavy price discounting;

- is placing enormous pressure on processor margins through loss of branded sales,
- has negatively impacted smaller retailers by channel shift to the already dominate major grocers,
- has the potential to destroy the Queensland and Northern NSW dairy industries, and
- will put at risk future investment plans of both processor and farmers.

Yours sincerely

Parmalat Australia Ltd

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General Manager Commercial Development