

**Submission to the Senate Economics Committee**

Inquiry into the

**Impacts of supermarket price decisions on the dairy industry**

February 2011

## 1.0 Introduction

The National Baking Industry Association (NBIA) is the marketing arm of the Baking Industry Group. The Baking Industry Group is a not for profit organisation, whose role is to provide industry leadership to develop, support and protect the principles of efficiency, quality and best practices in the Baking Industry. With membership in every State of Australia, the Baking Industry Group prides itself on being the national body for the Baking Industry, playing a vital role in the development, promotion, education, training and protection for business owners within this industry. With close to 400 members, membership ranges from small corner store bakeries to large milling companies. While our membership is diverse, all members are committed to safeguarding the industry and providing the best quality outcomes to consumers.

## 2.0 The Senate Economics Committee Inquiry

With regards to the Senate Economics Committee's inquiry into the Dairy Industry, the committee has outlined that it is specifically interested in:-

The impact on the Australian dairy industry supply chain of the recent decision by Coles supermarket (followed by Woolworths, Aldi and Franklins) to heavily discount the price of milk (to \$1 per litre) and other dairy products on the Australian dairy industry, with particular reference to:

- (a) farm gate, wholesale and retail milk prices;
- (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;
- (c) whether such a price reduction is anti-competitive;
- (d) the suitability of the framework contained in the Horticulture Code of Conduct to the Australian dairy industry;
- (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;
- (f) the need for any legislative amendments; and
- (g) any other related matters.

Whilst we are not part of the dairy industry, we share similarities in that the Baking Industry also supply staples to consumers, and because of this we share a number of the same concerns. As you will have seen by the press comments, the impact that the supermarkets' price decisions are having on the Dairy Industry are also having an impact on the Bread Industry. The Bread Industry has been impacted in the following two ways; firstly, because of the dropping of the price below the minimum cost of production; and secondly, because the supermarkets are using this price drop as a leader to increase their sales of other products – which will have a significant affect on the Baking Industry.

The average Australian consumer's pattern of shopping is to do one large supermarket shop per week, and supplement this with various small purchases of fresh products. Therefore, the Baking Industry is concerned that whilst at present a consumer will go to their local bakery to purchase milk and bread, they will change their style of shopping to more frequent visits to the supermarket as a result of the price war. This will result in more bakeries needing to close their business which will have an impact on the Australian economy because of the lack of employment opportunities for staff in the Baking Industry.

### **3.0 Farm gate, wholesale and retail milk prices**

NBIA can only comment on the production costs within the Bread Industry.

With regards to a basic loaf of bread and the ingredients required, even with economies of scale a basic loaf of bread can only be made for \$1.50. This production cost is made up of not only basic ingredient costs (approximately \$0.50 per loaf), but also takes account of bakers and sales staff wages and on-costs, equipment costs, slicing or bagging, and packaging costs, as well as freight costs, rent and energy costs. Therefore even allowing for economies of scale a loaf of bread can not be produced for \$1, which has been the current rate during the price war on milk and bread.

### **4.0 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**

This is not applicable to our Submission.

### **5.0 Whether such a price reduction is anti-competitive**

NBIA do believe that such price reductions by the supermarkets (whether in relation to dairy products or bread products) is anti-competitive. Price reductions of this nature prohibit many businesses from competing and operating in the market on a level playing field.

The Baking Industry offers a significant contribution to the Australian economy. It is difficult to find current data, however in 2001-02 it was estimated by the Department of Agriculture, Fisheries and Forestry that the Baking Industry had approximately 8,600 establishments in Australia. These establishments included wholesale cake stores, wholesale bakeries (excluding corporate plant bakeries), plant bakeries, franchise bakeries, retail bakeries, franchise cake stores, cake and pastries outlets, and supermarket bakeries. These businesses contribute to both the Australian manufacturing and retail sectors. Of these 8,600 establishments roughly 4,700 establishments (approximately 55%) were retail establishments, therefore it is clear that small businesses in the Baking Industry make up a large part of the Baking Industry as a whole and have a significant contribution. In 2010 the Baking Industry produced sales of \$3,355.8 million for bread alone (Source: Euromonitor International October 2010). As stated in Euromonitor International (October 2010), "Artisanal producers maintained their dominance of baked goods, holding a retail value share of 64% in 2009. In Australia these comprise several large chained bakeries such as Brumby's and Baker's Delight, as well as many independent operators."

Following the Supermarket conglomerate's reduction of the price of milk and bread to \$1, many of these small retail bakeries are struggling. They are unable to compete with the supermarket's price and still cover their costs of basic ingredients and running a business. As a result, many of these small businesses are losing, and will continue to lose, customers whose purchasing decisions are driven by price, and will eventually go out of business. This will consequently have a significant affect on the Baking Industry and the Australian economy in general. A price reduction of this nature would indeed be anti-competitive as it would force a number of small bakeries out of the market, therefore decreasing the amount of income generated by the Baking Industry as a whole.

In addition, as this price reduction will drive many small bakeries and small retailers out of business, this will lead to a significant decrease in consumer choice. Consumers will no longer have the luxury of choosing which bakery to purchase their bread from but instead will have no choice but to purchase from the supermarkets.

**6.0 The suitability of the framework contained in the Horticulture Code of Conduct to the Australian dairy industry**

NBIA are unable to comment on the suitability of the framework contained in the Horticulture Code of Conduct to the Australian dairy industry.

**7.0 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**

This is not applicable to our Submission.

**8.0 The need for any legislative amendments**

Whilst NBIA acknowledges the current legislation regarding price fixing, it is NBIA's opinion that the Senate should look at enhancing this legislation to ensure that the dominant markets can not concurrently discount the price on staple items below relevant cost.

**9.0 Any other related matters**

NBIA see there is a close link between the Dairy Industry and the Bread Industry, as they are both dietary staples of the Australian consumer. The supermarket's price reduction of milk and bread as a leader to increase other sales to this level will be detrimental to small businesses. NBIA wish to voice their major concern on this issue and perceive that this is predatory pricing and a misuse of market power.