

SOUTHERN COLLECTIVE BARGAINING GROUP : NSW

Sunday 6th March 2011

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

RE: Submission from Southern NSW Collective Bargaining Group into the impacts of supermarket price decisions on the dairy industry.

Dear Sir

The Southern Collective Bargaining Group is a group of dairy producers in the regions of the Southern Highlands, the Shoalhaven and the Bodalla region of NSW . Together our group supplies an average of 50 million litres to Lion Nathan National Foods. Our farmer members supply all year round fresh milk to the liquid milk market 7 days a week, 365 days of the year.

Terms of Reference Questions :

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

a) Farm gate, wholesale and retail milk prices

Our group of dairy producers are very concerned that the supermarkets are not being honest about the long term implications of prices paid to dairy producers. At present Coles are saying publicly that they are absorbing the costs of the discounted milk to consumers. How long will they continue to do this? However the large price drop in Coles milk has severely impacted on the purchase of Branded milk by consumers. If the Supermarkets continue to squeeze the milk processors they will then in turn offer the dairy producers a lower price for their milk. We rely on the processor to secure a fair and reasonable price from the large supermarkets.

Our supply of milk which goes predominantly to the liquid milk market in Sydney is not related to the export milk powder market.

Over recent years dairy producers have been continually seeing smaller and smaller margins for the supply of a fresh food item – milk. Because of the nature of our fresh milk product -we cannot store it the shed or silo until we can achieve a better price - we are in a weak position of bargaining with the powerful supermarket chains.

Our dairy producers strongly believe that fresh liquid milk *should not* be discounted or used as a tool to get people into the supermarket.

b) The decrease in Australian production of milk from 11 million litres in 2004 to 9 million litres in 2011, of which only 25% is drinking milk

Milk production varies greatly around Australia. In recent years there has been prolonged drought and water shortages in large areas of dairy production areas of the country. The milk that is exported as powder is generally produced more seasonally and thus has a lower cost of production. However our CBGroup supplies our milk into that 25% of drinking milk which we produce 365 days evenly across the year which has a higher cost of production.

c) whether such a price reduction is anti-competetive

As dairy producers we supply a daily fresh product to the processor who then bargains and negotiates with the Supermarkets for a contract to supply milk for a period of time – say 1 or 2 years. We cannot hold back supply of our fresh liquid food to try and bargain for higher prices. The supermarkets have a large range of items across which they can spread their losses for the

price drops in milk. However we are not able do this. Basically we are dictated to by the Processor who is dictated to by the Supermarkets. We have no power whatsoever.

We feel that the ACCC are only interested in the best deals for Australian consumers. What about the impact that the powerful supermarket chains are now having on the dairy producers? Is the ACCC at all concerned about this? Are we invisible and unimportant to the ACCC?

f) the need for any legislative amendments

We cannot understand why the ACCC cannot see the power that the large duoplies of Coles and Woolworths are accumulating in terms of Australian consumer spending. We feel the way they have been allowed to move in on the sale of petrol stations and liquor/ hotel outlets is immoral. Because the ACCC have done nothing to halt the continually growing power of the big 2 supermarket retailers they are now continuing to move onto new areas of domination - fresh milk.

g) any other related matters

The Supermarkets have so much power and it only continues to grow because of the weakness and inaction of Government bodies like the ACCC. The irony is that the ACCC was set up to primarily avoid these situations occurring. Surely supermarkets should not be able to heavily discount a fresh food product such as milk. They are misleading consumers about the longer term impact of fresh liquid milk availability. Dairy producers of daily fresh milk continue to work 365 days of the year with ever increasing input costs and overheads. Surely only milk should be discounted if it was nearing its use-by date. Discounts on soft drinks and other processed food lines that can be stored are surely more fairly able to be discounted. Fresh milk cannot be stored for months in a warehouse. It is extremely expensive to produce under strict quality controls.

We thank you for the opportunity as Australian taxpayers to express our views on the impact of Coles milk discounting.

Yours sincerely

Sue Boyd
Secretary
Southern Collective Bargaining Group NSW