North Coast (NSW) Dairy Industry Group Inc.
214 Cosy Camp Rd, Bexhill, via Lismore, NSW
26 February 2011

Submission to the Senate inquiry on the impacts of supermarket price decisions on the dairy industry

Dear Senators

The North Coast Dairy Industry Group Inc represents the interests of over 100 dairy farmers on the North coast of NSW. We are extremely concerned at the decision of Coles Supermarkets to drastically cut the price of its Coles brand milk. Despite claims to the contrary, dairy farmers will have to pay for these discounts as we are price takers in the end.

The reasons behind the milk price war

Coles Supermarket has hidden behind the guise of providing cheaper food for its customers, as the reason for the dramatic cut in the price of milk and other Basic foods. Coles has never been shown to be an altruistic institution, as evidenced by its present strategy and historically.

We all know that the real reason for their move is to take market share from their main competitor, Woolworths. Any collateral damage that their actions may have, such as the demise of smaller stores and shops or of the primary industries supplying Coles, appears either to be inconsequencial to them or is an intended part of their agenda.

Their Strategy is clever, they have employed 3 overseas people on a 2 year contract with an incentive of a massive bonus, reputed to be $38M, if market share is significantly increased in that time. It is clever because the incentive to achieve is there but the instigators do not have to face the future consequences.

Future implications

The future adverse implications of the Coles decision are numerous, despite claims to the contrary by the Coles spin doctors.

Coles claim that they will take the loss on the discounted milk from their profit margins. Even for milk alone, the loss in income is reputed to be in excess of $30M in the next 12 months and therefore there is no way they can sustain this loss in profit. Even Woolworth wants to support an application to the ACCC on the basis that this is not sustainable and is predatory pricing.

Thus, taking Coles at their word that they will cop the loss is not an option, the shareholders would see to that, and the real options to recoup their losses are:

1. To use a drop in price of basic foods like milk, to give the perception that Coles is the cheaper store, to get people in and then recover the loss by raising the price of other commodities- in other words cross subsidising. All in all, the customer would be no better off. Although this might be part of their plan it cannot be the total strategy as it would be too obvious.

2. To renegotiate up coming milk supply contracts with milk processors at a lower price. Because Coles has such a massive market share it can put real pressure on the price in negotiations. This is because each processor has a quantity of milk to sell from its farmer suppliers and needs to sell it.

   In this regard, Coles have already flagged their intention to push down the price of milk by claiming it should be the world price received for milk which goes into export products. In this way, they claim the export price determines milk price and not them as over 50% of dairy products are exported. (Quote: Cole milk pricing fact sheet "The farm gate price dairy farmers receive is set by the world price because around half of Australia's milk products are exported").

   This argument is deceitful, Coles knows that all dairy exports come from milk produced in the south (Victoria and Tasmania) where production costs are lower as a result of seasonal calving and the ability to feed cows predominantly on grass most of the year. In the North (NSW and Queensland), there is no surplus milk exported with all milk going to cartoned milk. In the North, the cost of production is higher and this is to maintain all year round production of quality milk.

Coles knows that the cost of purchasing milk from the South, destined for export, would be the export price **plus** the freight to get it to Sydney and Brisbane. This transport cost has been variously calculated at between 8-12cents/L milk. Thus, apart from destroying an industry in the North, the environmental foot print to replace the milk in the North with milk transported from the South would be large.

A negotiated price down ward would probably see many producers in the North with no option but to leave the industry as the cost price squeeze would push them out. To support this suggestion, the farm gate price of milk under the previous quota system, before deregulation in 2000, was about 52 cents/L, the present price varies from 48-56 cents with a few outlyers. Over the same period, the cost of production has risen substantially and farmers have responded to this by greatly improving their efficiency by increasing production/farm by 44%, primarily through increasing the number cows managed/farm by 44 %, as outlined in the Table 1.

Table 1. A comparison of the number of dairy premises, total cows and total milk for NSW and Queensland and the average number of cows/farm and milk/farm in 2000 and 2010

Year	Dairy premises	Total cows	Total milk (L*000,000)	Cows/farm	Milk/farm (L)
2000	2,696	454,000	2,090	168	775,000
2010	1,441	349,000	1,610	242	1,117,280

As corporate dairy farms make up only 2% of the farms, with the rest being family owned and managed farms, where there has been no

significant increase in employed labour, the efficiencies are also reflected in labour use.

In this context, there is no slack left in the system to cope with a decline in milk price, and this is why we maintain any milk price drop will lead to an exodus of dairy farmers from the north of the state.

3. The immediate effect has already been a real concern and uncertainty of the future of the industry with unknown impact of this predatory pricing by Coles on future returns to farmers, irrespective of whether the price of milk drops or not. For example, a number of Queensland farmers have already put their dairy herds on the market citing the Coles decision to lower milk prices as the last straw after the floods and other challenges.

4. As Coles will source milk from anywhere, it is possible that they will import increasing amounts of milk and other basic foods, threatening our food security in the future. There is a growing awareness world wide of the need to address national food security. For example, at least 70% of food in Japan has to be domestically produced and the government is prepared to regulate and fund this. We don't seem to have this foresight as we allow more primary industries to be squeezed out through the predatory pricing by the oligopolies and many other constraints that are being placed on farmers.

   The reason for this may be that we have always had ample cheap food available and have not experienced the fear of not knowing where the next meal will come from. People in the recent Queensland floods have, they were desperate for food and the 2 basic foods most in demand were milk and bread.

5. In the long run, consumers will have to pay very high prices for basic foods when there are only 2 major retailers controlling nearly all the food market.

6. It is doubtful if you will receive any critical submissions from the processors who are too worried about getting offside with the supermarkets- that the sort of influence they already have.

The solution

Revisit the recommendations of last year's senate committee deliberations **and implement them.**

Take Coles at their word and ensure that any future milk contracts they enter into with processors will be at a milk price at least as good as the last contract plus a increment for loss of branded milk sales and the increase in the annual on farm cost of production.

Yours sincerely ,

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Ken Bryant, Chair, North Coast (NSW) Dairy Industry Group

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