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Committee Secretary
Senate Standing Committee on Economics
Parliament House
CANBERRA ACT 2600

**South Australian Dairyfarmers' Association Submission to the Senate Economics
Reference Committee Inquiry into the impacts of supermarket price decisions on the
Dairy Industry**

Dear Sir,

SADA is the main association representing the interests of South Australian dairy farmers. For the 2009/2010 year there were 91,563 cows, 307 dairy farms, 610 million litres of milk produced and 107 million litres of supermarket milk sales in South Australia.

SADA welcomes the opportunity to make a submission to the Committee.

Our major concern:

We are becoming increasingly concerned with the growing market power of the Coles/Woolworths' supermarket duopoly in Australia. We believe that the current move by Coles in discounting milk to a dollar per litre (and other dairy products) and "keeping prices down", will lead to an even less competitive retail grocery market for dairy products.

We believe it is critical that both the trade practices legislation and the powers of the ACCC be strengthened. In relation to the ACCC we believe the ACCC should as a matter of urgency, be directed to investigate both the retailers and dairy processors in the domestic market, especially given that there appears to be a lack of transparency in the way the market is operating at the moment.

Supporting comments:

1. Failure of government to act. When the dairy industry moved from a regulated domestic market to a de-regulated market the expectation was that the Australian government would ensure that their trading practices legislation and ACCC had the scope, powers, and resources to ensure that all aspects of trading was conducted in the spirit of free competition and "fairness". These rules are required to protect the public from major corporations that are intent on maximizing profit and testing these rules to the limit. This is how big business works; their obligations are to their shareholders and this is why we need trade practices rules and regulations. We have rules of behaviour and penalties for offenders.

We are concerned because as recently as last year, a Senate Inquiry recommended to the Federal Government that they should review and implement changes to protect the way this deregulated

domestic grocery market operates and to date there has been no action, and not even a discussion with industry! So our major concern is not with the retailers or the processors but with the inaction of our government.

A recent media head-line captured the point perfectly, *“Federal inaction and retail price wars leave farmers battling to stay afloat”*.

2. Short term gain (for consumers) but a long term pain (for consumers). In the short term, consumers are getting cheap milk and in the very short term the retailers are paying for the discounting. With the next round of contracts however cost for this discounting (around \$100m per year) is expected to be passed back down the chain through the processors to the farmers.

Also once there is limited competition in the domestic market here in Australia the retailers will have far greater power to set pricing and also to limit customer choice.

So in the longer term, any failure by the government to act now only puts at risk the viability of a local industry able to provide fresh dairy produce, and puts at risk the “choice of product” for consumers. For instance milk may be diverted from the fresh milk market to dairy products for the export market.

3. We call on the ACCC to investigate the latest discounting by Coles as a matter of urgency. Aspects that need reviewing include; concerns by dairy farmers as to the longer term consequences for their returns, the dairy industry and the general public are confused as to where the profits are going between the retailers and the processors, and finally there need to be some assessment of the accusations relating to possible criminal offences such as “predatory pricing”.

Many organisations are also calling for an ACCC investigation in their submissions to this Inquiry, including the Australian Dairy Industry Council (ADIC) who believe there is an urgent need for: “The ACCC to investigate the pricing practices of Coles, including its “guarantee” that dairy farmers’ returns will not be reduced, to ensure that predatory pricing is not being practiced and that sustainable returns are delivered to Australian farmers and processors”.

4. Without action by the government the image of the entire “dairy food chain” is being damaged. Our dairy farmers have genuine concerns that the recent massive “devaluation” of their dairy domestic market by Coles could drive them out of the market in the longer term.

But once firm rules are established and the ACCC has done its work, and the issue has been resolved we can all (producers, processors and retailers) move on meeting the challenges of an ever changing market place.

The reality is that globalization is a fact of life, “home brands” are here to stay, and “discounting” is something that supermarkets do. In a positive vein all dairy sectors can proudly point to how they are innovative and aspiring to achieve “world’s best practice”.

So the sooner this matter is resolved the better.

5. Finally, the Senate Inquiry can lead to a resolution of these issues. SADA believes this is the ideal opportunity to have these matters addressed and resolved. We have the opportunity for the “political independents” to achieve not only some good outcomes from this Senate Inquiry, but to lead the way in the implementation of the lasting and positive legislative change.

It is most relevant that the other major retailers (Woolworths, Franklins and IGA) have on this occasion, come out publicly to disagree with the contention by Coles that their new discounted prices will not lead to lower farm gate prices for dairy farmers.

The dairy industry has “challenged” Coles to honour their promise that their actions will not result in lower returns to producers in the longer term and they have been “caught out”. In fact after weeks

of silence we now hear that Coles cannot guarantee returns to farmers will not be affected.

The Retail Grocery Association is concerned that real competition in the retail grocery market is being threatened. The consumers are beginning to be concerned with the longer term implications of a lack of competition. Even the major political Parties, who have been slow to act in the past, now appear to be listening this time. As I write I understand the Coalition is considering a motion for the Parliament that will call on the ACCC to undertake an immediate investigation and support for this current senate inquiry.

For these reasons, our industry is optimistic that this time around we can achieve a domestic grocery market that is well protected by a relevant trade practices framework and we can have confidence that our “guardians”, such as the ACCC, will be well resourced and with all the powers they need.

Thank you

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James Stacey Vice President of SADA
Ken Lyons CEO of SADA