## DISCUSSION PAPER – THE EFFECTS OF SUPERMARKET PRICING ON THE AUSTRALIAN DAIRY INDUSTRY

ON January 26, Coles announced they would reduce the price of their home-branded or supermarket-branded milk to one dollar a litre. Since this decision, the dairy industry has been thrown into turmoil, and many dairy farmers in WA are uncertain about their future. All advice points to the fact that this price drop is not sustainable, and will significantly alter the way the Australian dairy industry operates. In order for participants in Australia's dairy industry (including dairy farmers and processors) to earn reasonable, sustainable returns, the price of home-branded milk needs to be substantially higher than $1 per litre.

### IMPACTS

- Woolworths and IGA supermarkets have reduced the price of their home-brand milk to remain competitive.
- Dairy farms in the Great Southern have reduced milk sales and are selling cattle and laying off staff to sustain this impact.
- Some dairy farmers are considering leaving the industry.
- Small retailers and delis will also suffer losses as they are unable to compete with the price set by the major supermarkets.
- The cost to Coles to sustain this price cut is expected to be $30 million per annum.
- This significant cost will be passed on to consumers through higher prices of other items, and/or recouped from processors and dairy farmers.
- Factoring in Woolworths and other major retailers in Australia, and this will see a loss of around $100 million per annum to the dairy industry.
- Long term impacts could see supermarkets become more reliant on long-life UHT milk over fresh milk.
- UHT milk can be easily purchased in overseas countries which may have a much lower health and safety food production standard than in Australia, and will not contribute to the Australian economy.
- Milk is an inelastic good – the demand for milk will not rise because it is cheaper, and dairy farmers will not be able to sell more milk because it is cheaper.
- Due to the complex supply chain, it is not commercially viable to import milk.
- There is uncertainty surrounding Coles' long term strategy. Will this end in six months? Will it happen again?

### WHY BUY BRANDED?

- Dairy is Australia's third largest rural industry and a major exporter.
- In 2009/10, Australia accounted for 10 per cent of the world's dairy trade.
- Over 100,000 people are employed by the dairy industry in Australia.
- The majority of these people are in regional and rural areas.
- Any damage to the dairy industry will flow on to other aspects of the economy.

### SENATE INQUIRY

The Senate Economics Committee is currently conducting an inquiry into the impacts of supermarket price decisions on the dairy industry.

As part of this inquiry, the Committee will also revisit a 2010 Economics References Committee report Milking it for all its worth – competition and pricing in the Australian dairy industry.

The Government has yet to formally respond to this initial inquiry.

The Senate Inquiry will report to Government on April 20.

### PUSHING BRANDED MILK OUT OF THE MARKET

Home-branded supermarket sales:

1999 – 25 per cent

2009 – 50 per cent (585 million litres)

Price difference Home-branded VS Branded:

2000 - $0.21 per litre

2009 - $0.71 per litre

### OPPORTUNITIES TO SUPPORT THE DAIRY INDUSTRY

Mr Tony Crook MP has met with several industry stakeholders regarding their concerns, and has made a submission to the Senate on their behalf.

While legislation may play a role in protecting our dairy industry, a more beneficial outcome would result if Coles was to show some corporate responsibility towards the dairy industry.

It is unlikely the ACCC will be able to play a role in an outcome, as it can be argued that Coles is increasing competition in the marketplace in the short term.

There may also be opportunities for the dairy industry to enter into collective bargaining negotiations in some parts of Australia, although this would not be a blanket solution. In the short term, consumers can continue to support the WA dairy industry by refusing to buy home-branded milk and purchasing WA branded milk.

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