Media Release

Australian Dairy Farmers

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ADF call to arms to Wesfarmers shareholders

For immediate release

The Australian Dairy Farmers (ADF) is calling on Wesfarmers' shareholders to sign up to a resolution calling for a extraordinary general meeting of the company to explain the price cuts to Coles milk, butter and cream.

The proposed resolution will ask Wesfarmers to stop the price cuts and explain the Coles pricing strategy on milk and other dairy products and how this is consistent with the origins and values of the company.

The resolution will be worded as follows:

That Wesfarmers:

(i) Explain the Coles pricing strategy on milk and other dairy products and how this is consistent with the origins, values and corporate social responsibility of the company; and
(ii) Refrain from implementing and persisting with the Cole's 'down, down' * milk and dairy product price reductions.

* Coles media releases of 26 January and 3 February 2011

ADF Vice President Chris Griffin said 'Wesfarmers started out as cooperative. It was built up by farmers for farmers.'

'We are calling on dairy farmers and their families, owners of corner stores, truck drivers who carry milk, butter and cream, fodder suppliers and consumers to support the resolution to help protect their industry.

There are over 100,000 people employed in the dairy industry in Australia, let's get behind the industry and stop this unsustainable pricing. The vast majority of these people are employed in regional and rural areas.

The Australian dairy industry is efficient and competitive but this pricing will ultimately impact the industry dramatically and lead to job losses.

Wesfarmers states that it aims to:
- contribute 'to the growth and prosperity of the countries in which it operates;
- respond 'to the attitudes and expectations of the communities' in which the company operates; and
- act 'with integrity and honesty in dealings both inside and outside the company.'

Wesfarmers further claims in its section that it has an enormous responsibility to 'the communities and families across Australia where the company operates'.

'Causing a price war that is unsustainable and that will hurt dairy farming families is hardly acting within its values,' said Mr Griffin.

Wesfarmers also says that it 'adheres to four core values: integrity; openness; accountability; and boldness.'

Mr Griffin says, 'The resolution gives Wesfarmers the perfect opportunity to explain their actions to the people it impacts and prove the price cuts will not affect dairy farmers and their families – now or in the future.'

To support the resolution go to www.australiandairyfarmers.com.au or ring (03) 8621 4200.

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Background

On 26 January Coles announced it was cutting its home brand milk to $2 for a two litre container of Coles Brand milk.

ADF then said the pricing was unsustainable and expressed concern at this marketing tactic.

ADF then challenged Coles to prove that the recent milk price cuts will not affect farm gate milk prices for Australian dairy farmers. Coles did not respond in any detail apart from to talk about 'hysteria' in the media.

On 3 February Coles announced price cuts for its home brand butter and cream.

ADF suspected the drop in the price of milk would be the thin edge of the wedge and the cream and butter price cut proved it.

"Ultimately these cuts will lead to less choice for consumers as the experience in the United Kingdom has shown," said ADF Vice President Chris Griffin.

The ADF has calculated the cost to Coles of the milk price cut alone if, as they claim, they do not pass on the price cut would be **over $30 million per annum**.*

"It defies logic to think that Coles will 'fully absorb' this amount of money," Mr Griffin said.

"It is inevitable that it will be passed on to either consumers, through higher prices on other products, in Coles' stores or to dairy farmers through lower prices for their milk."

ADF has noted Coles has repeatedly refused to rule out dropping prices for processors and farmers in future contracts in the media.

Home brand milk represents milk volume through-put for milk processors, however profits are derived from their branded milk. Coles' aggressive promotion of home brand milk at the expense of the diverse range of branded milk products represents a threat not only to consumer choice but to the dairy supply chain. Dairy farmers will feel the squeeze as milk processors lose profits.

It is unclear what will happen to Coles' rolling contracts this year.

*Based on the difference between December price data and the announced price cuts

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Fast milk facts:

2009/10 (p) Australian fresh milk sales = 2,269 million litres
Per capita consumption = 102 litres per head

2009/10 (p) Total milk sold through major supermarket chains accounted for 1,161 million litres or 51% of total domestic milk sales

1999 to 2010 major supermarkets have doubled their 'private label' market share
1999/2000 major supermarket chain 'private label' sales accounted for some 25% of total supermarket sales.
2009/10 (p) major supermarket chain 'private label' sales accounted for some 50% of total supermarket sales or approximately 585 million litres.

2008/09 major supermarket chain 'supermarket brand' volume growth was 6.5%
2009/10 (p) this slowed to 1.3% and branded sales recovered some lost ground growing by 6.3%
2009/10 (p) major supermarket sales grew by 3.8%

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2000/2001 difference in price between milk processor proprietary 'branded' and major supermarket chain 'supermarket brand' label whole milk was $0.21 per litre
2009/10 (p) the difference was $0.71 per litre

When this difference is equated across the market share of major supermarket chain 'supermarket brand' sales for 2009/10 (p) the accumulated differential is $414 million and some $90 million per year in the Queensland market. In 1999/2000 the difference amounted to some $44.5 million.

Before major supermarket chain ‘supermarket brand’ pricing and marketing strategies these returns flowed to the processor and then to farmers. The loss of these returns to the industry is not sustainable.

1999/2000 ‘private’ label price for regular whole milk was $1.26 per litre
2009/2010 (p) ‘private’ label price for regular whole milk had **decreased** to $1.12 per litre or 11%
With cut throat price wars this year this has been dropped to $0.96 to $1.00 per litre

1999/2000 proprietary ‘branded’ price whole milk was $1.33 per litre
2009/2010 (p) proprietary ‘branded’ price whole milk was $1.83 per litre up 38%
Inflation from 1999/2000 to 2009/2010 was approximately 35%

Queensland Dairy Accounting Scheme

1998/1999 dairy farm gate prices where recorded 40.50 cents per litre and production costs where recorded at 35.80 cents per litre.

2009/2010 dairy farm gate prices where recorded 56.1 cents per litre and production costs where recorded at 51.6 cents per litre. Costs have increased by more then 44%.

2010/2011 dairy farm gate prices will be around 53 cents per litre and production costs for many farmers will be above that figures meaning negative returns.

This situation presents that the viability and sustainability of the production sector has been slowly eroded over the last decade as the returns to the dairy industry value chain and through the farm gate has declined as the major supermarket ‘private’ label procurement and marketing strategies have grown the amount of market share major supermarkets have with their own brands.

Reduced returns to the dairy industry value chain from major supermarket chains ‘private label’ strategies is already undermining the profitability, sustainability and viability of the dairy farming sector which produces milk on every day of the year basis for the domestic fresh drinking milk market.

Over the last decade it is clearly evident that the consumer has been a major beneficiary to date of deregulation of the domestic milk price and the growth of major supermarket chain ‘private’ label procurement and marketing strategies.

However, the benefits consumers have derived and major supermarket chain have procured have come at the cost of the dairy industry production and processing sectors.

In another context the price difference between ‘private’ brand prices and proprietary brands is the equivalent of what the major supermarket chains are willing to spend, through forgoing the return, on advertising their own ‘private’ brand, to grow their own market share in the product category, as a mechanism to attract consumers and locate them in the store.

If this amount of money, $414 million, was retained at the farm gate it would translate to an increase in farm gate price for dairy farmers of 18 cents per litre for milk supplied for the domestic fresh drinking milk market.