

Australian Dairy Farmers Limited
Level 2, Swann House
22 William Street
Melbourne Victoria 3000

Phone +61 3 8621 4200
Fax +61 3 8621 4280

www.australiandairyfarmers.com.au

ABN 76 060 549 653

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ADF expects Coles to pass on WA increase to other states

For immediate release

By once again passing on an increase in milk price in Western Australia alone Coles is acknowledging that its pricing of fresh milk is unsustainable.

The increase of 3.3 cents per litre to processor Harvey Fresh is the second in WA since Coles dropped the price of milk to \$1 per litre on Australia Day last year*.

Australian Dairy Farmers (ADF) Vice President Noel Campbell says dairy farmers now expect Coles to pass on similar price increases to other processors so they can flow through to farming families.

“Clearly dairy farmers in Western Australia are doing it tough but they are certainly not alone. Milk priced at the unsustainable level of \$1 per litre is also hurting farmers in Queensland, Northern NSW and to a lesser extent South Australia,” said Mr Campbell.

Drinking milk takes up all, or the majority, of milk production in these areas.

“The key point is that Coles’ prices for milk are unsustainable and Coles has proven this by giving Harvey Fresh a 3.3 cents per litre increase,” said Mr Campbell.

It is an admission by Coles that their ‘down, down’ campaign is having an impact on suppliers in the Australian domestic market.

Mr Campbell said “Coles also needs to publicly acknowledge that by reducing the price of milk to \$1 per litre on their home brand milk they made a mistake and set prices that are unsustainable.”

The last time milk was a \$1 per litre was around 1992. No-one can live on a wage set at 1992 levels. Would Coles’ executives be willing to go back to 1992 wage levels?

ADF is seeking an explanation from Coles on why they took this action in WA alone because it does not seem logical to increase prices in one market alone, when their pricing tactic impacts the whole of Australia. They must understand that the price on the retail shelf is linked to what farmers ultimately get paid.

Processors holding Coles contracts across Australia have indicated that milk priced at \$1 per litre is hurting them (see attachment 1).

“It is time Coles raised prices to a sustainable level and stopped their marketing tactic. This recent increase in WA urgently needs to be replicated nationally.”

*In February last year Coles announced an increase of 5 cents per litre to Brownes Dairy, the then holder of its fresh milk contract.

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For further information contact:

The ADF Office:
(03) 8621 4200

Attachment 1

Lion Dairy and Drinks

In evidence to the Senate Select Committee inquiry on Australia's Food Processing Sector, Lion, on Friday 10 February 2012 (page 50), indicated that:

"It is already more than a year on since private label was slashed to \$1 a litre. This has contributed to the \$1 billion write-down in our dairy business that we recently announced to the market. We made no profit on white milk in F11 – we simply broke even."

Lion Q1 Trading Update May 2, 2012

"The Dairy & Drinks division delivered a revenue decline of 7.5 percent to \$675.2 million, driven by the loss of private label contracts and a decline in branded milk sales as a result of deep discounting on private label milk.

Continued white milk discounting activity has seen a transfer of sales volumes from higher margin branded products into private label and from the non-grocery channel to grocery, and continues to impact profitability. "

Lion Q3 Trading Update November 4, 2011

"As a result of this continued discounting activity Lion has seen a transfer of sales volumes from higher margin branded products into private label and from the non-grocery channel to grocery, and is now projecting a full-year loss in its white milk business."

Warrnambool Cheese and Butter Factory

19/2/11 – Fantasy Land: Milk Costs Less Than Water - The Warrnambool Standard

"One of the south-west's largest dairy processors has broken its silence on the supermarket milk price war, with its chairman describing the retail wrangling as damaging to the industry. Warrnambool Cheese and Butter (WCB) chairman Frank Davis has made the processor's view known on the milk price war in a speech at Sungold Field Days, lambasting supermarkets for having a "fairytale" attitude to pricing."

"(The retail war) is like something written by (fairytale writer) Lewis Carroll, it is Alice in Wonderland type stuff."

25/2/11 – UDV Turns Up Pressure - Stock & Land

"I think there is something wrong with the way in which the pricing structure works in this industry when the farmer gets no more value for all that work than \$1/litre." Frank Davis, WCB Chairman.

27/2/12 – Supermarket War Hurts WCB- The Warrnambool Standard

"WCB CEO and Managing Director David Lord said the discounting war by supermarkets had hurt its bottom line."

Parmalat

Interim Report on Operations at September 30, 2011

“The white milk market posted an impressive gain in volume terms (+5.3%), but contracted by 3.2% in value terms, due to the steady growth of private labels and of the price gap between these and brand-name products.”

“In this environment, Parmalat, like all other producers, is continuing to lose market share, particularly in the basic product segment.” Page 21

Fonterra

4/4/12 - Weekly Times

“Retail pressure has hit dairy giant Fonterra in Australia and affected the entire brand's business, according to the company's half-year results.”