Media Release

Australian Dairy Farmers

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ADF challenges Coles to prove that milk price cuts are sustainable

For immediate release

The Australian Dairy Farmers (ADF) challenges Coles to prove that the recent milk price cuts will not affect farm gate milk prices for Australian dairy farmers.

ADF Vice President Chris Griffin said, 'Coles is selling milk at an unsustainable price and it is not only dairy farmers who believe this is the case.'

In the Herald Sun on Thursday 27 January Woolworths said 'we don't feel this is a sustainable outcome for the dairy industry.'

On the same day in the Courier Mail Woolworths also said, 'this is certainly not a sustainable price level for milk and it will inevitably lead to pressure at the farm gate.'

In the Australian newspaper on Friday 28 January Franklin's Managing Director Roni Perlov is quoted as acknowledging the prices were 'unsustainable'.

In the Adelaide Advertiser on Thursday 27 January the National Association of Retail Grocers of Australia, Chairman, John Cummings, said, 'in the case of milk pricing, the dairy farmer who was getting little will now get nothing.'

The ADF has calculated that the cost to Coles of this marketing tactic if, as they claim, they do not pass on the price cut will be **over $30 million per annum**.*

It defies logic to think that Coles will 'fully absorb' this amount of money. 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.

In light of all these major industry players saying the pricing is unsustainable the ADF challenges Coles to show why they alone believe it is sustainable.

ADF Vice President, Chris Griffin, asks Coles, 'Why do they alone believe they can absorb the cost?'

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.

'How can Coles avoid passing the cost of this tricky marketing tactic on to consumers or dairy farmers?'

'Which is it to be? Slugging consumers through higher prices on other products in Coles' stores or gouging dairy farmers by paying them even less for their milk.'

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

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Fast milk facts:

2008/09 Australian fresh milk sales = 2,244 million litres
Per capita consumption = 104 litres per head

2008/09 Total milk sold through major supermarket chains accounted for 1,118 million litres or 50% of total domestic milk sales

1999/2000 major supermarket chain ‘supermarket brand’ sales accounted for some 25% of total supermarket sales, which by 2008/09 had increased to some 52% or approximately 581 million litres.

In 2008/09 major supermarket chain ‘supermarket brand’ volume growth was 6.5%

In 2000/2001 the difference in price between milk processor proprietary ‘branded’ and major supermarket chain ‘supermarket brand’ label whole milk was $0.21 per litre and by 2008/09 it was $0.71 per litre and for whole milk the difference in price was $0.68 per litre.

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.