

5 December 2018

Portfolio Committee 5

Via email: PortfolioCommittee5@parliament.nsw.gov.au

Dear Committee,

Please find below answers to the questions taken on notice by Coles on 26 November 2018.

Coles would like to again make clear some key points in relation to the dairy industry:

- At the start of 2011, Coles Smart Buy milk was retailing for \$2.09 for a two litre carton. This was true also for Woolworths home brand fresh milk and Aldi's private label milk.
- In our typical stores we have 80 different fresh white milk products across our range. In the two litre range, that goes from Coles Brand milk at \$2 through to proprietary brands up to \$5.70. We provide our customers with choice to buy what suits their budget and their families.
- Coles Brand milk is 100% fresh milk sourced from Australian farmers.
- Coles Brand milk accounts for approximately 3.5 per cent of Australian dairy production.
- We do sell water cheaper than we sell milk. A 1.5 litre bottle of Coles Brand water retails for \$0.53 cents per litre.
- Coles does not set the farm gate milk price. Coles buys its dairy products from Australian processors. Our contracts with processors include a farm gate price as advised by the processor, various processing costs and a margin or return.
- It is important to be clear that the decline in the number of registered dairy farms, according to Dairy Australia, began in 2005/06. There were 1024 dairy farms in New South Wales in 2005/06 and in 2009/10, before the introduction of \$2 milk for two litres this number had declined to 820.
- Also of note, in 2005/06 annual milk production in New South Wales was 1.197 million litres. In 2009/10, before the introduction of \$2 milk for two litres this number had declined to 1.099 million litres and in 2017/18 had risen to 1.121 million litres.

1. What proportion of those three-litre containers make up your total sales?

From the commencement of the current financial year to date, Coles Brand three litre milk represents 52 per cent of Coles Brand milk sales.

2. Again I am happy for you to take this on notice, but I would like to know since 2011 how many annual increases have you provided to your processors?

In accordance with the farmgate year which operates from 1 July to 30 June, Coles discusses with the processor the forecast farmgate milk price as advised by the processor. In relation to Coles Brand milk, if the farmgate milk price increases, Coles has paid an increase to the processor.

Indicative factory paid prices from 2010/11

	\$/kg milk solids	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
NSW		\$6.74	\$6.60	\$6.45	\$7.10	\$7.31	\$7.06	\$6.81	\$6.99
AUST		\$5.80	\$5.69	\$5.41	\$6.89	\$6.49	\$6.01	\$5.46	\$6.14

3. Do you have a policy on restocking?

Store layout is based on having adequate stock on the shelf during the week for our customers. This is based on the number of units sold daily. This varies by store and is reviewed on a periodic basis which is currently six monthly.

4. Would we be able to backfill the arrangements with milk from, say New Zealand?

Our customers tell us they want 100 per cent fresh Australian milk at great value and that's what we are committed to providing them.

With current technology, importing milk from New Zealand would not appear to be a commercially feasible option.

Transporting liquids by land, sea or air involves onerous freight costs. This is compounded by the relatively short shelf life of fresh milk and the high additional cost of refrigerated transport.

It is not foreseeable how New Zealand could export fresh milk into Australia at a price that Australian consumers would regard as other than prohibitive.

This is exemplified in the shelf price of fresh drinking milk air-freighted by Australian and New Zealand milk processors into east Asian markets: the best available price for Australian fresh milk in Singapore is \$3.60 per litre; in China, fresh milk from Australia and New Zealand retails in a range from \$5 to \$9 per litre.

Some important context to this is in the evidence provided to the Committee that the retail price for fresh milk in New Zealand is significantly higher than in Australia.

Certainly, the cost of milk to consumers is much higher in New Zealand than in the shopping aisles at Coles.

In our strong view, this is a better outcome for Australian consumers: competition should deliver customers the best quality product at the best possible value.

It is important to note, however, that the farmgate price paid by Fonterra to dairy farmers in New Zealand is currently the equivalent of AUD \$0.48 cents per litre.

In Victoria, Fonterra is forecast to pay a farmgate price of AUD \$0.45 cents per litre.

So, despite the higher retail prices paid by consumers, the return to dairy farmers in New Zealand is not significantly greater than dairy farmers receive in Australia.

Again, this is further proof that the retail price is not the determinant of farmgate prices – in New Zealand or in Australia.

Furthermore in 2017/18 Australia's milk production was 9.289 billion litres, an increase from 9.016 billion litres in 2016/17.

5. So Coles has never initiated a price rise or a price fall in accordance with those contracts?

Coles every year initiates a discussion with our processor suppliers, as part of our normal contractual arrangements.

Yours sincerely

Vittoria Bon

Government and Industry Relations Manager