

HD Dairy majors back retailers on \$1 milk

CR The Australian

WC 772 words

PD 9 August 2014

ET 00:00

SN theAustralian.com.au

SC NLAUSW

LA English

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THE heavyweights of the Australian dairy industry have lashed the critics of Coles and Woolworths selling milk at \$1 per litre.

In the wake of the Australian Competition & Consumer Commission launching action against Coles in May for its treatment of suppliers, Mr Joyce told the latest Global Food Forum that retailers continuing to advertise milk at \$1 a litre was "BS".

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"They are selling water for a dearer price. This is not sustainable and it sends all the wrong signals back to the farm gate about whether they should be investing," Mr Joyce said.

Coles and Woolworths slashed the price of milk to \$2 for two litres four years ago. Coles struck a new long-term supply deal last year with Murray Goulburn that will see the co-operative supply Coles with about 200 million litres of private-label fresh milk annually. The farming community has treated the Coles-Murray Goulburn deal with much suspicion, heightened by advertisements in July offering four litres of premium Devondale milk for \$3. The low price was due to temporary oversupply.

Coles this week unveiled a new supplier charter with former Victorian premier Jeff Kennett as an independent arbiter amid ongoing negative perceptions about the treatment of suppliers.

Merrill Lynch analyst David Errington warned yesterday that the ACCC's campaign against the big supermarket chains amounted to a "material threat to the earnings of both Coles and Woolworths" and would "make it increasingly difficult for both to extract improved terms from suppliers".

But Murray Goulburn chief executive Gary Helou said the public deserved to know "the truth" about \$1 milk. "That is what it transacts for the world over. You can go to Europe, you can go to the US, you go to Asia, the Middle East, that's the average price of a litre of milk off the shelf. It's between 90c and \$1 for house brand, and house brands dominate that category the world over," he said.

"The great bulk of dairy is produced in Victoria and Tasmania, the bulk of it is exported, hence the setting up of the price ex-farm gate is driven by international prices and foreign exchange."

His comments were backed by Lion chief executive Stuart Irvine. Lion, which is owned by Japan's Kirin, owns the old National Foods dairy assets.

"It does represent the international price of milk, it's nothing strange, and the leadership of Coles and Woolies come from the UK and from The Netherlands, they're just replicating what they know," Mr Irvine said, noting that neither retailer made money out of \$1 a litre of milk and it was simply used to drive traffic through the stores. "So the biggest effect of \$1 a litre is probably all your small stores that can't afford to miss their margin in those products of the baskets."

Bega Cheese chief executive Barry Irvin said the \$1-a-litre milk accounted for only a small proportion of Australian production. He also claimed the price of milk going into value-added products such as cheese was even less.

"If you go to a supermarket tomorrow you'll probably find cheese at \$8 a kilo for a generic cheese product. Just to be clear about what that is, it takes 10 litres of milk to make a kilo of cheese, 80c a litre. I'd be delighted if the generic cheese price was actually \$10 — \$1 a litre," he said. He added: "The banks

are lucky Coles and Woolworths exist because people pick on Coles and Woolworths rather than the banks.”

Mr Joyce said firms such as Norco were showing that Australian **milk** could be **sold** for higher prices offshore, noting that **milk** from northern NSW was fetching \$7 to \$12 a litre in **China**.

In April, the Perich family backed Freedom’s Pactum **Dairy Group** announced an agreement to supply premium long-life **milk** to Bright **Dairy**.

“Given we believe the majority, if not all, of Coles and Woolworths EBIT growth over the past four years has been made up from better buying from suppliers, we believe this is a material threat to earnings,” Merrill Lynch’s Mr Errington noted. The move came on the same day the government released a draft grocery industry code along the lines of the one submitted by Coles and Woolworths last November.

The ACCC has launched a series of cases in recent months against the retailers, including an unconscionable conduct against Coles and a detergent cartel action against Woolworths, and has accepted undertakings from both major retailers on petrol discounting.

CO mryglb : Murray Goulburn Co-operative Company Limited | auccc : Australian Competition and Consumer Commission | colsgj : Coles Group Ltd | wsfrm : Wesfarmers Ltd

IN i4131 : Non-frozen Dairy Products | i413 : Dairy Products | i010010502 : Dairy Cattle Farming | i0 : Agriculture | i01001 : Farming | i0100105 : Cattle Farming | i41 : Food/Beverages/Tobacco | icnp : Consumer Goods | ifood : Food Products | ilsfarm : Livestock Farming | i64 : Retail/Wholesale | i656 : Mixed Retailing | i6560002 : Department Stores | iretail : Retail

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AN Document NL AUSW0020140808ea88000ur