

IN THE AUSTRALIAN COMPETITION TRIBUNAL

No.[] of 2013

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

RE: PROPOSED ACQUISITION OF WARRNAMBOOL CHEESE
AND BUTTER FACTORY COMPANY HOLDINGS LIMITED

Statement of: Peter William Scott

Dated: 28 November 2013

Contents

1	Background and role	2
2	Murray Goulburn's domestic customers	4
3	Domestic dairy products	8
4	Cheese	8
5	UHT milk	12
6	Butter / spreads	15
7	Daily pasteurised milk	18
8	Flavoured milk	21
9	Dairy desserts and yoghurts	22
10	Milk powder	25
11	Cream	26
12	Other dairy products	28
13	Food service customers	29
14	Contract pack business	30
15	Private label products and interactions with grocery retailers	31
16	Current Murray Goulburn plans to expand in domestic dairy markets	32
17	Impact of proposed acquisition of WCB on domestic competitiveness	33

Filed on behalf of Murray Goulburn Co-Operative Co Limited

Prepared by:

Herbert Smith Freehills

Tel +61 3 9288 1234

Email chris.jose@hsf.com

Fax +61 3 9288 1567

Ref: CJ:ALM:82230139

Address for service

Level 43, 101 Collins Street

MELBOURNE VIC 3000

I, Peter William Scott of Freshwater Place, Level 15, 2 Southbank Boulevard, Southbank in the State of Victoria, General Manager Sales, say as follows:

1. Where, in this statement:
 - (a) I use a capitalised expression, that term is as defined in the Glossary unless otherwise provided;
 - (b) I refer to information provided to me by a third person, I believe that information to be true and correct and, at the time I was provided with that information, I believed it to be true and correct, unless I state to the contrary;
 - (c) I refer to an email, letter or report sent by me to others reporting on or referencing discussions, meetings or other communications in which I participated or to which I was a party, the email, letter or report accurately records those discussions, meetings or other communications, unless I state to the contrary; and
 - (d) I refer to an email or other communication sent by me to others in which I express an opinion, belief or view, I held that opinion, belief or view at the time of sending that email or other communication, unless I state to the contrary.

1 Background and role

2. I am the General Manager Sales, Consumer Brands of Murray Goulburn Co-operative Co Limited (**Murray Goulburn**). I am authorised to make this statement on behalf of the applicant, Murray Goulburn.
3. I have held the role of General Manager Sales, Consumer Brands since April 2012. In my role, I have the following responsibilities:
 - (a) managing the supply of packaged dairy products to grocery retailers and food service businesses;
 - (b) managing the distribution and supply of packaged dairy products to 'route' outlets, shops and small grocery stores in the Kiewa Valley;
 - (c) managing Murray Goulburn's 'contract pack' business where Murray Goulburn produces dairy products for its competitors, including UHT milk, UHT dairy desserts and UHT cream; and
 - (d) co-ordinating Murray Goulburn's demand planning team.
4. I report directly to Gary Helou, Manager Director, and am involved in the preparation of a monthly executive report.



5. I have a team that includes:
- (a) four national business managers – one for each of Coles, Woolworths, Aldi/Costco/Variety and Independent grocers, who each have a national account manager for ambient products (UHT milk, UHT cream and milk powder) and a national account manager for chilled products (cheese, daily pasteurised milk, butter, cream and yoghurt);
 - (b) a non-grocery business manager, with:
 - (i) a national sales manager for foodservice, who has foodservice managers in each state, as well as a key account manager in each of Victoria and New South Wales;
 - (ii) a manager responsible for nutritionals, with a Sales Co-ordinator; and
 - (iii) a contract pack manager, with a contract pack co-ordinator and a team responsible for Murray Goulburn's contract pack and Kiewa distribution businesses;
 - (c) a national field sales manager, with a field sales manager located in each state; and
 - (d) a group demand manager, with four demand planners.
6. My team is responsible for day-to-day sales and the promotional activity of packaged dairy products. Although I am not directly involved in day-to-day promotions, where a special promotion or request involves a loss, or a significant move away from Murray Goulburn's promotional guidelines, it will be signed off by me and Daniel Egan, Murray Goulburn's Commercial Finance Manager.
7. In my role I often deal directly with customers, including grocery retailers and food service businesses.
8. Prior to joining Murray Goulburn, I spent 12 years (from 2000 – 2012) at Cadbury Schweppes. My last role there was Sales Director. Other roles included general management of sales channels across confectionary and beverages, strategic business development and Asia Pacific mergers and acquisitions.
9. I previously spent 15 years (from 1985 – 1999) at Coca-Cola, working in over 20 countries, initially as an internal auditor and later in finance and commercial roles, including Finance Manager for Europe. From 1999 – 2000, I spent a short time at Bonlac in a beverage role in Bonlac's Spring Valley business. This business was later acquired by Schweppes, and Bonlac itself later became part of Fonterra Australia (**Fonterra**).



10. I hold a Bachelor of Commerce from Melbourne University. In addition, I am an Associate of the Institute of Chartered Accountants and Corporate Institute Secretaries, and I have completed a Diploma of Corporate Management.
11. Where in this statement I discuss matters relating to the domestic dairy products industry generally and the behaviour of competitors or customers, I make those statements on the basis of knowledge obtained in the course of my role as General Manager Sales, Consumer Brands.

2 Murray Goulburn's domestic customers

12. Murray Goulburn supplies a range of dairy products to customers in Australia in the following customer categories:
 - (a) grocery retailers;
 - (b) food service wholesalers;
 - (c) route outlets, shops and small grocery stores in the Kiewa Valley via a distributor network;
 - (d) other dairy producers for whom Murray Goulburn contact packs; and
 - (e) industrial customers.

Grocery retailer customers

13. The grocery retailers that Murray Goulburn supplies include the three major retailers – Coles, Woolworths and Aldi, Metcash (which is the major wholesaler to independent supermarkets such as IGA supermarkets), and smaller retailers such as Costco, Foodworks, Foodland and SPAR.
14. Grocery retailers acquire both private label and branded dairy products. Generally, private label products are supplied to grocery retailers through a tender process. Historically, grocery retailers have requested tenders on a yearly basis, however, more recently private label contracts have been entered into for longer terms.
15. In relation to the supply of branded products grocery retailers will generally conduct an annual or bi-annual 'range review', analysing products' overall performance and rates of sale to determine whether to retain those products the following year. Deletions are common, even where brands have a high level of investment, high rates of sale and deliver high margins.
16. In the course of my role, I receive and review spread sheets containing Murray Goulburn's sales figures. Exhibited hereto and marked Confidential Exhibit PWS1 is a



disc containing a series of spread sheets. The spread sheets contain Murray Goulburn's historical sales figures extracted from Murray Goulburn's computer software system (which it uses to record sales of all its products to customers), as well as forecast sales figures.

17. The file named 'Sales Summary' in the disk attached at PWS1 sets out Murray Goulburn's total net sales in FY2013 and its forecast FY2014 sales. [REDACTED]

(a)

(b)

18. Murray Goulburn's FY2014 forecast sales to grocery retailers are contained in the files named 'Devondale brand – Grocery Retailers' and 'Corporate Brands – Grocery Retailers' in the disk attached at PWS1 and summarised in Table 1 below.

Table 1: Murray Goulburn's FY2014 forecast sales to grocery retailers

Grocery retailer	Branded FY2014 forecast	Private label FY2014 forecast
Woolworths	[REDACTED]	[REDACTED]
Coles	[REDACTED]	[REDACTED]
Metcash	[REDACTED]	[REDACTED]
Aldi	[REDACTED]	[REDACTED]
Costco	[REDACTED]	[REDACTED]
SPAR	[REDACTED]	[REDACTED]
Other grocery retailers	[REDACTED]	[REDACTED]

The food service customers

19. Murray Goulburn supplies food service customers via buying groups. These buying groups represent food service customers which supply the restaurant, hotel and coffee shop trade. These groups are:

- (a) Bidvest Australia Limited, which has 32 members;
- (b) NAFDA Limited, which has 59 members;
- (c) Countrywide Australia Limited, which has 108 members;


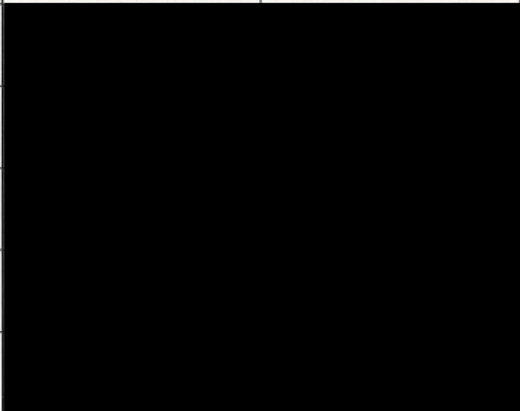
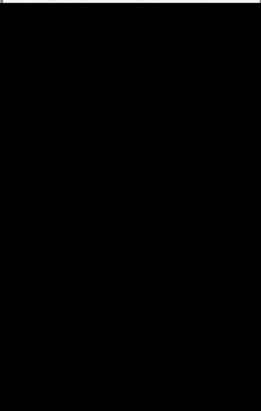
- (d) Combined Foodservices of Australia, which has 58 members; and
- (e) 750 independent distributors including Hudson Pacific Corporation Pty Ltd.
20. Murray Goulburn deals with both these buying groups and customers directly. Buying groups will negotiate promotions on behalf of the customers they represent and customers also deal directly with Murray Goulburn in the acquisition and delivery of products.
21. Murray Goulburn does not enter into supply agreements for specified time periods with food service customers. Its dealings are generally transactional and relationship-based. Supply is generally on an 'as needs' basis, and Murray Goulburn has to price competitively to secure supply.
22. Other suppliers to food service customers are Fonterra, Parmalat Australia (formerly Paul's Australia) (**Parmalat**), Lion Dairy & Drinks (formally National Foods) (**Lion**) and Kraft Foods (**Kraft**). Buying groups generally acquire products from all major suppliers.
23. 
24. Exhibited hereto and marked Confidential Exhibit PWS2 is a document containing Murray Goulburn's sales figures to food service customers, customers in the Kiewa Valley and contract pack customers extracted from Murray Goulburn's computer software system.
25. PWS2 and Table 2 below set out Murray Goulburn's FY2013 sales and FY2014 forecast sales to its top food service customers.

Table 2: FY2013 sales and FY2014 forecast sales to food service customers

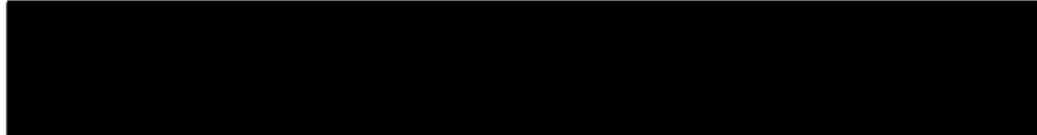
Customer	Buying group	FY2013 sales	FY2014 forecast
Hudson Pacific Corporation Pty Ltd	Independent		
PFD Food Service (Vic) Pty Ltd	CFA		
Campoli Foods, Australian Dairy	Independent		
5 Ways Foodservice Pty Ltd	NAFDA		
Plateau Food Distributors	Countrywide		



Kiewa customers

26. Murray Goulburn supplies distributors in the Kiewa Valley that sell to route outlets, shops and small grocery stores.

27.



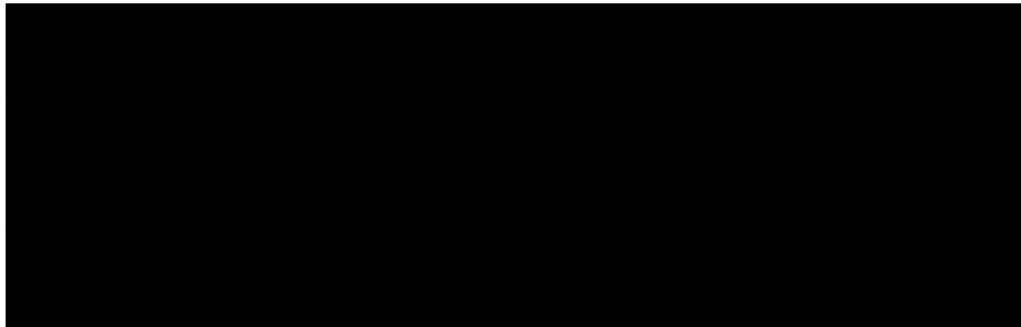
28. PWS2 and Table 3 below set out Murray Goulburn's FY2013 sales and FY2014 forecast sales to large customers in the Kiewa.

Confidential: Table 3: FY2013 sales and FY2014 forecast sales to Kiewa customers

Customer	FY2013 sales	FY2014 forecast
Dairy Solutions Pty Ltd		
KW and S Coon		

Contract pack customers

29.



30.

31. PWS2 and Table 4 below set out Murray Goulburn's FY2013 sales and FY2014 forecast sales to contract pack customers.

Table 4: FY2013 sales and FY2014 forecast sales to contract pack customers

Customer	FY2013 sales	FY2014 forecast

Ingredients customers

32. Murray Goulburn also supplies bulk ingredients to domestic industrial customers. However, I am not responsible for supply to industrial customers. This is part of Mal Beniston's responsibilities.

33. Annexed hereto and marked Confidential Annexure PWS3 is a document that contains customer details for a cross-section of Murray Goulburn's grocery retailer, food service, Kiewa-based and contract pack customers.

3 Domestic dairy products

34. The broad categories of finished dairy products that Murray Goulburn supplies in Australia are:
- (a) cheese;
 - (b) UHT ('ultra heat treated' or long life) milk;
 - (c) butter / spreads;
 - (d) daily pasteurised milk;
 - (e) flavoured milk;
 - (f) dairy desserts and yoghurts;
 - (g) milk powder; and
 - (h) cream (fresh and UHT).
35. Murray Goulburn's supply of finished dairy products to its various customer categories is highly competitive, with a number of dairy suppliers having well regarded dairy brands.

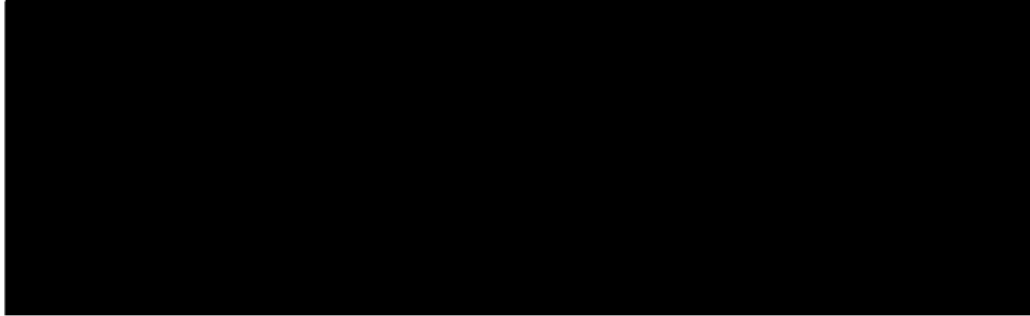
4 Cheese

36. Cheese is derived from milk through a process that involves the addition of heat and the enzyme, rennet, which causes coagulation. The curds are separated from the whey and pressed into final form. There are a number of varieties of cheese, including cheddar and cheddar style cheeses, washed rind, blue, white mould, fresh unripened, processed (a blend of natural cheddar of different ages, melted and cooked with emulsifying salts and water), as well as reduced fat cheese varieties.
37. Cheese is easily transported, although it must be refrigerated and vacuum sealed, and it has a long shelf life of about 9 months. Due to the large number of local suppliers of block, shredded and processed cheese, however, imports of these varieties into Australia are small. Cheese that is imported is usually imported in bulk, and is then blocked or shredded and packaged locally before sale to food service operators or grocery retailers.
38. Murray Goulburn is a substantial supplier of both branded and private label cheese products to grocery retailers and food service customers. The principal cheese products



supplied, both branded and private label, are block cheese, shredded cheese and processed cheese. Murray Goulburn also supplies cheese slices.

39.



40. In Australia, the top five brands of cheese are:

- (a) Bega, produced by Bega Cheese Limited (**Bega**), but supplied by Fonterra which licenses the Bega brand;
- (b) Coon, produced by Lion;
- (c) Devondale, produced by Murray Goulburn;
- (d) Kraft, produced by Kraft; and
- (e) Mainland, produced by Fonterra.

41. Other brands include Cracker Barrel, produced by Lion, Perfect Italiano, produced by Fonterra and Bodalla, produced by Bodalla Dairy. Warrnambool Cheese and Butter's (**WCB**) branded cheese product – Great Ocean Road (supplied to Coles) – is not a high selling product.

42. PWS4 sets out the national supply volumes of cheese to grocery retailers by brand (MAT to 27/10/2013). These are summarised by supplier in Table 5 below.

Table 5: National supply volumes of cheese to grocery retailers (MAT to 27/10/2013)

Product	Supply volumes
Private label	
Fonterra	
Kraft	
Lion	
Murray Goulburn	
WCB	
Norco	

Bodalla	
Other	

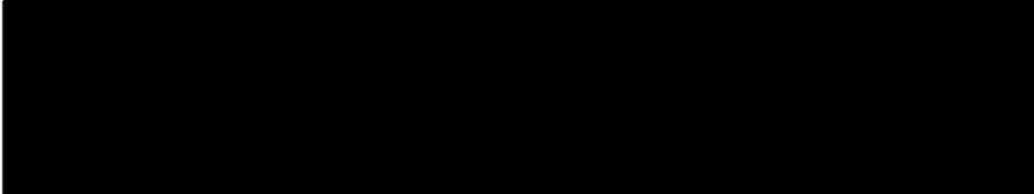
- 43. There is a high degree of substitution between private label and branded cheese. Additionally, there is a large amount of promotional activity in the sale of cheese products to consumers. Consumers generally have little brand loyalty, basing their purchasing decisions entirely on price. For example, Bega engaged in intense promotional activity in the first half of 2013, matching the price of private label cheese. During that time, Murray Goulburn's branded cheese sales drastically decreased.
- 44. I do not consider specialty cheeses, for example, brie cheese, to be substitutable for block and shredded cheese.
- 45. In relation to Murray Goulburn's supply to grocery retailers, package sizes include 250g, 625g and 1kg blocks, 550g and 600g shredded packets and 200g slices. Varieties supplied include: Light, Mild, Tasty, Vintage and Colby Cheddar, Cobram Vintage Cheddar as well as Mozzarella. Murray Goulburn also supplies Liddells lactose free cheese in 250g blocks and shredded.
- 46. Murray Goulburn currently supplies all grocery retailers, although it only recently recommenced supplying Coles with cheese (in June 2013). Murray Goulburn's Devondale cheese products were deleted from Coles nine years ago.
- 47. Murray Goulburn's FY2014 forecast cheese sales to grocery retailers are contained in the files named 'Devondale brand – Grocery Retailers' and 'Corporate Brands – Grocery Retailers' of PWS1 and summarised in Table 6 below.

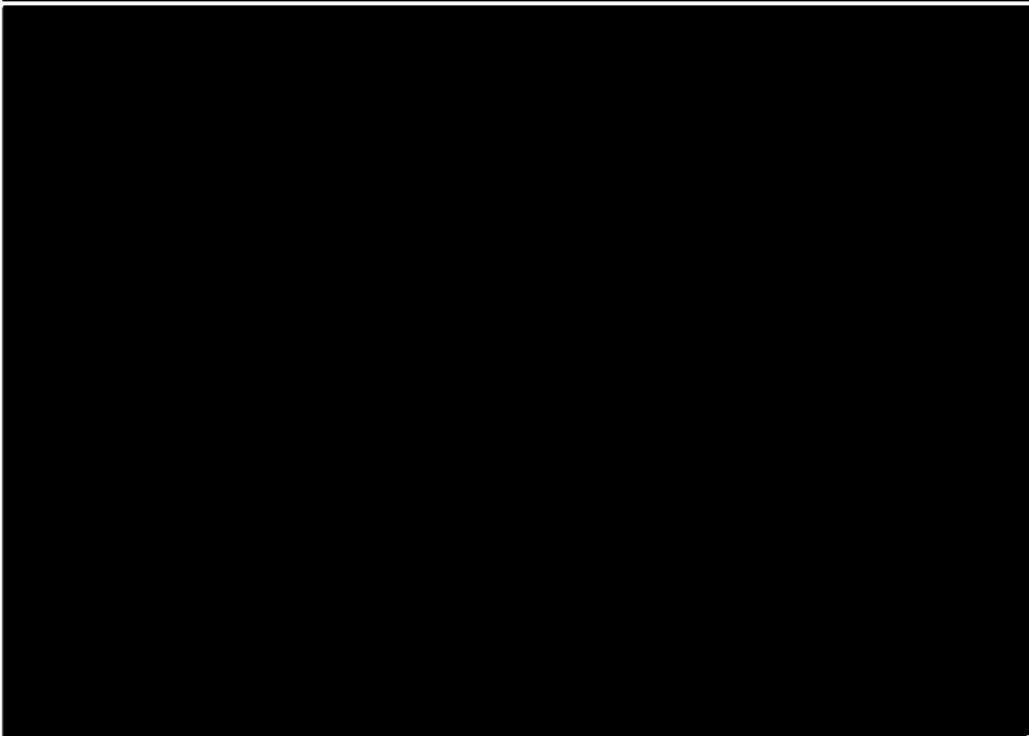
Table 6: Murray Goulburn's FY2014 forecast cheese sales to grocery retailers




Grocery retailer	Devondale brand FY2014 forecast	Private label FY 2014 forecast
Woolworths		
Coles		
Aldi		
Metcash		
Costco		
SPAR		
Other grocery retailers		



- 48. In relation to food service supply, packaging ranges from 250g, 500g and 1kg to larger sizes such as 6kg, 10kg, 20kg and bulk bins. Primary products include Tasty, Vintage, Light, Mild, Mature and Colby Cheddar as well as mozzarella and pizza cheese. Murray

Goulburn also supplies other cheeses to food service customers, including cream cheese, parmesan, romano, mascarpone and liquid cheddar.

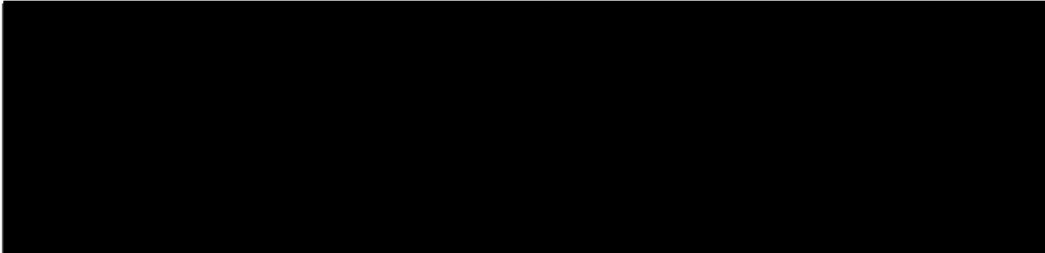
49. 

50. 

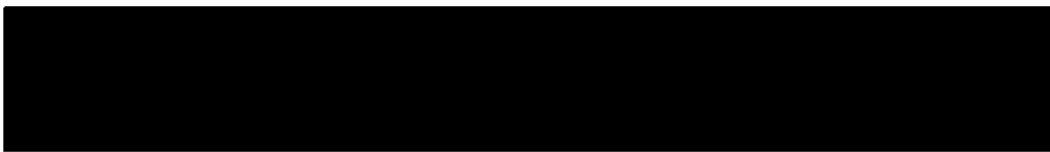
51. Private label cheese products are supplied to grocery retailers through a tender process. Recently, private label contracts have been entered into for longer terms, 



52. Branded cheese products will be subject to a range review. 


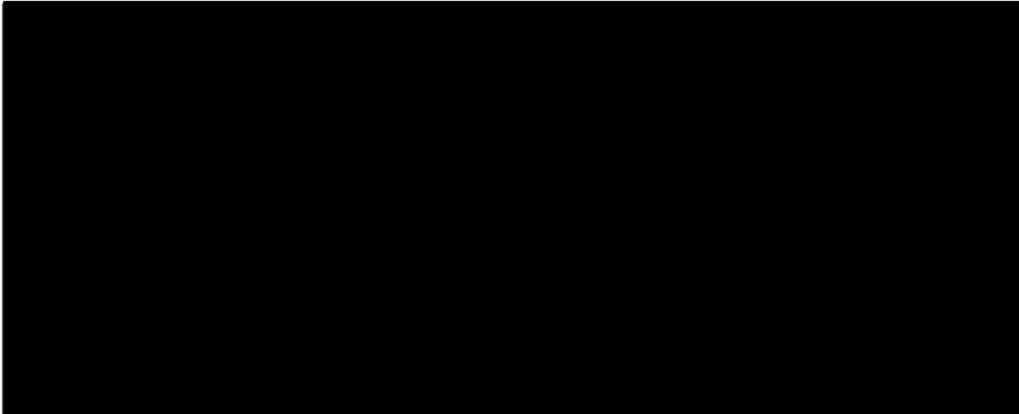
53. In terms of setting cheese prices, I endeavour to ensure production costs are covered and factor in a margin, although the sale of cheese is highly promotionally driven.

54. 





5 UHT milk

55. Long life milk is heated to a higher temperature than daily pasteurised milk. This results in a greater reduction in bacteria and heat resistant enzymes in comparison to milk that undergoes pasteurisation – giving it an extended shelf life. There is both branded and private label UHT milk available. Typical varieties are white UHT milk – full cream, reduced fat and skim, and flavoured UHT milk. In addition, lactose-free and added calcium UHT milk products are available, as well as non-dairy UHT milks, including soy UHT milk. UHT milk is generally supplied in packaging that ranges from 200 millilitres to 2 litres.
56. Like daily pasteurised milk, UHT milk may be consumed on its own or added to many foods including cereal, coffee and tea, and may be used in cooking and baking. As such, it is substitutable for daily pasteurised milk. However, most Australian consumers prefer daily pasteurised milk – approximately 90% of total milk sales are daily pasteurised milk sales. This is not the case in New Zealand or Europe, where sales of daily pasteurised milk and UHT milk are more equal. I consider that most Australian consumers purchase UHT milk as a reserve to use in circumstances when they run out of daily pasteurised milk. However, there are some consumers that do not purchase daily pasteurised milk, only purchasing UHT milk in bulk.
57. UHT milk has a shelf life of 9 – 12 months and does not need to be refrigerated when transported. As such, it can be easily transported over long distances and imported at a low cost.
58. Murray Goulburn supplies varieties of white and flavoured UHT milk. In addition it has developed a lactose-free brand, Liddells, which supplies lactose free UHT milk. Murray Goulburn does not supply soy UHT milk.
59. 

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke.

60. Murray Goulburn's FY2014 forecast UHT milk sales to grocery retailers are contained in the files named 'Devondale brand – Grocery Retailers' and 'Corporate Brands – Grocery Retailers' of PWS1 and summarised in Table 7 below.

Table 7: Murray Goulburn's FY2014 forecast UHT milk sales to grocery retailers

Grocery retailer	Branded 2013/2014 forecast	Private label 2013/2014 forecast
Woolworths		
Coles		
Metcash		
Aldi		
Costco		
SPAR		
Other grocery retailers		

61. Murray Goulburn faces competition nationally in the supply of UHT milk from:
- (a) Burra Foods, a specialist dairy processor;
 - (b) Freedom Foods, which manufactures A2 branded milk;
 - (c) Harvey Fresh, a manufacturer based in Western Australia;
 - (d) Lion, which supplies Dairy Farmers and Vitasoy branded UHT milk;
 - (e) Parmalat, for whom Murray Goulburn currently manufactures UHT milk; and
 - (f) Sanitarium, which supplies soy UHT milk.

62. [REDACTED]

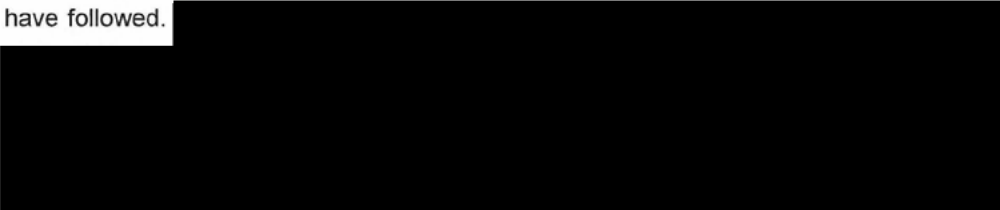
63. WCB does not supply UHT milk.

64. PWS4 and Table 8 below sets out the national supply volumes of UHT milk to grocery retailers by supplier (MAT to 27/10/2013).

Table 8: National supply volumes of UHT milk to grocery retailers (MAT to 27/10/2013)

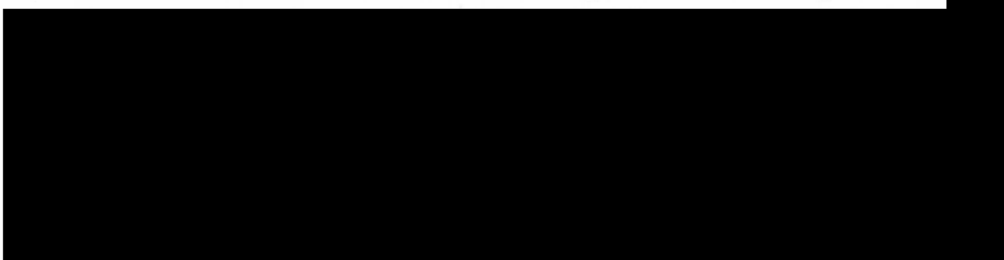
Product	Supply volumes
Private label	
Murray Goulburn	

Lion	
Parmalat	
Fonterra	
Sanitarium	
Other	

- 65. Because Freedom Foods only recently launched branded UHT milk products, volume data is not available. In addition, Burra Foods only supplies private label UHT milk – as such, its volume data is subsumed in the private label volume figure above.
- 66. A significant capacity increase in relation to the manufacture of UHT milk in Australia is anticipated within the next 24 months. UHT manufacturing projects have been announced by Freedom Foods, Parmalat and Fonterra in New Zealand. In addition, to achieve cost efficiencies, Murray Goulburn is planning to increase its UHT capacity at its Leongatha facility. Total Australian UHT capacity is currently 200 million litres – this is expected to double to 410 million litres (as well as an additional 200 million litres from Fonterra in New Zealand).
- 67. With this significant increase in manufacturing capacity, I anticipate that Murray Goulburn will need to engage customers and be competitive in 2013 / 2014. With Fonterra increasing production in New Zealand, I believe it is likely to substantially increase its UHT imports into Australia.
- 68. In addition to the increase in UHT capacity leading to a likely increase in domestic competition, I consider that companies will seek export opportunities in Asia. There is currently excess demand for UHT milk in Asia, especially China.
- 69. Supply of private label UHT milk to grocery retailers is through a tender process, while branded UHT products are subject to range reviews.
- 70. In determining price, I take into account production costs and factor in margins. However, the price of branded UHT milk has not changed since 2008 as the major grocery retailers will not accept price increases.
- 71. **[Confidential]:** Following Coles' introduction of \$1 milk for private label daily pasteurised milk, Coles reduced the price of UHT milk per litre to \$1 in July 2012, and other retailers have followed. 



72. **[Confidential]**: Annexed hereto and marked Confidential Annexure PWS5 is an extract of an internal Murray Goulburn power point presentation that was prepared by a member of my team, John Ilias, the national business manager for Coles in August 2012.



73. In my experience, customers generally make purchasing decisions for UHT milk based on price rather than brand, and will readily substitute private label for branded UHT milk. Private label growth in UHT milk currently exceeds growth in branded UHT milk products. In addition, customers generally do not factor the price of manufacture in to their pricing decisions in relation to UHT milk. However, I consider that customers purchasing lactose free UHT milk, and other non-dairy milks, such as soy and almond milk, generally do so due to health concerns and, as such, are more willing to pay a price premium. Non-dairy and lactose free milks do not impact pricing of UHT milk. I do not see any customer switching to UHT (or daily pasteurised) milk when prices of these products change.

6 Butter / spreads

74. Butter is made through separating cream from milk, churning the cream until it thickens, and adding water and salt. There are many varieties of butter, including salted butter, unsalted butter, cultured butter and clarified butter, which is almost pure milk fat and used mainly in cooking.
75. Spreads are a mixture of butter and edible vegetable oils making the mixture spreadable directly from the refrigerator. Spreads generally retain the taste of butter.
76. Butters and spreads are typically used in cooking and for spreading on breads. As such, I consider them to be interchangeable. Margarine, which is comprised entirely of oil, is also substitutable as a spread, however, margarine generally costs about half that of butter and spreads. Butter, spreads and margarines are all displayed in the same section of grocery store fridges.
77. Butter and spreads can be imported, although they require refrigeration. Lurpak, is currently being imported into Australia from the Danish Dairy Board and Westgold, a product from New Zealand is also currently being imported. These products have begun gaining share due to their premium appearance.
78. Murray Goulburn supplies:

- (a) Devondale and private label butter in 200g, 375g and 500g PAT format to grocery retailers;
 - (b) Devondale and private label spreads in 375g and 500g PAT format to grocery retailers; and
 - (c) butter and spreads to food service customers – butter in 200g, 250g and 500g PAT format, in addition to 10kg and 25kg packs; spreads in 200g, 375g, 500g PAT format and 4.5kg packs.
79. Murray Goulburn manufactures butter at its recently opened facility in Koroit (October 2012/3). It manufactures butter and spreads at its facility in Leongatha.
80. Murray Goulburn's FY2014 forecast butter sales to grocery retailers are contained in the files named 'Devondale brand – Grocery Retailers' and 'Corporate Brands – Grocery Retailers' of PWS1 and summarised in Table 9 below.

Table 9: Murray Goulburn's FY2014 butter sales to grocery retailers

Grocery retailer	Devondale brand FY2014 forecast	Private label FY2014 forecast
Woolworths		
Coles		
Metcash		
Aldi		
SPAR		
Other grocery retailers		

81. Murray Goulburn's FY2014 forecast spreads sales to grocery retailers are contained in the file named 'Devondale brand – Grocery Retailers' of PWS1 and summarised in Table 10 below.

Table 10: Murray Goulburn's FY2014 butter sales to grocery retailers

Grocery retailer	Devondale brand 2013/2014 forecast
Woolworths	
Coles	
Metcash	

SPAR	
Other grocery retailers	

82.

[REDACTED]

83. Fonterra is the main supplier of butter and spreads with its key brand – Western Star. Major margarine suppliers are George Western Foods Limited (**George Weston**) and Goodman Fielder Limited (**Goodman Fielder**).

84. I am unaware of WCB supplying retail butter or spreads in Australia.

85. PWS4 and Table 11 below set out the national supply volumes of butter / spreads and margarines to grocery retailers by supplier.

Table 11: National supply volumes of butter / spreads / margarine to grocery retailers (MAT to 27/10/2013)

Product	Supply volumes
Private label	
Murray Goulburn	
Fonterra	
George Weston	
Unilever	
Goodman Fielder	
Lurpak	
Westgold	
Other	

86. The price of butter and spreads has remained stagnant since 2008, [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

87. In setting prices of butter and spreads generally I consider the current export price for butter, add the cost of cutting and wrapping, and take into account a margin.
88. There is a high degree of promotional activity in the sale of butter and spreads to consumers, with Fonterra, in particular, engaging in aggressive promotional activity with Western Star butter. I generally offer promotions on butter and spreads monthly. Due to the intense promotional activity in butter / spreads sales, I believe I would face the threat of deletion if I did not offer promotions regularly.
89. Supply of private label butter / spreads to grocery retailers is through a tender process, while branded products are subject to range reviews.
90. Sales of butter, especially private label butter sales, have been increasing. I believe this is due, in a large part, to the relevantly recent growth in the popularity of cooking programmes, with consumers now viewing private label butter as acceptable. Overall sales of spreads, however, are declining.
91. Murray Goulburn is in the process of re-packaging its butters and spreads – it is currently sold in yellow paper but will be moving to silver foil to give its products a premium appearance.

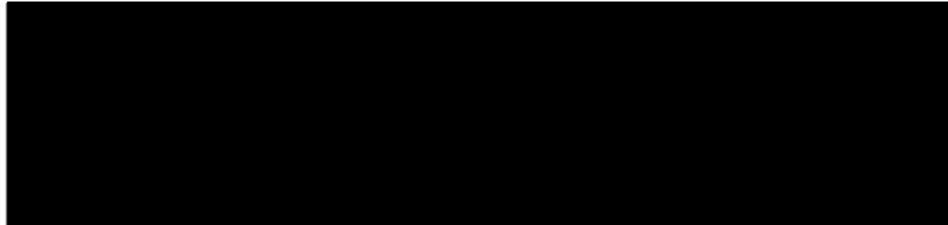
7 Daily pasteurised milk

92. Daily pasteurised milk is milk which has been pasteurised, that is, undergone a process whereby it is partially sterilised. There are a number of varieties of daily pasteurised milk, including full cream, fat reduced and skim milk, and there are both branded and private label daily pasteurised milk varieties available. Daily pasteurised milk is generally sold in 500 millilitre and 1 litre cartons, and 2 litre and 3 litre plastic bottles.
93. Daily pasteurised milk is typically consumed on its own or added to many foods including cereal, coffee and tea. It is also commonly used in cooking and baking.
94. Daily pasteurised milk generally has a 14 day shelf life. Accordingly, it is generally sold in stores located in close proximity to its place of manufacture and is difficult to import. The manufacture of daily pasteurised milk is generally state-based.
95. In terms of substitutability, although UHT milk is substitutable for daily pasteurised milk, Australian consumers generally prefer daily pasteurised milk, which accounts for a much larger proportion of total Australian milk sales than UHT milk.
96. Although there is increasing demand for alternative non-dairy milks, for instance soy, almond and coconut milk, I believe that these non-dairy alternatives are generally consumed only by a select group of consumers. These products are generally sold at premium prices and do not impact pricing of daily pasteurised milk.



97. Murray Goulburn supplies daily pasteurised milk from its facility in Kiewa to:

(a)



(b)

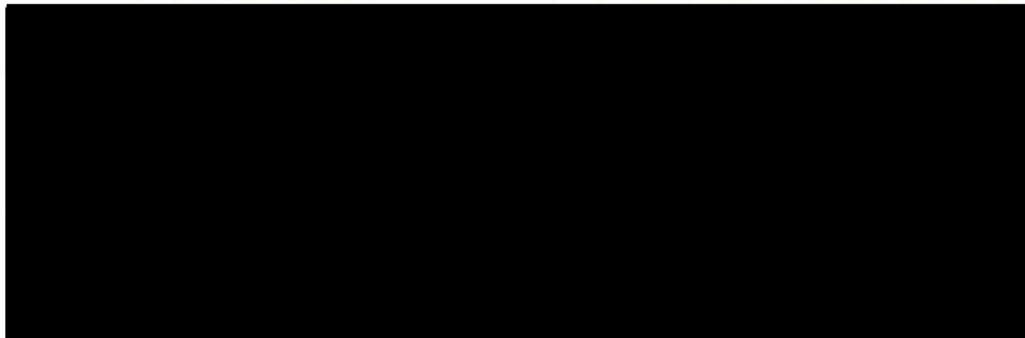
(c) approximately 10 million litres of Kiewa and Devondale branded milk in the Kiewa Valley via the route trade.

98. Murray Goulburn's FY2014 forecast private label daily pasteurised milk sales to grocery retailers are contained in the file 'Corporate Brands – Grocery Retailers' of PWS1 and summarised in Table 12 below.

Table 12: Murray Goulburn's FY2014 daily pasteurised milk sales to grocery retailers

Grocery retailer	Private label FY2014 forecast
[Redacted]	

99.



100.

101. [Redacted] Murray Goulburn has recently secured a 10 year contract for the supply of private label daily pasteurised milk to Coles (to come into effect 1 July 2014). [Redacted]

[Redacted] Murray Goulburn is in the process of building facilities in Laverton, Victoria and Erskine Park, New South Wales that will allow it to manufacture milk efficiently for this upcoming contract. Both facilities are located within five kilometres of Coles' distribution centres.

102. Substantial suppliers of daily pasteurised milk in Australia are Parmalat and Lion. Other suppliers include Burra Foods, Longwarry Food Park, Harvey Fresh and WCB (WCB supplies Sungold milk to route outlets, coffee shops and restaurants in the Warrnambool area, Great Ocean Road milk to Coles. [Redacted]

103. In addition, niche 'organic' daily pasteurised milk products have recently been launched including, 'Green Pastures' branded milk and a South Australian Dairy Association (SADA) milk product 'SADA Fresh'. In respect of the Green Pastures milk line, five Victorian-based farming families have banded together to create the product, which was launched in October 2013. Green Pastures milk is being packaged by WCB and supplied to Coles. SADA Fresh milk was recently launched in October in Coles stores in South Australia and is processed by Parmalat at its Clarence Gardens plant
104. In relation to the manufacture of daily pasteurised milk, Lion and Parmalat have manufacturing facilities located in each state in which they supply grocery retailers. [REDACTED] and the new facilities it is building for its upcoming contract with Coles are located within close proximity to Coles' distribution centres.
105. PWS4 and Table 13 below set out the national supply volumes of daily pasteurised milk to grocery retailers by supplier.

Table 13: National supply volumes of daily pasteurised milk to grocery retailers (MAT to 27/10/2013)

Product	Supply volumes (MAT to 20/10/2013)
Lion	[REDACTED]
Parmalat	[REDACTED]
Freedom Foods (A2)	[REDACTED]
Fonterra	[REDACTED]
Harvey Fresh	[REDACTED]
Brownes	[REDACTED]
Private Label	[REDACTED]
Other	[REDACTED]

106. In setting prices for daily pasteurised milk, I factor in a margin and ensure the costs of production are covered.
107. Private label daily pasteurised milk is sold to grocers through a tender process. Contracts for more than 12 months in relation to daily pasteurised milk will generally contain pricing mechanisms linked to rises and falls in the commodity price.
108. Branded daily pasteurised milk will be subject to an annual or bi-annual range review.
109. **[Confidential]:** In January 2011 Coles reduced the price of private label daily pasteurised milk per litre to \$1 and other retailers have since matched this price. \$1 milk has had a

large impact on the supply of branded daily pasteurised milk – with a large number of consumers now switching to private label milk at the expense of branded daily pasteurised milk.]

- 110. In most grocery retailer stores today, there are generally two bays of private label milk and only one bay containing a number of branded products.

8 Flavoured milk

- 111. There are two broad categories of flavoured milk – daily pasteurised flavoured milk and UHT flavoured milk (of which there are soy based varieties). Flavoured milk is generally supplied in packaging that ranges from 200 millilitres to 2 litres.

- 112. Flavoured milk sold in smaller packaging, often in route outlets, is generally an impulse item purchased for immediate consumption. A lot of tradesmen consume flavoured milk, purchasing it at outlets often located near construction sites. The 1 and 2 litre varieties of flavoured milk supplied in supermarkets, however, are typically for home consumption.

- 113. In relation to daily pasteurised flavoured milk, Murray Goulburn supplies:

- (a) small grocery shops and cafes/takeaway shops in the Kiewa Valley with flavoured daily pasteurised milk in 600 millilitre cartons; and

- (b) 

- 114. In relation to the Kiewa Valley, Murray Goulburn previously also supplied flavoured milk in 600 millilitre bottles that was manufactured by WCB at Allansford, Victoria and transported to Kiewa. This product was unsuccessful. Murray Goulburn now supplies less than 100,000 litres of daily pasteurised flavoured milk in the Kiewa Valley.

- 115. In relation to UHT flavoured milk, Murray Goulburn supplies grocery retailers throughout Australia with Devondale branded milk in 1 litre packaging as well as its 'Moo' branded flavoured milk product which is sold in 200 millilitre packets of six and generally targeted at children.

- 116. Table 7 above sets out Murray Goulburn's FY2014 forecast sales of UHT milk –



- 117. National supplies of flavoured milk to the route market include:



- (a) Lion, which supplies Farmers Union, Big M, Moove, Masters M and Dare brands; and
 - (b) Parmalat, which supplies Breaka, Ice Break, Rush, Pauls Iced Coffee and OAK brands.
118. Branding for flavoured milk is important in its supply. The leading brand in the supply to the route market is Farmers Union.
119. WCB supplies small volumes of flavoured milk.
120. PWS4 and Table 14 below set out the national supply volumes of flavoured milk to grocery retailers by supplier.

Table 13: National supply volumes of flavoured milk to grocery retailers (MAT to 27/10/2013)

Product	Supply volumes
Private label	
Murray Goulburn	
Lion	
Nestle	
Parmalat	
Sanitarium	
Other	

121. Private label branding is generally ineffective for flavoured milk. I do not consider that the \$1 per litre private label pricing structure has impacted sales of flavoured milk. I believe this is due to the fact that daily pasteurised milk is not a substitute for flavoured milk.
122. Murray Goulburn's supply to outlets in the Kiewa Valley is via distributors [REDACTED]
[REDACTED]
[REDACTED]
123. As with other branded products, grocery retailers will conduct a range review in relation to UHT flavoured milk supplied by Murray Goulburn.
124. In terms of pricing, I will base prices on the cost of manufacture, taking into account a margin for Murray Goulburn as well as grocery retailers.

9 Dairy desserts and yoghurts

Dairy Desserts

125. Dairy desserts comprise a range of custard products – both fresh and UHT-based.

126.

127.

128. Murray Goulburn's dairy dessert products are produced in UHT format. As such, they generally have a longer shelf life than fresh dairy products and are easily transportable.

129.

130. I am not aware of WCB supplying dairy desserts in Australia.

Yoghurt

131. Yoghurt is a type of cultured dairy food. It is made by the addition of live starter cultures to milk. These bacterial cultures cause fermentation of lactose. There are a number of types of yoghurt, including natural, Greek-style, flavoured, full cream, low fat and no fat varieties. Additionally, yoghurt is sold in many sizes, ranging from 140 gram tubs to 1 kg tubs.

132. Yoghurt has a short shelf life and requires constant refrigeration. Grocery retailers generally will not accept yoghurt with less than 7 days shelf life, and yoghurt is usually produced with 45 days shelf life.

133. Murray Goulburn has entered into a joint venture with DANONE through which Murray Goulburn supplies milk to DANONE for its yoghurt production. DANONE's manufacturing plant is located at Murray Goulburn's Kiewa facility.

134. The only yoghurt product currently supplied by Murray Goulburn is a lactose free yoghurt product under its Liddells brand. This product was recently launched in July 2013. It is only sold in four packs of 140 gram tubs.

- 135. Murray Goulburn's FY2014 forecast sales for Liddells lactose free yoghurt are contained in the file named 'Devondale brand – Grocery Retailers' of PWS1 and summarised in Table 14 below.

Table 14: Murray Goulburn's FY2014 Liddells yoghurt sales to grocery retailers (MAT 27/10/2013)

Grocery retailer	FY2014 forecast
Woolworths	
Coles	
Metcash	
Aldi	
SPAR	
Other grocery retailers	

- 136. There are currently no other suppliers of lactose free yoghurt. Although Parmalat has introduced a lactose free brand, Zymil, it does not supply lactose free yoghurt.
- 137. Suppliers of other types of yoghurt include DANONE, Ski, Activia, Yoplait, 5AM, Famers Union, Jalna and Chobani. Competition between those suppliers is national.
- 138. I am not aware of WCB supplying yoghurt in Australia.
- 139. In relation to pricing of Liddells yoghurt product, I will generally observe the price of other yoghurts available for sale, factor in a margin for grocery retailers [REDACTED]
[REDACTED]
[REDACTED]
- 140. Lactose free products are generally targeted at a select group of consumers with health concerns. In my experience those consumers are generally willing to pay a premium for the 'lactose free' quality.
- 141. I consider branding to be important in the sale of yoghurt generally. As such, private label yoghurts have not gained traction and only limited private label yoghurt products are available. I am not aware of any lactose free private label yoghurt products.
- 142. I consider that other non-dairy yoghurt products, for example, coconut yoghurt could be considered substitutable for lactose free yoghurt.

10 Milk powder

- 143. Milk powder is made by evaporating milk to dryness. It has a far longer shelf life than liquid milks and, due to its low moisture content, does not require refrigeration. There are full cream and skim varieties of milk powder. I believe milk powder to be readily substitutable with daily pasteurised milk or UHT milk – it is effectively dried milk which can be reconstituted with the addition of water.
- 144. Although milk powder can be easily imported, I am only aware of small amounts being imported into Australia.
- 145. Murray Goulburn supplies the following milk powder products:
 - (a) Devondale branded and private label milk powder in 2kg bags for grocery retailers; and
 - (b) milk powder products to food service customers.
- 146. Murray Goulburn's FY2014 forecast milk powder sales to grocery retailers are contained in the files named 'Devondale brand – Grocery Retailers' and 'Corporate Brands – Grocery Retailers' of PWS1 and summarised in Table 15 below.

Table 15: Murray Goulburn's FY2014 forecast milk powder sales to grocery retailers

Grocery retailer	Devondale brand FY2014 forecast	Private label FY2014 forecast
Woolworths		
Coles		
Metcash		
Aldi		
Costco		
SPAR		
Other grocery retailers		

- 147.
- 148. Substantial suppliers of milk powder include Fonterra and Nestle.
- 149. PWS4 and Table 16 below set out national supply volumes of milk powder to grocery retailers by supplier.

Table 16: National supply volumes of milk powder to grocery retailers (MAT to 27/10/2013)

Product	Supply volumes
Private Label	
Murray Goulburn	
Fonterra	
Nestle	
Other	

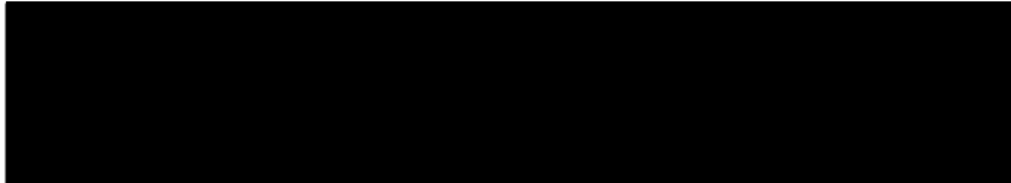
150. In relation to setting prices of milk powder, I will factor in a margin and ensure its costs of production are covered.
151. Large quantities of milk powder are currently being exported to Asia to meet a growing demand for dairy products in Asia, especially China.

11 Cream

152. Cream is the fat component of milk. During production, centrifugal force is used to accelerate the separation of the cream from the milk which is placed in large vats. There are a number of varieties of cream including, reduced fat, double cream, pure cream, thickened cream (which contain additives that act as thickening agents), whipped and clotted cream. In addition, UHT cream which has undergone ultra heat treatment to extend its shelf life, is available for sale in vacuumed sealed cartons. Cream has many uses, including as an accompaniment to desserts or fruit, a filling in desserts and is used in sauces.
153. Because fresh cream has a shelf life of only 12 – 14 days and requires refrigeration, it is not suitable for transportation over long distances. I am not aware of any imported brands of cream currently available.
154. Although some customers may regard yoghurt or custard as substitutable for cream, I will not alter the retail price of cream in response to promotions on those products and these products do not occupy the same area of retailers' fridges.
155. I consider that there are differences in the quality of different brands of cream – some manufacturers use gelatine as a thickening agent while others use vegetable gum. The method of manufacture has not been adopted by suppliers as a marketing tool, however, and I believe that consumers are unlikely to differentiate brands by taste or quality.
156. Murray Goulburn supplies:
- (a) Devondale branded fresh cream;

- (b) private label fresh cream; and
- (c) UHT cream.

157. Fresh cream is mainly manufactured at Murray Goulburn's facility in the Kiewa Valley, and Leongatha while UHT cream is manufactured at Leongatha.

158. 

159. Murray Goulburn's FY2014 forecast fresh cream sales to grocery retailers are contained in the files named 'Devondale brand – Grocery Retailers' and 'Corporate Brands – Grocery Retailers' of PWS1 and summarised in Table 17 below.

Table 17: Murray Goulburn's FY2014 forecast fresh cream sales to grocery retailers

Grocery retailer	Devondale brand FY2014 forecast	Private label FY2014 forecast
Woolworths		
Coles		
Metcash		
Aldi		
SPAR		
Other grocery retailers		

160. Murray Goulburn's FY2014 forecast UHT cream sales to grocery retailers are contained in the file named 'Devondale brand – Grocery Retailers' of PWS1 and summarised in Table 18 below.

Table 18: Murray Goulburn's FY2014 forecast UHT cream sales to grocery retailers

Grocery retailer	Devondale brand FY2014 forecast
Woolworths	
Coles	
Metcash	
SPAR	
Other grocery retailers	



161. In addition to its supply to grocery retailers, Murray Goulburn supplies 4kg tubs of fresh cream to food service customers. It manufactures those at its Leongatha facility.
162. PWS4 and Table 19 below set out the national sales of fresh cream to grocery retailers by supplier.

Table 19: National sales of fresh cream to grocery retailers (MAT to 27/10/2013) (by value)

Product	Supply volumes (MAT to 20/10/2013)
Bulla	
Parmalat	
Murray Goulburn	
Bead Foods	
Brownes	
Kraft	
Lion	
Private Label	
Other	

163. Murray Goulburn currently supplies all UHT cream to grocery retailers.
164. When setting retail prices, I will factor in production costs as well as a margin. I will then compare that price against the price for ingredient bulk cream and increase the retail price where it is below the price for ingredient cream.
165. Private label products have substantially impacted sales of branded cream. Although Bulla is still the main supplier, I believe that consumers are currently more amenable to private label cream products.
166. Supply to the major grocery retailers is by way of tender. Supply to food service customers is by way of price negotiation.

12 Other dairy products

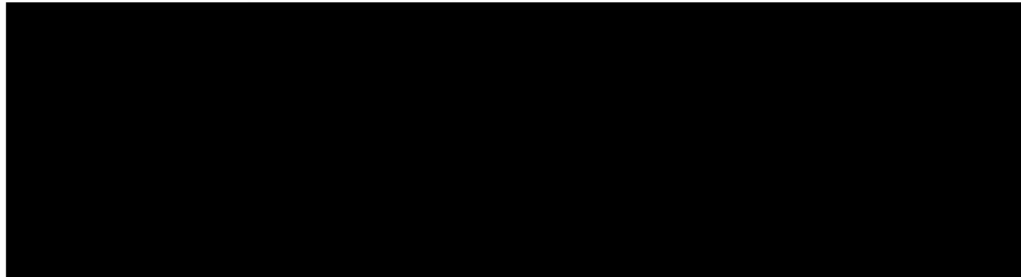
167. Murray Goulburn has recently begun supplying a liquid breakfast product derived from UHT milk, having launched its 'Fast Start' liquid breakfast in January 2013. Fast Start is manufactured at Murray Goulburn's Edith Creek facility.

168. [REDACTED]

169. I consider Fast Start to be substitutable with other brands of liquid breakfasts – although Fast Start is dairy based while 'Up and Go' – Sanitarium's leading liquid breakfast brand – is soy based. Other suppliers of liquid breakfasts are Kelloggs with 'Nutra Grain' and Lion with 'Basic Oats'.

170. Murray Goulburn also supplies nutritional products – a sports nutrition drink, protein powder and protein bars under the brands 'Pro Form' and 'Ascend'.

171.



172.

13 Food service customers

173. Murray Goulburn's FY2014 forecast sales to food service customers are contained in the file named 'Food service' of PWS1 and summarised in Table 20 below.

174. The breakdown of products supplied can also be seen in Table 20 below – the main products are cheese products. Large quantities of UHT milk and butter are also supplied, in addition to spreads, fresh creams and powders.

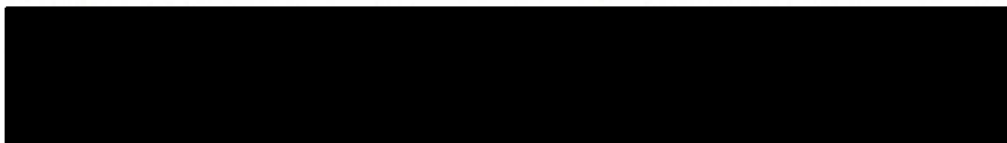
Table 20: Murray Goulburn's FY2014 sales to food service customers

Product	2013/2014 forecast
Butter	
Blends	
Natural Cut Cheese	
Pizza / mozzarella cheese	
Processed cheese	
UHT milk	
Fresh cream	
Milk powder	

175. Many of the products sold to food service customers will be in large pack sizes. For example:

- (a) cheese is supplied both in the sizes supplied to grocery retailers but also in 10kg, 20kg and bulk bins;
 - (b) butter is supplied in small sizes in addition to 10kg and 25kg packs;
 - (c) spreads are supplied both in small sizes as well as in 4.5kg packs;
 - (d) cream is supplied in 4 litre tubs in addition to smaller sizes; and
 - (e) milk powders are supplied in 1kg and 25kg bags.
176. Customers of food service businesses i.e. cafes and restaurants also purchase products from grocery retailers.
177. Murray Goulburn's strongest competitor in the supply of dairy products to food service businesses is Fonterra, particularly in the supply of cheese and butter. Bulla is a significant supplier of cream to food service businesses, while Lion and Parmalat are substantial suppliers of fresh daily pasteurised milk.
178. Murray Goulburn's supply to food service distributors is through buying groups. It does not enter into supply agreements with these groups. Its dealings are generally transactional, on an 'as needs' basis.
179. I understand that WCB supplies dairy products to food service customers from time to time on a 'one-off' basis. However, I consider that WCB is predominantly involved in the supply of bulk ingredients, not retail dairy products.
180. Substitution of products supplied to food service customers is high – customers generally acquire dairy products from both Murray Goulburn and other suppliers. Securing supply is largely based on establishing relationships.

14 Contract pack business

181. Murray Goulburn generally contract packs for dairy producers where those producers are developing new products or only supply small amounts of particular products, and it is more cost effective for them to engage Murray Goulburn.
182. 
183. I understand that Total Food Tech, a dairy ingredients supplier, also has a contract packing business.



15 Private label products and interactions with grocery retailers

184. An overview of the private label manufacture carried out for the main grocers is provided in the table below.

Table 21: Overview of private label manufacture for main grocers

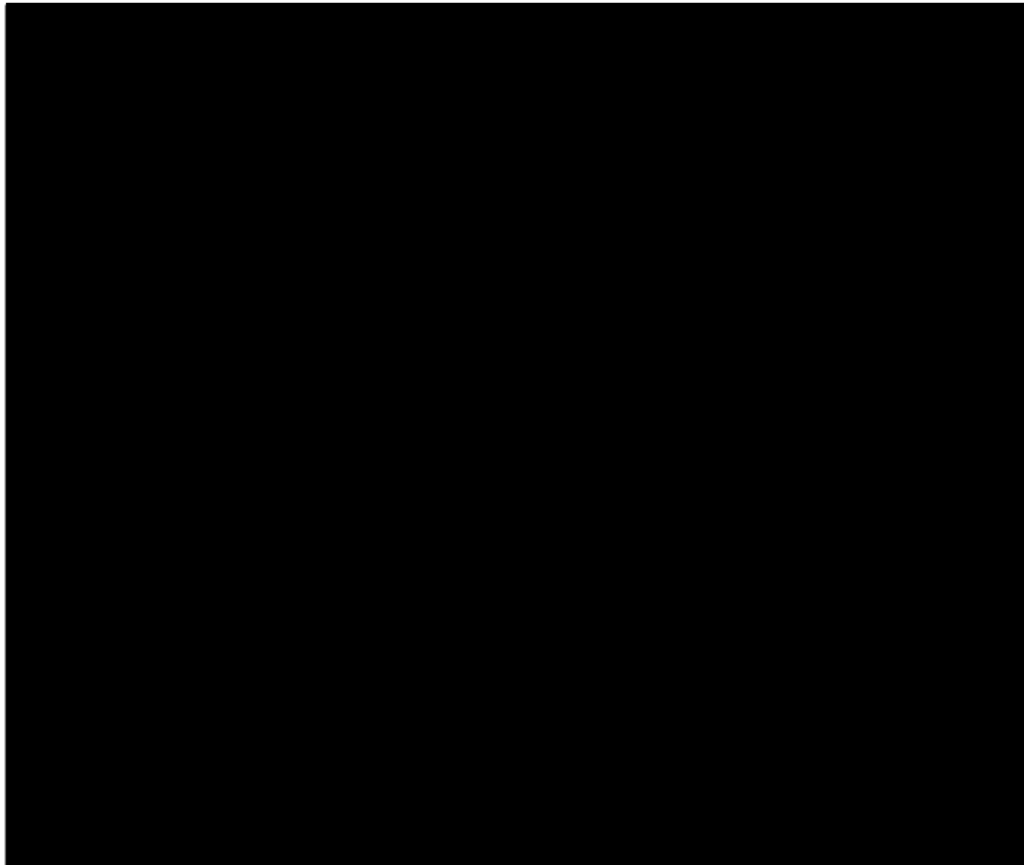
Product Segment	Woolworths	Coles	Metcash	Aldi
UHT				
Cheese				
Spreads				
Butter				
Daily pasteurised milk				
Milk powder				
Cream				
Dairy desserts				

185. Private label products are now competing on an equal footing with branded products. Major grocery retailers are focussing on private label products. I believe that participating in private label manufacture will assist our branded products.
186. Private label contracts are awarded through a tender process. Grocery retailers generally put out a request for tender for relevant products. The successful tenderer will then be required to provide taste and quality samples before a supply contract is formally entered into.
187. Historically, contracts with grocery retailers have been for six to 12 months duration. There has recently been a shift, however, with longer term supply contracts being entered into of around two to three years duration. Murray Goulburn's 10 year supply contract with Coles for the supply of daily pasteurised milk is unusual (to come into effect July 2014).

188.

189.

190.




16 Current Murray Goulburn plans to expand in domestic dairy markets

191. Murray Goulburn has traditionally been viewed as a commodity trader, with a large ingredients business and less focused on domestic dairy products. In the last 18 months, however, I have sought to reignite domestic relationships with grocery retailers and food service businesses.

192. I have endeavoured to expand Murray Goulburn's supply to all grocery retailers in both private label and branded products. For example, Devondale cheese products has recently been ranged in Coles after a nine year absence, and Murray Goulburn has recently expanded its lactose free product offering, with the launch of Liddells lactose free yoghurt in July 2013.

193. I consider that expanding supply to all grocery retailers will deliver Murray Goulburn with substantial growth, and to this end, I have secured a 10 year contract for the supply of private label daily pasteurised milk to Coles to commence in July 2014.

194. **[Confidential:**  **]** I am working to ensure Murray Goulburn's branded products maintain ranging in Coles and Woolworths, and also to support the grocery retailers with manufacture of their private label products.]

- 195. Murray Goulburn has recently developed new capability for butter in its Koroit facility, with an increase in efficiencies and development of new packaging in line with the European PAT format. In addition, an upgrade to its UHT facility in Leongatha will result in an ability to supply 'permeate free' products and increased capability. Murray Goulburn has further plans to upgrade its Cobram facility in relation to the manufacture of cheese. Its plant infrastructure and equipment at Cobram are ageing. The upgrade will both increase production capacity and improve the quality of products.

- 196. In relation to food service, Murray Goulburn's ambition is to double its business within five years – [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- 197. There are, however, constraints on Murray Goulburn's ability to expand in domestic dairy markets. These relate principally to the current supply shortage of raw milk, as well as a lack of capital investment.

17 Impact of proposed acquisition of WCB on domestic competitiveness

- 198. Currently a large proportion of raw milk is being diverted to the manufacture of milk powder to meet the growth in demand for dairy products in Asia, which is highly profitable.

- 199. In my role, it is important that domestic customers are provided with a range of dairy products, although this has to be balanced with the potential for high returns from exports.

- 200. WCB's retail business is small – it supplies Sungold branded daily pasteurised milk to route outlets, coffee shops and restaurants in the Warrnambool area, Great Ocean Road milk and cheese to Coles, and small amounts of private label daily pasteurised milk. As such, the proposed acquisition may not have a direct impact on Murray Goulburn's domestic products business. However, acquiring WCB will provide an increase in milk supply, which will allow Murray Goulburn greater flexibility in its business. It may enable Murray Goulburn to divert raw milk to the production of domestic products in high demand, such as cheese, without having to sacrifice capitalising on high profits delivered by exports.

- 201. To the extent the proposed acquisition results in Murray Goulburn having access to a larger milk pool, that would ease the tension between the need to meet Asian demand and domestic requirements.



SIGNED by Peter William Scott

A handwritten signature in blue ink, consisting of a large circular loop on the left and several vertical, wavy lines on the right, all connected by a single stroke.

on 28 November 2013

Glossary of terms used in this statement

Term	Meaning
Aldi	Aldi Stores (ABN 90 196 565 019)
Bega	Bega Cheese Limited (ABN 81 008 358 503)
Cerebos	Cerebos (Australia) Limited (ABN 82 004 304 803)
Coles	Coles Supermarkets Australia Pty Ltd (ABN 45 004 189 708)
Costco	Costco Wholesale Australia Pty Ltd (ABN 57 104 012 893)
Fonterra	Fonterra Brands (Australia) Pty Ltd (ABN 80 095 181 669), a member of the Fonterra Co-operative Group
Kraft	Kraft Foods Australia Limited (ABN 61 004 281 672)
Lion	Lion Dairy & Drinks Pty Ltd (ABN 65 004 486 631)
Metcash	Metcash Trading Limited (ABN 61 000 031 569)
Murray Goulburn	Murray Goulburn Co-operative Co Limited (ABN 23 004 277 089)
Nestle	Nestle Australia Limited (ABN 77 000 011 316)
Parmalat	Parmalat Food Products Pty Ltd (ABN 61 137 191 354)
WCB	The Warrnambool Cheese and Butter Factory Company Limited (ACN 004 032 053)
