

LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

Select Committee on Territory Food Prices

Price, Quality and Choice: Striking a Fair Balance

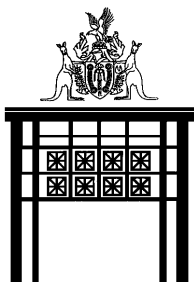
**Inquiry into Food Prices
in the
Northern Territory**

Volume 2

(Written Submissions Received)

August 1999

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VOLUME 2 -

WRITTEN SUBMISSIONS RECEIVED

PLEASE NOTE:

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SUBMISSION 1

Mr Paul Venturin
Alice Springs

Terry Hanley
Select Committee on Territory Food Prices

Dear Committee,

Re: Input into Territory Food Prices

I would like to know what level of input is required from current independent retailers that have survived so far..... the onslaught from major supermarkets ?

The last time we communicated to any government official's was when we lobbied the govt. to regulate trading ours. apart from the obvious loss of trade. the longer term scenario of higher prices was raised ! The govt ministers at the time suggested we either shape up or ship out ! Not to be disrespectful to Dr Lim, if this committee is based on what some "Professor" has written on extended trading hours in the NSW. It is a little disappointing, as retailers in the Territory had raised this issue ten years ago !Trading hours are the direct cause of higher prices in the Territory.

I suppose it is better late than never !

I have many other thoughts on this subject and would like to share them with your committee ... I am seeking your advise as to what is the best method to go about this ?

Paul Venturin.

SUBMISSION 2

D J Hawkes
Commissioner for Public Employment
GPO BOX 4371
DARWIN NT 0801

12 March 1999

Dr Richard Lim
Chairman
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Dr Lim

RE: SELECT COMMITTEE ON TERRITORY FOOD PRICES

Thank you for your letter of 5 March 1999 and the opportunity to provide input to the work of the Select Committee on Territory Food Prices.

While my Office does not regularly survey food prices within the Territory the variations in the general cost of living between other States and the Territory and, indeed, between various regions within the Territory feature well to the forefront in any negotiations between my Office and the Northern Territory Public Sector (NTPS) unions in relation to salaries and conditions of service. I am sure that the publicity surrounding the formation of your Select Committee will feature highly in negotiations which begin in a few months' time to determine a new Enterprise Agreement for the NTPS.

Directly related to food prices, NTPS employees in remote communities have an entitlement to an allowance for freight on foodstuffs. This is paid by way of a reimbursement of the cost of freighting in foodstuffs from larger centres such as Darwin to a maximum of 23 kgs per week for an employee with dependants and a maximum of 12 kgs per week for an employee without dependants. This allowance is paid to compensate employees as a result of the higher prices charged and the restricted range of foodstuffs available in community stores. The allowance, inclusive of Fringe Benefits Tax, amounts to approximately \$300,000 per annum.

While the payment of this allowance assists employees it does not address the source of the problem regarding higher prices and restricted choice. Any action to address these problems and initiate a more equitable pricing regime could lead to significant financial savings to the NT Government as the employer of NTPS staff.

During the latter part of 1996 and early 1997 a group of NTPS employees in Katherine raised concerns regarding the higher cost of food, housing and fuel in Katherine as opposed to Darwin. In relation to groceries the employees indicated that the cost of weekly shopping in Katherine could be as much as \$50 higher than in Darwin.

As a result of those concerns I arranged for the Consumer Affairs Council to conduct a price survey of supermarkets throughout the Territory on 19 March 1997 - the resultant report is enclosed for your information. While the information is somewhat dated I think that it still gives an indication of the variations in prices throughout the Territory.

An analysis of this information by my own staff determined that there was a significant variation between Darwin and Katherine - with the latter registering prices approximately 13% higher.

Interestingly, the SA/NT Office of Woolworths disputed the findings of this report. A comparison of fruit and vegetable prices between its store in Katherine and that at Leanyer showed that Katherine prices were 9.1% cheaper than Leanyer and that a similar check on grocery items showed that Katherine prices were only 4.57% higher than Darwin.

The above exercise was interesting but inconclusive. While retailers are generally able to rationalise their prices, there is a general view amongst employees that the variations in prices between the States and Territory, and between regions within the Territory are suspiciously high.

I wish you and your Committee success in your endeavours.

Yours Sincerely

D J HAWKES
Commissioner for Public Employment

SUBMISSION 3

Office Status of Family
Post Office Box 988
PALMERSTON NT 0831

15 March 1999

Select Committee on Territory Food Prices
Legislative Assembly of The Northern Territory
GPO Box 3721
DARWIN NT 0801

The Secretary
Mr Terry Hanley

Dear Sir

We response to the advertisement NT News Saturday 13 March 1999.

1. Yes there is a substantial difference in food prices across Northern Territory to other comparable locations in Australia, barring those places suffering the same exploitation as The Northern Territory. Darwin however stands alone as being vastly over priced without reasonable cause.
2. Barring legitimate additional costs from remoteness there is a portion of the retail price burdened with deliberate exploitation from isolation. In some instances this may be by others than the final retailer. Darwin stands alone as being vastly over priced without reasonable cause.

It is an undeniable fact that the major National wholesaler 1 retailer supermarkets have the strongest buying power, the most cost efficient purchasing, distribution, marketing, and highest annual profits. They utilise this to strategically undercut smaller competitors, cause their financial demise, then end up owning most or all of the wholesale ~1 supermarket under different names, then ratchet up prices in the district. This has been the common practice elsewhere and is now the situation in Darwin with Coles and Woolworths. Both are in product competition but like two peas in a pod in the market strategy of being 'The big Two'. When Coles Palmerston have for years been reported in the media as the most expensive supermarket in Australia and concurrently being recognised internally as Coles best profit earner, then clearly freight is not the cause of high prices.

To protect their premier position of control, National supermarkets have glibly tried to disguise this market strategy by blaming long distance freight costs. The excuse has no real credence. Northern Territory does have high freight cost, but not the same portion of the retail prices as purported by the Major Nationals.

A quick formulae to estimate the proportion of exploitation for Darwin or Alice Springs shoppers is to:-

- (a) use Eastern Seaboard retail prices already formulated with all costs and profits of a normal market place.
- (b) add a small percentage of say 2% to 4% for remote retail outlets higher, administrative, employment and power charges which might apply.

- (c) for linehaul freight from Sydney to Darwin, add 32 cents per kilo as the higher possibility, costs ex Adelaide stand to be much lower.
- (d) compare the calculation to The Northern Territory retail price, the difference will be the wholesaler 1 retail exploitation profit.

It can be taken that the 'buying power' of Major Suppliers ensures the transporter component is highly competitive. The major linehaul transporters like Shaws, John Bain and Bulls should be canvassed for their participation in the inquiry to verify these costs, of course in ways that would not jeopardise their current contracts. Note that local deliveries would cancel out with the local transport included in Eastern Seaboard Prices.

Deliveries to remote communities of course will have freight costs additional to Darwin and Alice Springs, and may be burdened with further profit added on to freight component as handling costs, an unfair profit component in remote circumstances.

We say that wholesalers and retailers who add on a profit margin to their linehaul costs to Darwin and Alice Springs and remote centres, are indeed profiteering from remoteness. Their commercial right to do so may be one thing, but profiteering from those under personal sacrifice and hardship still in a National Pioneering Responsibility., is unreasonable. Such outposts are not capable of earning incomes and profits from the district, they are still very reliant on Government funding to remain at their location of responsibility. It is hypocritical and repugnant to the extreme when National supermarket leaders boast of their prized financial annual success qualifying themselves as National Leaders, while they profit greatest from those folk still sacrificing in pioneering The Nation, and perhaps the Supermarket's own future lucrative markets.

We shall leave it to others who can provide statistics to better detail our case.'

The irony of this enquiry is that if prices are lowered it is going to injure the smaller supermarkets who do not have equal buying power, creating a further drift to the National Majors monopolistic market control. Whilst this situation has arrived by lawful means we commend the government for this inquiry. The main component of our standard of living should not be undermined by profiteering monopolies. We wish The Commission a successful response with suitable evidence to report so that Government may begin early on counter measures to 'Monopoly Controls' over our staple household goods and prices.

We hope to have been of assistance to The Commission and all Territorians.
Your faithfully

RE Kennedy
Co-ordinator

SUBMISSION 4

Stefania & Jan Fikus
5/77 Nightcliff Rd
Nightcliff NT 0810

Dear Sir,

In response to the advertisement in NT News I would like to raise the issue of prices at MacDonalds.

Recently we visited Brisbane and noticed that prices did not go up. In comparison in Darwin price of Big mac meal went up by 30c from \$4.95 to \$5.25. we cannot comment on other products offered by this company as we did not checked.

In our opinion. MacDonald, being a National Company ought to keep the prices uniform throughout Australia.

Please consider our input into your investigation.

Kind regards

Stefania & Jan Fikus

SUBMISSION 5

Ms Jennifer Gallagher
11 Todd Cr
MALAK NT 0812

Daryl Manzie
Shop 12
Malak Shopping Centre
Chamber Cres
MALAK NT 0812

Re: Fruit & Vegetable Prices in NT

I know that there is current debate and investigation into the cost of groceries in the NT. I also read in your newsletter how important it is for children to have healthy lunches and snacks. The long term benefit for eating well especially an adequate intake of fresh fruit & vegetables are enormous for the individual and the community.

We have now been living in the NT for 1 year. I have been horrified about the cost of fruit & vegetables this includes locally grown produce as well as food which needs to be freighted. I have done my own study and compared to Sydney market prices we have to pay up to 10 times the amount for fresh fruit & vegetables. Even locally grown mangoes and bananas at Rapid Creek markets are more expensive than Sydney. I believe this is so as the weekend market stalls are very astute and put their prices at about \$1.00 a kilo less than the big supermarkets but at still over inflated prices.

A proposed GST would worsen this situation. The government needs to act now. This situation is jeopardising the long term health of Territorians, which also adds to the cost of dental & health care not to mention work productivity and quality of life.

I believe there are some possible solutions to this situation. Increasing the amount of fruit & vegetables actually grown in the NT. This would also provide employment. Organising the big supermarkets to buy local produce, once the supply has been established. These are a just a few ideas that I have.

Yours sincerely

Jennifer Gallagher

SUBMISSION 6

Jabiru Town Council
PO Box 346
JABIRU NT 0886

18 March 1999

The Chairman
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Dr Lim

Select Committee on Territory Food prices

Thank you for your letter of 5 March 1999 in which you invited Council to make a submission into the review of food prices in the Northern Territory. Council considered your letter at its meeting of 15 March 1999 and resolved that a submission be put to the Committee.

Council considered that there are probably many reasons why there are cost differentials in food pricing across the Northern Territory with the most obvious one (that is most often quoted) being freight costs. However, Council also considers that that lack of competition might also contribute somewhat to the cost differences in small towns like Jabiru. A further factor is the small portion of the total food stock that is produced in the Northern Territory.

Whilst Council and the Committee may be aware of the above factors one suggestion that Council would like to make to the Committee is that regular pricing reviews are done for food premises and the information provided to the public. It is very useful for the consumer to know about the relative competitiveness of the premises which supply food. Such information enables consumers to make decisions about their buying practices and can confirm or surprise the consumer with details of food prices. Council recommends that such information be made available to residents to enable them to assess the competitiveness of food outlets.

Council also extends an invitation to the Committee to visit Jabiru for the purpose of a hearing if it wishes to. The Council would be prepared to have a venue available for such an event.

Yours sincerely

Ian Irvine
Chairman

SUBMISSION 7

Nhulunbuy Town Board
PO Box 345
NHULUNBUY NT 0881

Chairman
Select Committee on Territory Food Prices
GPO Box 3721
DARWIN NT 0801

Dear Dr Richard Lim

Select Committee on Territory Food Prices

I thank you for your letter of 5th March 1999 relating to the above mentioned Select Committee. This item of correspondence was presented to the Town Board meeting held on Tuesday 15th March 1999 and I was requested to provide certain information.

The Board did not feel it was in a position to actually comment on the food prices themselves as obviously many varying factors do effect the cost, and we are not aware of all of those factors. I was, however, asked to provide you with information relative to the Towns Municipal costs which themselves could affect prices.

You will no doubt be aware that Nhulunbuy, unlike the other larger Territory centres, does not receive any financial assistance from the Northern Territory Government in the distribution of the Commonwealths Financial Assistance Grants or Road Grants. Inevitably this results in higher rates charges as normal state Government functions such as the fire service are currently directly funded out of the rates.

For the year 1998/99 the following municipal type charges as budgeted apply:

General Services	\$ 975,5981	ie\$0.0349748/\$UCV
Normal State Government		
Type additional Costs	<u>\$ 614,946</u>	<u>ie\$0.0220369/\$UCV</u>
Total	<u>\$1,590,927</u>	<u>ie\$0.05702 \$UCV</u>

A normal 3 bedroom house for example has a UCV of \$26,000 and for the above charges the owner would pay general rates of \$1,482.39.

Additional costs are ;

Garbage Fee	\$173.40/property
Sewerage Fee	\$167.40/connection

Water is provided on a paid consumption basis at 41c/kilolitre.

Power charges vary over the year dependent upon actual costs associated with maintenance, generation etc.

As an example the following tariff's would be a reasonable average;

Domestic		11.03c per/KwH
Government		12.88c per/KwH
Commercial	First 6000 KwH	18c per/KwH
	24000 KwH	16.50c per/KwH
	remainder	12.52c per/KwH

In relation to Nhulunbuy other costs which need to be considered are freight. collection from barge, high rentals (due to small private market) and necessary stock levels to cater for a reasonably small Town.

I trust this information is of some assistance to the Select Committee.

Should you wish to discuss any matter further please don't hesitate to contact me direct.

Yours sincerely

NHULUNBUY TOWN BOARD/NHULUNBUY CORPORATION LIMITED

M Hindle

CHAIRMAN & TOWN ADMINISTRATOR

SUBMISSION 8

Department of Asian Relations and Trade

GPO Box 4875

DARWIN NT 0801

Dr R Lim MLA
Select Committee on Territory Food Prices
GPO Box 3721
DARWIN NT 0801

Dear Chairman

In response to your letter seeking submissions to the Select Committee on Territory Food prices I make the following comment.

This agency is charged with attracting inward investment to the Territory and facilitating international trade. My comments then are confined to the impact of food prices on commercial decisions relating to investment and trade.

As an overall comment, food, as a cost to business, has not been brought to the attention of this agency.

In the period since 1993 this agency has commissioned a number of surveys aimed at establishing the competitive position of Darwin as a business location vis a vis southern capitals and major centres in South East Asia. These surveys have focused on business establishment and operational costs and have dealt with such matters as proximity to markets, labour, transport/freight, electricity, office/domestic accommodation etc. In constructing the terms of reference for these surveys we have not seen the need to identify food prices as a specific item for comparison. Further, our feed back from the business community on the value of these surveys has not commented on the omission of food prices as a matter of concern.

One survey of note was sponsored by the then Secretary of this agency and conducted by an Executive Development Team (EDT) in 1998. The EDT interviewed a broad cross section of industry and public sector leaders on what they saw as the critical issues for the Northern Territory's economic development in the period to 2010. The shortage of skilled labour as a limiting factor in economic development ranked in the top five issues. One of the factors in the inability of business to recruit skilled labour was stated to be the high cost of living in Darwin. Food prices are, of course, a component of this.

Some isolated mining and oil and gas operations in the Territory become involved in bulk food purchases. While this agency has no specific data on this cost to these businesses, it is reasonable to assume that food is relatively minor in the total cost of the operation. Food may be a more significant cost to some tour operators and any reduction in prices may make the Territory tourism industry more competitive with other locations in Australia. Your Committee may want to pursue this matter directly with these industries.

Yours sincerely
BRIAN ELY
Acting Secretary

SUBMISSION 9

NARGA Pty Limited
263 Wardell Road
DULWICH HILL NSW 2203

Dr Richard Lim MLA
Suite 39A
Yeperenye Shopping Centre
Hartley Street
Alice Springs NT 0870

Dear Dr Lim

**MAJOR CHAIN DOMINANCE NATIONAL INQUIRY -
AN UPDATE**

We have appreciated the very significant support of many members of Parliament around Australia regarding the growing stranglehold of the major chain retailers and wanted to update you.

We believe we have one last chance to highlight the devastating effect of the dominance of the major supermarket chains on jobs, small business, families, and rural and regional communities.

The major supermarket chains have an insatiable appetite for market share and their domination grows on a daily basis. As you know, in the retail grocery sector alone, they now have over 80% market share - and rising. This has doubled from 40% in the past 20 years. **In fact the latest research shows the chain supermarkets have purchased one billion dollars of annual turnover from the independents in the past four years alone. Their acquisitions are no longer creeping but galloping. The current laws are useless in stopping the chains purchasing their competition in this way.**

As you will recall from our correspondence in January 1999 the top three grocery chains in the UK have only 45% of the market, in the USA the top three have 28% and in Japan the largest five have only 17.5%.

The major chains' growing oligopoly in Australia is unhealthy and destructive to small business, jobs and rural and regional communities. When competition is removed (by the chains), the evidence is clear that prices rise and consumers are denied a choice.

Within the retail sector, the list of those concerned has spread well beyond the grocery sector to the detriment of butchers, bakers, florists, newsagents, pharmacists, liquor outlets, petrol station operators, photo lab services, and many others. Indeed the Council of Small Business Organisations of Australia has recently thrown its full support behind the Coalition. Concern is also growing outside the retail sector from groups such as manufacturers, suppliers, primary producers, small business groups, residents' associations, church, charitable and social welfare organisations.

In this regard we have **enclosed the Coalition Against Retail Chain Dominance campaign update** for your interest. The Coalition is building with total support and endorsement from a large number of groups representing the above interests.

We believe this Inquiry, and the possible outcomes, will be a watershed development for Australian small businesses, regional communities and the many others affected by the dominance of the retail chains.

State planning laws are particularly important in that socio-economic impact statements should be prepared before any major retail or shopping centre complex is developed.

Remember the major supermarket chains have deep pockets and will be aggressively lobbying against any change that assists the survival of competition, and specifically independent retailers.

We would encourage you to be actively involved in this Inquiry, to make a submission and to encourage your constituents to do the same. Thank you once again and if we can assist in any other way please advise.

Yours sincerely

ALAN McKENZIE
National Spokesman

SUBMISSION 9A

NARGA Pty Ltd

**SUPPLEMENTARY SUBMISSION
TO
JOINT SELECT COMMITTEE ON
MAJOR CHAIN DOMINANCE**

by the

**National Association of Retail Grocers of Australia
(NARGA)**

Striking a Balance



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7.	Letter from <i>Lockhart IGA Everyday</i> dated 22 June 1999
8.	Employment in the Supermarket & Grocery Stores Sector Within Australia
9.	Cheque Book Losses Summary
10.	Summary of Key Arguments & Recommendations (including <i>The Reid Report</i> Recommendations)

1. INTRODUCTION

Having now had the opportunity to review the evidence of participants in the Inquiry and the comments and views expressed by members of the Committee, this is to provide supplementary evidence in support of NARGA's major submission and recommendations to the Inquiry.

The Terms of Reference called on the Committee to inquire into and report, amongst other things, on *the degree of industry concentration and the ability of independent retailers to compete fairly in the retail sector*.

We believe we have already demonstrated to the Committee that independent retailers are unable to compete fairly in the retail grocery market, as evidenced by the ongoing decline in our market share. Evidence of the lack of a level playing field due to the size, scale and dominance of the major chains, and the added burden of wholesale sales tax discrimination against independent retailers, was provided in our Submission to the Inquiry.

The unfair competitive environment arising from the high level of concentration within the retail market was also recognised in *The Reid Report* of May 1997, and the key quote highlighted on the cover page of our submission. We commend *The Reid Report* to this Committee. The major recommendations in relation to fair trading in the retail sector, which we have reproduced in Attachment 10, are yet to be acted on by the Government.

The playing field is tilted very severely against the independent sector and it is of great credit to the tenacity and resilience of independent wholesalers and independent retailers that we have held up against such anti-competitive and overwhelming odds for so long.

Without major reforms, as proposed by NARGA, to stem the chains' tightening market stranglehold, the market share of independent grocers will continue to decline, to the point where the entire sector will be threatened with irreversible market failure due to the loss of critical mass.

The consequences of such an outcome and, in particular for rural Australia, will be severe.

We note from press reports, and in comments made by Committee members during the public hearings, that the Committee is considering recommendations in respect to:

- reviewing the efficacy of Section 46 in terms of changing the intent test to an effects test re misuse of market power
- allowing the ACCC to run representative actions to claim damages on behalf of small businesses that are the victims of misuse of market power (we understand that the ACCC is favourably disposed to this initiative)
- expanding the powers of the ACCC to investigate if the chains' "creeping" acquisitions of independent supermarkets diminished competition in a particular area.

While these reforms are necessary and welcome they will not, in themselves, adequately address the core issue of loss of critical mass through increasing chain dominance and the need to level up the playing field so small and independent retailers can compete fairly.

NARGA therefore remains committed to its key recommendations, which we believe are necessary to protect genuine public interests.

There is a heavy onus of responsibility on this Committee to put forward recommendations that will protect the public interest and that of ordinary Australians by striking a balance that will ensure a viable independent sector and a healthy and competitive market place.

We now comment in detail on some of the matters raised in evidence and by members of the Committee during the public hearings held to date.

Our Submission now follows in three further parts. The first part responds to the arguments against capping chain market share. It specifically addresses the duplicity of the major chains' position and why the market is the grocery retail market as defined by AC Nielsen. We also address the issue of the impact of the cap on the value of small business and respond to the comment that consumers are not complaining.

In the second part we address the impact of chain dominance on rural Australia and the public interest, provide employment trends in the sector, which confirm our view that jobs are at stake. In this part we also point out the shortcomings of the law in dealing with predatory pricing and update cheque book losses.

In the final part we include our conclusion and recommendations and foreshadow amendments to the *Trade Practices Act 1974* to curb the dominance of the major chains. We have ten relevant attachments.

2. RESPONSE TO ARGUMENTS AGAINST CAPPING CHAIN MARKETSHARE

(a) Defining the Market

There seems little doubt that no matter how the market is defined, the major supermarket chains, and in particular *Coles and Woolworths*, enjoy substantial market power.

This is apparent when comparing ABS retail statistics and chain retail sales data – see Table 1 below.

Table 1 - Comparison of Major Chain Market Share Across the Retail Sector 1997-1998

	TOTAL RETAIL SALES		RETAIL FOOD SALES		SUPERMARKET & GROCERY SALES	
	\$M	%	\$M	%	\$M	%
Australia	134,585	100.0	54,616	100.0	37,405	100.0
Coles/Myer	20,587	15.3	11,559	21.0	11,559	30.9
Woolworths	16,842	12.5	14,453	26.5	14,453	38.6
Franklins	4,228	3.1	4,228	7.8	4,228	11.3
Total Chain Retail Sales	41,657	30.9	30,240	55.3	30,240	80.8

Source: J B Were & Son Industrial Research (ABS Retail Sales/Company Reports)

The levels of market concentration in the retail industry in Australia are acknowledged as being among the highest in the world. This concentration is greatest in the supermarket and grocery store sector.

It was such clear dominance that forged unprecedented cross party support for this Inquiry in the lead up to last year's Federal Election.

Contrary to the evidence submitted by the major chains and others, including A C Nielsen and Jebb Holland Dimasi ("Dimasi"), NARGA maintains that the relevant market for the purposes of this Inquiry is that measured and reported on by A C Nielsen.'

This is because the grocery categories measured by A C Nielsen are centrally warehoused and distributed to independent retailers by grocery wholesalers. In order to supply independents at competitive prices, the grocery wholesalers must maintain critical mass (i.e. the overall volumes necessary to operate efficiently and command the same buying prices as the chains).

It was estimated by Dimasi in evidence that the classes of goods tracked by Nielsen account for \$18-19 billion, of the \$27 billion spent on packaged groceries in Australia. The balance includes milk, bread, eggs, biscuits and snack foods. These are supplied on a direct to store basis by vendors because of short date codes, and are not impacted by issues of critical mass, as the necessary distribution systems are in place to ensure ongoing supply to independents on a direct basis.

Likewise fresh food sold by independents may come from a myriad of sources, e.g.:

- fruit and vegetables - are available from central or local markets, direct delivery by vendors or direct access to local growers
- meat - can be sourced from local abattoirs and a variety of meat distributors. in the instance of very small supermarkets, they may choose to purchase from their local independent butcher in pre-packaged form thereby adding a positive benefit to the local economy by retaining jobs in rural and regional towns.

The fresh food market is therefore not subject to the same, critical mass constraints facing the independent sector in relation to packaged groceries.

The packaged grocery offer is the key to the success or otherwise of supermarkets and grocery stores. It accounts for 60% and more of total store sales in the sector and establishes in the minds of customers whether a store is price competitive. The massive amounts of advertising space taken by the major chains in price promotion of packaged grocery lines bears testimony to this principle.

Despite the ever-expanding shelf footage for fresh foods in supermarkets, the key business driver continues to be packaged groceries.

The importance of a competitive grocery offer was perhaps best summed up by Mr Dimasi when he said in evidence to the Committee:

"I think the supermarket is about a number of things. First of all it is about delivering as cheaply as possible the staple groceries which people want to buy at the absolute lowest price possible, but then it is about meeting all those aspirational needs relating to food. and that is not necessarily just about price." (Hansard RS 387 15/4/99)

The reality is that packaged grocery retailing is a low-margin business with many lines sold at or near cost in order to compete. In order to compete effectively in this market, independent retailers must be able to obtain their goods from wholesalers with the necessary buying power to command best prices from manufacturers.

This buying power or critical mass is under threat as never before as the major chains continue to relentlessly erode the market share of independent retailers. It has again been confirmed that, unless the government acts, the chains' insatiable appetite for market share will continue unabated. In commenting on industry trends at the recent Foodweek Conference (Foodweek 21/6/99),

Woolworths' General Manager - Long Life Products, Michael Luscombe, said he anticipated that growth in chain supermarket floor space would be double population growth (around 1% p.a.) over the next five years. This growth can only come by way of further significant erosion in the market share of independents.

The latest published Nielsen data (as at December 1998) is provided in Attachments 1, 2 & 3.

Retail Grocery vs Specialty Food Retailing

The furphy thrown up ad nauseum at the Inquiry in relation to the success of specialty food operators, such as *Bakers Delight* and *Lenards Poultry*, in competing with the chains needs to be laid to rest. It was suggested that, if these operations can compete successfully with the chains, why can't independent grocers?

The fact is that independent grocers operate in a low margin, high volume, price sensitive environment across an average range of 5000 or more mostly staple lines generally available across the industry.

By contrast, the two franchise operators in question operate in the specialty food segment with high margins, limited range with an emphasis on value added, which enables them to command a price premium. These outlets are predominantly located in shopping centres where high margins are necessary to offset the high operating costs.

It was explained in evidence by Phil Naylor of the Australian Retailers Association (Hansard RS 372 15/4/99) that the average cost structure for specialty retailers operating in centres is as follows:

		% to turnover
Gross profit		38
Less Occupancy Cost	15	
Wages	12-14	
Administration	8	
	35-37	
Net Profit		1-3%

While the net profit is in line with the 1 - 2% net profit sought by independent grocers, that is where the similarity ends. These specialty operators are successful because they operate in a niche market and are able to minimise head to head competition with the chains.

In concluding our remarks on what is the relevant market, we note with scepticism, the efforts made by the chains at the Inquiry to distance themselves from the retail grocery market as measured by A C Nielsen.

Woolworths, in particular, in response to repeated questioning from the Committee would not accept the Nielsen data as having any form of legitimacy as a measure of market share.

We now refer the Committee to the *Australian Financial Review* article of 5 May, 1999 (see Attachment 5), some one month following Woolworths' appearance before the Committee. In an effort to bolster its sagging share price, Woolworths went public with the release of Nielsen figures to show that, contrary to speculation, its market share had increased. This begs the question "Who is being misled - the investment community or the Committee?"

It seems therefore that the Nielsen data are allowed to have legitimacy and relevance when it suits *Woolworths'* interests, but is jettisoned if it doesn't. It should also be pointed out that both *Coles and Woolworths* are happy to quote Nielsen figures in their Annual Reports to proudly promote their dominant market position and the market growth being achieved.

To substantiate this point further, we included two quotes from the *Woolworths'* former Managing Director, Mr. Reg Clair in our main submission.

Quite simply, the major chains, by advocating a broader market definition, are seeking to deflect the Committee's attention away from the key issue, which is their growing stranglehold on the retail grocery market and the erosion of critical mass, which has the independent sector on the cusp of market failure.

(b) Value of Independent Businesses Under a Cap

Members of the Committee have expressed concern that the value of independent businesses would decline under a cap. This spectre was raised because the chains' acquisition programmes would unquestionably be constrained by a cap and that therefore the substantial premiums being paid by the chains for strategic sites would dissipate.

It was encouraging to see the strong stance taken on this issue by one of Australia's leading independents, Roger Drake, who said in Adelaide (Hansard RS 224/25 8/4/9g):

"By asking for a cap, I am actually reducing my opportunity to sell my business. We have got some of the best stores in Adelaide.... But what is best for Australia... This is what we are about surely - not what is best for Coles Myer, or Woolworths, what is best for me..."

In relation to Committee members' contention that independents are happy to sell, evidence was given by Alan Jones of the Master Grocers Association of Victoria. He pointed out that a fear of unfettered chain expansion is in the back of an independent grocer's mind when approached to sell out to a chain, ie what happens if they don't take the offer and the chain then takes an alternate site nearby and destroys their investment. Even stores with succession plans in place, have sold out to the chains in these circumstances.

Accordingly, while some independents are no doubt happy to take the money and run, others do so out of fear of the consequences of saying no!

We submit, however, that **the Committee needs to consider this issue in the broader context** of the considerable investment across the entire independent sector (not just in larger stores) - an investment which is being diluted as a consequence of increasing chain dominance. **This investment, across thousands of stores, will be placed at risk should the independent sector lose its critical mass.**

Already the sector has lost the considerable investment in the 844 independent stores that exited the market in the period 1991 - 97 (see Attachment 6).

We believe the Committee should make special note of the evidence given to it by the witnesses who have generally supported the view that if the chains are constrained under a cap, **there will be greater confidence in the independent sector and, overall, independent stores will be considered better investments.** This, in turn, will make them more attractive to other independent operators. In his submission to the Inquiry, Michael Daly, Chairman of IGA Everyday (reported Foodweek 10/5/99) said that 15-20 years ago:

"...our businesses were worth a lot more than they are now. This is because, today, an investment in independent supermarket retailing is often considered a high risk because of the chain activity and dominance within the industry."

As previously pointed out by NARGA, independents incur a substantial penalty in their borrowing rates from banks, compared with the chains, and are required to put up real estate as security. **The imposition of a cap is likely to improve the risk profile of independents and assist in securing finance at more favourable rates.**

Further, if a cap is imposed, independent stores may well become more attractive to developers and shopping centre operators as tenants in major developments.

We believe that, on balance, in light of the evidence put to the Committee, the imposition of a cap will have a positive effect on the overall value of independent businesses.

(c) "Consumers Are Not Complaining"

Members of the Committee have commented that, among other things, consumers aren't complaining. One Committee member questioned the need for the "draconian/harsh" solutions put forward by NARGA.

We were, therefore, pleased to see that the national consumer movement as represented by the Consumers Federation of Australia (CFA) Food Network Division shares the concerns of NARGA in relation to increasing chain dominance.

Among other things, the CFA's submission recognised the negative impact of chain dominance on consumers, including:

- less consumer choice
- reduced opportunities to shop locally and the fallout in terms of:
 - increased travel time to do basic shopping
 - greater dependency on car travel
 - less accessibility to shops for the elderly and the poor who are less mobile
 - decline of local communities
 - loss of jobs in small business

Indeed, Committee members should note, their submission in fact called for a tighter cap on market share than that put forward by NARGA.

The CFA, in evidence, pointed out that the trend to increasing concentration and market power now needs to be checked in the interests of a competitive market. *The CFA called for a rethink into what is the optimal shopping system for Australia* and that planners and competition policy authorities need to develop a more consumer responsive definition of efficiency - not just a narrow price orientated definition - *and one that recognises the need to support and keep shopping facilities within local communities.*

The CFA, in referring to the UK experience, also foreshadowed the need for a tougher, more interventionist competition policy in response to the growth of oligopolistic behaviour across different sectors.

This thoughtful input was in contrast to the very narrow consumerist views expressed by the Australian Consumers Association, which unlike the CFA is not membership based.

It should be noted that the Australian Consumers Association is, in fact an organisation which publishes Choice Magazine and other books and publications and, unlike the CFA, does not represent grass roots consumers or consumer groups.

As further evidence of consumer concern in relation to this issue, we refer to the submission from the Coalition Against Major Chain Dominance, which represents 471 organisations and individuals. The organisations that make up the Coalition represent over 350,000 Australians. Some of the organisations include: Australian Pensioners & Superannuants Federation, Tasmanian Pensioners Union, Queensland Consumers Association, Business & Professional Womens Federation, numerous local councils and many other rural and regional-based organisations, small businesses and the like. These groups are all concerned and oppose the growing stranglehold of the major chains.

3. OTHER KEY ISSUES

(a) Impact of Chain Dominance on Rural Australia and the Public Interest

(i) The Need for Critical Mass

As previously pointed out, the wholesalers who supply independent stores with their groceries need critical mass or sufficient buying power in order to buy from manufacturers at the same price as the major supermarket chains and to run efficient warehouses.

As the big chains continue to grow at the expense of independent retailers, this buying power is being reduced. The Committee has been told in evidence by the independent wholesalers that, as independent store numbers shrink (through selling out to the chains or being forced out of business), at some point the ability of wholesalers to supply the remaining stores at reasonable cost will come under pressure, and may eventually place the entire independent sector under threat.

If this happens, how will independent stores, particularly those in rural towns, get their grocery supplies, at what cost and with what regularity of supply?

(ii) The Threat to Rural Towns

Smaller rural towns rely heavily on independent stores to meet their needs for basic goods and services.

These are the towns most at risk if the independent sector comes under threat due to the increasing chain market stranglehold.

In their evidence to the Inquiry, *Franklins* advised that they are only interested in setting up a store in towns with a population of around 5000 people (Hansard RS 401 15/4/99). On this criteria there are many hundreds of towns across Australia that will only ever be serviced by independent stores. If their local store is no longer viable, there would be nothing to replace it.

Evidence on the consequences for rural towns if independent stores are rendered unviable by loss of critical mass was given to the Committee in Melbourne by independent retailers, Barbara Murdoch (Hansard RS 170) and Ray Veal (Hansard RS 1 00). Mrs Murdoch confirmed that the principal determinant of preventing leakage of business to other towns is remaining price competitive, and quoted Springhurst as an example of a town that did not survive the loss of its grocery store. Mr Veal spoke from experience of the domino effect that is created by the closure of the local grocery store. Further to this, the attached correspondence from Bob Mathews of *Lockhart IGA* argues that the problem has more serious implications for country towns than bank closures (see Attachment 7).

(iii) Access to Basic Goods and Services

The threat to stores in rural towns not only impacts on consumers' right of choice but on an even more fundamental right to have access to basic goods and services.

This is particularly an issue in rural and regional areas and for those members of the community whose mobility may be limited such as the elderly, people with disabilities, young families without private transport, etc.

For these people, it is not a matter of choice. If their local independent store goes, it can mean having to choose between travelling long distances for their basic needs or moving from that area to one where services are more accessible adding to the declining population and infrastructure of rural townships.

For the elderly, this can even mean the difference between staying in their own home or having to go into care.

Again, it comes back to the issue of critical mass. Without legislation to stem the growth of the major chains, the survival of stores that are the cornerstone of the social economic fabric of rural townships, will be at risk.

If these stores are forced to close, the survival of many towns will be threatened and many consumers disadvantaged as a result of their age, mobility or location.

(iv) Services Beyond the Cash Register

In addition to the basic issues of choice and accessibility, the loss of independent stores, particularly in rural and regional area, means the loss of much more than just the goods they sell.

Think of any country town - where do you go for tourism advice, the key to the local hall, information about the local fire service, a place to put the community notices, and so on.

The answer is quite clearly - the local store.

It is the economic and social focus of the township, providing jobs, local cash flow, a meeting place, access to banking, postal and other services in areas where there are no banks or post office, tourist information and community services. These stores also support local charities, sporting and community groups as well as offering personal assistance and expertise, that goes way beyond the dollars and cents of operating a business in the area.

(v) The Public Interest

Major chain dominance is against the public interest because if it is allowed to continue unchecked, it will erode and eventually destroy the critical mass necessary to maintain a viable independent grocery sector.

If this is allowed to happen, consumers will lose their fundamental right to choose where to shop.

In addition, those consumers, who are for reasons of location or mobility already limited in choice, will lose their accessibility to basic goods and services.

Without the independents to keep the big chains honest, the consumer will end up paying higher prices.

If critical mass is lost, the hardest hit will be consumers in rural and regional area, as they will lose not only access to basic goods and services, but the cornerstone of their township with all its intrinsic value to the community as a whole.

Small business is a nursery for the next generation of corporate chains. If independent grocers can't be supplied at competitive prices, then they can't prosper and grow. The need to maintain and support a vibrant small business sector (or as Senator Murray would say - "entrepreneurial capitalists") to compete with the chains and to inject new blood and fresh ideas into the industry is therefore a matter of considerable significance to Australia's public interest.

(b) Employment Trends in the Sector

At our appearance before the Committee in Canberra, we were asked to look into the state of employment in country towns in the retail sector.

NARGA members do not compile this data. However, we have obtained information from the ABS on the supermarket and grocery stores sector for the years 1985 and 1998 (refer Attachment 8).

The key points which have emerged are:

- In the supermarkets and grocery stores sector, as of December 1998, there were 134,900 part-time employees and 89,500 full-time employees. This is an overall increase of 77,700 employees or 52.9% since 1985 at an annual rate of around 3.3%.
- Of the increase in employment of 77,700, only 900 were full-time employees.
- The modest increase in full-time staff² is solely due to the gains achieved in rural and regional areas. Full-time employment decreased by 7,000 employees or -12.8% in Australia's cities, where the major chains are generally dominant. In country Australia, where there are strong pockets of independents, full-time employment grew by 7,900.
- Part-time employment³ has increased by 76,700 or by 131.8% over the period 1985-1998. The growth of part-time employment has been higher in the country areas in percentage terms, but of the total increase over the period, 41,500 or 54% were employed in the cities.

On balance, the figures lend support to the importance of the independent sector as a bastion of full-time employment in the retail sector. This view is supported by ABS staff who put forward the view that independent stores, with smaller staff numbers, typically employ a higher proportion of full-timers, particularly in senior positions, in contrast to the chains which operate on a larger scale with a higher level of part-time/casual staff.

(c) Predatory Pricing & Amendments Required to Section 46 of the *Trade Practices Act (1974)*

Discussions with the ACCC confirm that, despite a number of instances that have been drawn to their attention over the years by both independents and their wholesalers in relation to predatory pricing, the ACCC has not taken up any cases.

In fact, the ACCC confirms that it has never been to court with a case which turns on predatory pricing.

The ACCC will not take up a case unless it is confident it can convince a court of a breach of Section 46. In making this assessment, it relies on the advice of senior counsel, bearing in mind that courts find it difficult to distinguish between vigorous competition and predatory activity.

The ACCC admits that, in relation to predatory pricing, Section 46 is not a simple provision to interpret and apply. The Act does not refer to predatory pricing (as opposed to Section 48, Resale Price Maintenance) - the issue is whether there has been conduct which involves the exercise of market power with a proscribed purpose.

Predatory pricing will generally involve pricing below a particular cost measure with the likelihood of recoupment (i.e. lifting of prices afterwards). However, there is no barrier in the law to pricing below a cost measure per se.

The issues that must be taken into account in establishing a prima facie case include:

- In the absence of a "smoking gun" document that sets out the purpose of the conduct the purpose must be able to be inferred (e.g. invoices showing goods sold below cost as defined so as to eliminate or substantially damage a competitor).
- Need to establish the market and the degree of market power in relation to conduct, in terms of:-
 - (i) The geographic market - how far people travel to shop for their groceries and fresh food;
 - (ii) Average prices across the market; and
 - (iii) The extent of market power held by the chain whose conduct is under examination, e.g. if all three major supermarket chains competed in the same geographic location, it may be difficult to establish that the chain accused of predatory conduct had "market power" under the Act.

Given the above, it is not hard to understand why an action in relation to predatory pricing has been unable to be initiated to date. Clearly Section 46 has failed those it was intended to protect and needs radical surgery to make it accessible and workable in the interests of small business.

The ACCC confirms that it has done some work in relation to moving to an "effects" test as a result of its involvement in previous Parliamentary Inquiries. We also note the evidence given by Chris Rankin

of the Newsagents Federation of South Australia (Hansard RS 234 814/99). Mr. Rankin pointed to French Law, where he said the onus of proof is on the retailer accused of predatory pricing rather than on the regulatory authority. **We believe this approach should be referred to the ACCC for response to the Committee.**

(d) Cheque Book Losses

Since our appearance before the Committee on April 6, a further two independent stores have been purchased by the chains. These latest acquisitions - *Ralphs Super 7 Hobart (Woolworths)* and *IGA Cobram (Franklins)* are included in the updated list (as shown in Attachment 8).

We believe that for every retail grocery purchase by a major chain, it should be mandatory for that chain to notify the Australian Competition & Consumer Commission (ACCC) of its intention to purchase, and to gain authorisation to ensure it does not diminish competition in that particular area. We support the call for the expansion of the powers of the ACCC to investigate if the chains' creeping acquisition of independent supermarkets has or will diminish competition in a particular area. Members of the public should be entitled to object to any purchase which they consider to be anti-competitive and against the public interest, in addition to any investigation initiated by the ACCC. We note that the ACCC expresses concern as to their lack of involvement in the review of cheque-book purchasing by the major chain supermarkets. In addition, we support a special socioeconomic study

of the impact of cheque-book purchases by the major chains and in particular, the evidence showing the higher-than-market prices paid by the chains for independent supermarkets.

(e) Manufacturer Support for the Independent Sector

The level of manufacturer support for the independent sector by way of marketing and advertising funds, depends on the sector being able to maintain critical mass/buying volumes.

Davids' Managing Director, Andrew Reitzer, pointed out in evidence (Hansard RS 118 7/4/99) that these volumes are needed to gain the manufacturer funding necessary to enable independents to drive their business through promotional and advertising activities such as handbills, newspaper ads and TV.

With the ongoing erosion in the market share of independents, there are worrying signs that suppliers are seeking to reduce their commitment and investment, not only in terms of support funds, but even in relation to winding back their sales force which calls on independent stores.

We are concerned that the gap we believe exists between manufacturer support for the chains (because of their dominance and market power) and the independent sector may

be widening as the independent market shrinks. Should manufacturers compound this by "pulling reps off the road" this will put further pressure on the sector.

In relation to the gap in trading terms, Neville Gale of *Advantage Supermarkets*, a leading WA independent, said in evidence (Hansard RS 266 9/4/99) that his terms with suppliers are 3-5% below those received by *Coles* and *Woolworths* - which is greater than the net profit levels being achieved.

He confirmed that the key issue is that of fair competition - to allow the independents to trade on a level playing field. He pointed out that, in an industry where net profit levels are around 2%, you must be able to buy goods at the same price as the chains - as the same (or higher) rent and wage costs etc apply.

In this regard, we note the comments by Senator Murray in relation to differential trading terms between chains and independents (Hansard RS 252 9/4/99), viz:

"Every retailer knows that buying price is only part of the game; that trading terms in fact are absolutely material to stock turn, cash flow, discount rebates, whether other people stock your shelves for you and you do not have to pay the labour costs, and all that sort of thing. " and "Under American law you are given the same terms if you compete on the same basis. In other words, if you do the same volume of the same product. you are entitled to the same terms."

We believe that the Committee should ask the ACCC to investigate this law, which we understand is called the Robinson Patman Act, and report back to the Committee in terms of its application to Australia. We further ask the Committee to consider the introduction of a Wholesale Trading Act which addresses the unfair pricing structures in the retail grocery market which allows vertically integrated retailers to buy at the same or better net list prices as wholesalers who sell at arm's length to third parties (independent retailers).

4. CONCLUSION & RECOMMENDATIONS

The root cause of the decline in the market share held by independents is unequal opportunity. If you don't have equal opportunity, you don't enjoy the same level of success.

As previously pointed out, the playing field is severely tilted against the independent retailer. Those who have become the strong have significant and institutionalised and intrinsic advantage.

Under these circumstances, what can government do?

The government cannot force major shopping centre developers, such as Westfield and AMP to give independents access to prime sites at the same rentals as the chains. Likewise, the government cannot legislate to require banks to lend at prime rates to "high risk" clients.

The government can, however, intervene to eliminate the sales tax discrimination against independent retailers - given that wholesale sales tax still has a further year to run. With respect to GST, the amended package will significantly increase the compliance burden and this is an area where the government must act to ease the burden on small retailers through adequate compensation for establishment and ongoing costs and other measures.

We also believe that the government could intervene by way of a Wholesale Trading Act to address the inequitable pricing structures in the industry. and require transparency of trading terms and monitoring by the ACCC. This reform, together with more equitable indirect taxation arrangements proposed above, would at least address the fundamental issue of fairness in the cost of goods to independents.

The key reforms required to stem the growing chain stranglehold were set out in NARGA's major submission. These have been slightly amended and are included, together with further recommendations, in Attachment 10.

We seek these reforms:

- So that there is a competitive market with a viable independence sector to keep the big chains honest;
- So that the jobs of many thousands of hard working Australians are not destroyed;

- So that the investment in many hundreds of small businesses is not emasculated;
- So that consumers have choice (if the only choice become a *Coles*, *Woolworths* or *Franklins* store – there is less choice);
- So that rural Australia is adequately serviced at reasonable cost;
- So that rural communities already under pressure are not placed under further threat.

We now call on the committee to act in the public interest and have the courage to put forward recommendations that will stem the tide towards monopoly control of the retail grocery market.

Finally, we are aware of and support the thrust of, the proposed amendments to the *Trade Practices Act 1974*, put forward by Tasmanian Independent Wholesalers in their evidence to the committee in Launceston on 5 July 1999. NARGA would like an opportunity to consider these further and are currently preparing revised draft amendments for the committee's considerations and we expect to forward these to you in the vary near future.

SUBMISSION 10

Senator the Hon Grant Tambling
Senator for the Northern Territory
Parliament House
CANBERRA ACT 2600

Dr Richard Lim MLA
Chairman
Select Committee on Territory Food Prices
GPO Box 3721
DARWIN NT 0801

Dear Dr Lim,

I note that you are conducting an inquiry into Northern Territory food prices and I am pleased to make the attached submission to your inquiry.

Attachment 1 is a copy of Senate Hansard dated 9 March 1999. I raise several issues that relate to your Committee's investigations.

Attachment 2 is the full text of the draft speech which I was unable to complete due to time constraints.

The issues relating to predatory pricing practices by major supermarket chains warrant further examination by your Committee.

If you have any queries relating to this matter please do not hesitate to contact me, or my office, on 8981 3567.

Yours sincerely

GRANT TAMBLING
Senator for the Northern Territory

ADJOURNMENT

Goods and **Services Tax**

Food

Senator TAMBLING (Northern Territory-Parliamentary Secretary to the Minister for Health and Aged Care)(7.54 p.m.)-There has been much discussion on food and grocery prices and the expected impact of the tax reform package on these prices throughout Australia. This discussion has been particularly lively in the Northern Territory and has ranged across a variety of matters relating to the issue. I am concerned that Mr Snowdon, the federal member for the Northern Territory, gave a speech on 15 February in which he quoted from a report published by Territory Health Services on the impact on community stores. Mr Snowdon simplified a very complex issue in a devious manner for political ends and he did not give proper credit to that report-Survey of NT remote community stores - and the issues that it very properly raised about providing a better quality of food in those shops and a better standard of management that is so important in so many of these areas.

The majority of communities in isolated areas require very special attention to the issues of consumers and supply in the whole process. There needs also to be a very special education process to make sure that store managers appreciate and do rely very heavily on what should be a store committee function and a store committee role. Groups like the Arnhem Land Progress Association do provide healthier food for members of the communities in which they operate. I implore those communities that do not have an active store committee to begin the process of developing one and to address any management problems that they have. In an increasingly litigious world one could envisage a possibility of a legal test case on a charge as serious as manslaughter against a store manager who has been negligent in supplying food not to a nutritious standard. The whole issue of lack of competition opens up issues for us in dealing with community stores and in fact also urban stores in Northern Australia.

The tax reform package will address many of these issues; both directly and indirectly. The changes that will come from providing much more consumable cash in the pockets of Territorians is important, but so are the diesel fuel excise changes and the wholesale sales tax removals. The income tax cuts, of course, are very important, but it is also important in this issue to look at the major grocery stores. The tax reform package will certainly impact on them, as I hope will the various reports of the Northern Territory committee that is currently looking into this matter in the Territory parliament on Territory food prices [stair page 2519] and the Joint Select Committee on the Retailing Sector here in this place.

We need to look very carefully at the issues that should be canvassed and require investigation. Particularly, we need to look at the predatory purchasing practices of the major supermarket chains and at their purchasing, marketing and contractual arrangements in order to counter the very unfair and unscrupulous acts of many of those particular organisations. I believe there are questions that should be asked both of the Territory committee and the federal committee that go to the heart of the promotion of products in stores, and I will be making questions available to Dr Lim in the Northern Territory and Senator Boswell here in Canberra to ensure that these matters are properly pursued.

Draft Speech

Introduction

There has been much discussion on food and grocery prices and the expected impact of the Tax Reform Package on these prices throughout Australia. This discussion has been particularly lively in the Northern Territory and has ranged across a variety of matters relating to the issue.

I will quickly canvas several of these points and then raise an issue which I feel has been largely ignored that has a great bearing on grocery prices everywhere but is particularly the case in remote areas.

On the 15th February 1999 Mr Snowden, the Territory's Federal representative in the House of Representatives gave a speech in which he quoted extensively from a report published by the Department of Territory Health Services, impacting on community stores.

Mr Snowden **simplifies** a very **complex issue** in a devious manner for his own political ends.

In the report that Mr Snowden is quoting from ("**Survey of NT Remote Community Stores**") he has conveniently forgotten that many **contributing factors** are given for the high price of various food items in remote communities which inevitably affects the appalling health standards of Aborigines in the NT.

An important factor is the presence of a store committee to help in the running and development of policy for a community store

Let me quote:

"The results suggest that in general, stores which have a **Store Committee** provide better quality food at a cheaper price to residents. However, only about half of the stores in the Top End have Store Committees."

Community involvement, through avenues such as a Store Committee, is vital in Aboriginal Communities for employment, self-determination and the general well being of the community. Mr Snowden has ignored the efforts of Territory Health Services to encourage and provide guidance for this involvement through publications such as the *Store Book* and the development of a framework for community involvement in stores.

The majority of these communities are very **isolated** and situated in some very rugged country where, in many cases, the only access during the Wet Season is by barge or aircraft.

This obviously adds enormously to the cost of supplying goods, particularly perishables such as fresh fruit and vegetables.

Changes proposed to diesel fuel excise in the Government's tax reform package will have a dramatic impact on the cost of freighting goods in to remote communities. Businesses will save 25 cents per litre and this should be passed on to consumers.

The report also mentions the **consumer and supply** aspects relating to this issue.

"Consumer choice and purchasing behavior is an important determinant of what store managers try to provide in the stores. When consumers consistently choose certain products in preference for other 'healthier' products the store manager may feel obliged to supply the preferred product. Therefore, education of children and adults, through adult education, opportunities would contribute to improved:

- household budgeting
- choice of nutritious foods from stores
- cooking and food preparation for healthy meals."

This education process is being undertaken but it is not an easy task to change people's dietary habits.

Store managers have a very important role to play in this area.

I have spoken about this issue on several previous occasions but let me reiterate a point made in a speech I gave in this place on the 1st October 1997 in which I stressed the importance of the Store Manager to the health of a community.

I feel that the findings of this recent Territory Health Services report push home that point most graphically. It is obvious that, in the majority, stores that have a strong committee or those that are run or managed by the Arnhem Land Progress Association are better managed and provide healthier food for members of that community.

I implore those communities that do not have active store committees to begin the process of developing one and also addressing any management problems that are present in the store.

In an increasingly litigious world one could envisage the possibility of a legal test case against a store manager who has been negligent in supplying food of a nutritious standard on a charge as serious as manslaughter.

Lack of Competition

Perhaps the best way to force managers in some community stores who do not appear to have the best interests of the community at heart, in spite of their obvious responsibility to the community in terms of health and also through the community dividend paid from the stores profits, is to encourage the opening of another store in communities where this is viable.

A monopoly in almost any situation can lead to bad management and business practices. There are many large Aboriginal communities that could easily sustain two or even three stores.

Competition could well be part of the answer in some Aboriginal communities, such as Maningrida, to force the changes necessary to improve nutrition and health standards of the people and lead to a lowering of prices.

There is the suggestion in the report that Aboriginal stores work together to buy groceries in bulk to achieve economies of scale. This increased buying power should result in savings and cooperatives help to avoid many management and supply problems in addition to bringing savings.

There has been much speculation that the Government's Taxation Reform Package will have a detrimental impact on food prices in the Territory.

The tax package has several measures aimed at alleviating the expected inflation rise of 1.9% when it is introduced. The package also includes measures that should have a beneficial impact on prices. These measures include:

Diesel fuel excise changes

A 4% increase in pensions

WST changes - as at 1 July 2000 all WST (hidden taxes) removed.

Income Tax Cuts - \$20,001 - \$50,000 - tax rate of 30%

A reduction of 7 cents per litre in the cost of fuel for registered businesses.

The most recent speculation has centred on the price of beer increasing. Like most Territorians I enjoy a beer.

There is no reason why the price of a light beer should increase at all and a heavy beer may increase by about 1.9%; the expected rise in inflation.

Any small price rise will be more than offset by an increase of 4% in pensions, the removal of Wholesale Sales Taxes on many products and the changes in tax brackets which will see people earning between \$20,001 - \$50,000 taxed at a rate of 30%, giving average Territorians far more money in their pockets through savings in income tax.

Major Grocery Stores/Producers

The tax reform package and the issues related to it are important and are being examined in many different forums. An issue that is beginning to be canvassed and that I feel needs further investigation is the predatory purchasing practices of major supermarket chains.

I am informed that local suppliers of produce are, especially in remote areas like the Northern Territory, subject to purchasing, marketing and contractual arrangements in their transactions with major supermarket chains that are often unfair and in fact, unscrupulous.

The tactics involved in the purchasing of local suppliers' produce include:

Suppliers being required to pay part of the cost of promotion for their product - at a National, State and In-store level.

Contracts being made verbally with no written assurances ever given. Suppliers being expected to pay for stamps of 'approval' such as RSPCA endorsements etc.

Local suppliers being expected to do the physical work in 'setting up' displays for their product in store.

Suppliers being price 'squeezed' by the stores when there is a glut of their product in other areas of Australia.

Thankfully, the Northern Territory Government is taking action to examine the price of food in the Territory.

A NT Legislative Assembly Select Committee on Territory Food Prices has been established and will report on whether or not the prices of food, groceries and household items across the Territory are substantially different to those in comparable locations elsewhere in Australia.

If this proves to be so the Committee will investigate the reasons for the variations in prices.

At the Federal level, there is a **Joint Select Committee on the Retailing Sector** looking in particular at the ability of small independent retailers to compete fairly in the retail sector.

The questions of purchasing and marketing practices and issues relating preference to local producers should be pursued vigorously by both the NT and Federal Committees.

The Australian Competition and Consumer Commission will have special transitional powers to formally monitor prices in the near future. These special powers will begin twelve months prior to the implementation of the GST and will continue for two years after its introduction.

The ACCC will monitor retail prices and identify circumstances in which prices have increased to a greater degree than necessary or where consumers have not received the full reduction in price that would be expected from a reduction in the tax rate. This can only have beneficial results.

Conclusion

Remoteness and long distances do undoubtedly make contributions to freight costs but any unnecessary exasperation or exploitation by urban and community stores must be rooted out. I support full transparency of management and accounting costs by store management and at the same time as an official expose is carried out, it will also be necessary for politicians, like Mr Snowdon, to debate the issues honestly and without exaggeration and scare mongering.

SUBMISSION 11

Naiyu Nambiyu Community Government Council
Daly River NT

6 April, 1999

Mr. Terry Hanley
Secretary
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Sir,

It was with great interest that this Council noted the appointment of a Select Committee to consider Territory food prices.

Naiyu is a comparatively isolated community at Daly River some 230 kilometres south west from Darwin. In company with other small communities, Daly River depends on freight services to transport food and other items to the community from our nearest large centre, viz. Darwin.

Our isolation and comparative small population base has dramatic effects on local food prices and a follow on effect on the general diet of the community.

TRANSPORTATION COSTS

It appears to be universally accepted that isolation will lead to higher transport costs and resultant increased local prices. Transportation has a major effect on local prices as well as quality of available goods. Transport costs between Darwin and Naiyu must be added to Darwin wholesale prices with the resultant item invariably costing more than the same item in the larger centre.

Transport costs to remote communities can be increased markedly by the condition of the roads. Unpaved roads will increase transportation **costs**, especially in regard to freezer goods. Many large freight companies with established runs over sealed roads, are reluctant to branch off to smaller communities and travel across gravel roads as these can lead to damage and loss of equipment. Consequently transport companies that are willing to provide a service to the smaller communities must, of necessity, often charge higher per kilometre than services on main trunk routes.

Irregular deliveries and transport equipment failures over poor roads lead to greater loss of perishables. Minimal back loading to the larger centres will again contribute to higher transport costs.

EFFECTS ON THE COMMUNITY

(a) Choice of items

The size of the community can lead to restriction in the choice of items obtainable. Too large a range of a similar item may lead to prolonged shelf life, reducing shelf availability and uncertainty of sale. Therefore community shop keepers tend to restrict the choice to a few popular brands.

(b) Prices

Again, the population size of the community with resultant small demands on volume of goods purchased by stores, may reduce store buying power with resultant higher prices passed on to customers.

(c) Nutrition

The volume of goods purchased for the community. the transportation problems associated with bringing them from larger centres and the often prolonged time between deliveries may result in a reduced range of fresh foods being available. Customers tend to purchase canned or deep frozen goods seeking longer storage life. In Aboriginal communities the lack or high cost of perishables such as fresh vegetables and fruit, may lead to a decline in overall nutrition, especially noticeable in the young.

The overhead costs to a community store in ensuring a good and varied supply of fresh vegetable and fruit may reduce attractiveness to customers because of necessarily higher prices. People also tend to rely on items that can be stored for greater lengths of time such as canned goods which may not have a good standard of nutrition.

POSSIBLE ASSISTANCE

While higher prices, uncertain delivery of stocks and reduced selection of perishable items continue, overhead costs in the form of health services and local transport will continue.

Some years ago, the Commonwealth sought to assist isolated areas by subsidising fuel deliveries while placing a price ceiling on retail sale charges. This policy has now been foregone but it is suggested that consideration be given to a freight subsidy on fresh fruit and vegetables to nominated communities. This subsidy could be at an agreed rate and sought by community stores following deliveries. The results could be measured against improved health and hopefully reduced health and associated services in the communities. While it would be difficult to quantify the cost of subsidy against the hopefully reduced cost of health services, perhaps a trial could be made in one or more communities and the results measured. At the same time as the trial, there would need to be strong education programme conducted to convince community residents to alter their purchasing habits.

Members of this community and Council would be happy to discuss this matter further if necessary. Thank you for the opportunity to comment.

Yours sincerely,

David Shoobridge
TOWN CLERK

SUBMISSION 12

Mr Barry Bamford

**SUBMISSION
to the
LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY
SELECT COMMITTEE ON TERRITORY FOOD PRICES**

Barry Bamford

Employment History

Woolworths Ltd

I was a Trainee Manager in North Queensland for a number of years, before transferring to Darwin. I was involved in the overall development of Woolworths operations in the Territory, expanding to three stores at that time. I managed the purchasing, promotion and sale of fruit and vegetables in all three stores.

Trans Territory Foods, Darwin, General Manager 23 years.

From the commencement of this business, I was responsible for taking the company from nil turnover to an annual turnover of \$19 million.

Board memberships

- National Independent Buying Group (Committee member).
- National Independent Buying Group (Executive Board Member 3 years).

This Group assist independent wholesales by incorporating their efforts, thus enabling the group to increase it's buying power, thus enabling independent wholesalers to 'stay in touch' with major wholesalers and the major retail chain stores.

Contents

- NATIONAL PRODUCE
- GROWERS - NATIONAL
- GROWERS - N.T.
- FREIGHT SERVICE TO THE TOP END
- COLD CHAIN
- DRY GOODS AND F.I.S. NATIONAL MANUFACTURING
- CHAIN STORES
- REMOTE STORE MARGINS
- REMOTE STORE FREIGHT
- NUTRITION - NT HEALTH REPORT
- FUEL
- SALES TAX
- SUMMARY

Fruit and Vegetable

Growers Larger Wholesalers Chain Stores

The major factor that effects produce pricing is Victoria and New South Wales where population numbers draw such volumes it reduces prices or increases prices according to supply meeting demand.

Larger growers either send produce direct to larger New South Wales and Victorian markets or direct to major retail chains, Coles, Franklins, and Woolworths and wholesale distributors able to purchase in quantity.

Larger growers only put stock on local markets when supply exceeds demand or produce is, for some reason unable to travel to normal markets i.e. seconds.

Smaller growers have little option but to present their produce to local markets for sale.

The Northern Territory, in the main, obtains produce either locally (in season) or from southern markets. Cost of Darwin produce is landed cost at southern markets plus freight.

The growers fortunes flow with that price and is dependent on the national pricing. Some growers are in a position to set their own prices on a 'take it or leave it' basis.

The Northern Territory produces some excellent produce. However, even in peak production periods, the major retailers and some wholesalers continue to import similar southern produce. Mr Ron Hersey is a major Northern Territory grower, producing items such as lettuce and cabbage.

The supply of southern produce is dictated by road transport, or airfreight and is available from any state, but dependent on space availability.

Road transport:

State	Loaded	Arrival & Unloaded Darwin
Western Australia	Monday	Thrusday/Friday
Western Australia	Friday	Monday
South Australia	Monday	Thursday
South Australia	Friday	Monday
Queensland	Thursday	Monday
Queensland	Friday	Monday

Produce is also consigned from North Queensland twice weekly, however % control is still not good.

The major grower, dealing direct with the major retail chains and major markets, is required to protect the stock by maintaining temperature levels from farm to in-store delivery. The purchase price, colour and size of produce is also pre arranged.

Market Supply

Wholesale operators will be quoted twice weekly from all markets and will recheck market prices on the day of purchase and loading. In many cases however, produce purchased at market will be dearer than product purchased direct from major growers and may be of an inferior quality. Often, there is little or no pre-cooling of the stock bought at market by smaller wholesalers.

The purchase of produce from interstate is never an easy task. However with good communication and knowledge, buyers can succeed most of the time. In larger operations such as the major supermarket chains, where, by purchasing considerable quantities from growers at a lower price, those savings could result in cheaper prices at the checkout, while maintaining a good margin for the chain. However, this does not appear to be the case. That can be caused by particular state dominated control, where the vision and control remain in the controlling state and operators lack the knowledge of the entire national market. Geographic areas like Alice Springs and Tennant Creek are restricted by transport supply where South Australia is the market base. However in the top end, where transportation is better, there is no excuse but to consider all areas available.

Cooling - Cold Chain

Cooling, is not only important, it is vital. Produce that is purchased at market on Monday arrives in a Darwin depot on Friday. Produce is then unloaded and repacked by wholesale warehouses, and resold to retail outlets Monday and Tuesday the following week. Retail operators then repack and display goods to be sold to consumers over a two or three day period and, that produce would be consumed over a similar period. Therefore, correct procedures in cooling techniques are imperative at every stage of this process to ensure that a quality product arrives in the home of the consumer. Unfortunately, the standards of best practice are not always maintained resulting in a sub standard outcome.

Produce temperature should be maintained at 3.5% at all stages of delivery. If that was achieved, losses to stock could be maintained at around 3-5% not the 7-12% being experienced in the industry.

Larger Chain stores and Larger Wholesalers transporting whole pantechnieon trailers from one state to another are far more effective in their temperature control operation than smaller wholesalers or retail stores who share space in transport.

1	2	3 broccoli	4 oranges	5 lettuce	6	7	8	9 tomatoes	10
11	12	13	14 tomatoes	15	16	17	18 parsley & onions	19 potatoes	20 cabbages

Table 2. Effect on adjacent produce.

Table 2 shows the layout of a pantechnieon trailer, loaded for fourteen different destinations. The oranges on pallet 4 and potatoes on pallet 19 were non pre-cooled prior to loading. This would result in major losses of stock on pallets 3, 14, 5, 18, 9 and 20 by the time of delivery or shortly thereafter.

This same result becomes even more exaggerated, when small amounts of mixed stock is being transported to isolated communities by sea, road or air within the Territory. There are many examples available of similar situations readily available.

Dry Goods

The price of dry grocery items in the Northern Territory compared to other states is generally good - for one reason only. Following years of lobbying National Manufacturing, initially by Mr John Hickman, Managing Director of Hickman Distributors a Darwin owned wholesale company, and continued by many other businessmen and politicians, Darwin is accepted as a Major Capital City by many national manufacturers and distributors.

Companies such as Edgells (dry) SPC EOI and Kraft have a F.I.S. Capital City policy. However, many other manufacturers selling into the Northern Territory allow free on board (F.O.B.) Adelaide, or Brisbane, which further disadvantages smaller ~NT operators.

Many small independent supermarkets purchase stock from local wholesalers who have a business infrastructure to recover, including, warehousing, staff and vehicle costs.

Others purchase direct from a major wholesaler such as Davids in South Australia, at wholesale plus freight, or Davids in Queensland under similar terms. In many situations, by purchasing from interstate, retailers may be able to save on product cost. However, it is my experience that these small operators are also those who work extremely long hours with minimum staff numbers and rarely have the time to search for the best current price available.

The delivery of stock F.I.S., direct to smaller retailers is marketed by the local wholesaler. However, the buying system the traders are tied to will also dictate the savings.

Major Chain Stores

The Committee may be interested in asking a number of questions of the major chain stores relating to the following:

Major chain stores, Coles, Franklins and Woolworths have central warehousing in all states. The Northern Territory operations draw stock, mainly from the South Australian warehouses for redistribution.

Question: What does the price percentage increase to cover the distribution into the Northern Territory?

Many major manufacturing distributors have an FIS Darwin policy in place.

Question: Does the major chain store claim a freight rebate from the manufacturing distributor, and is this amount absorbed within their own distribution centre?

New Line Fees and Ranging Fees are established with manufacturing distributors.

Question: Are these savings absorbed by administration or transferred through to profit figures?

Question: Do all products supplied for promotion get used, or is some of the product drawn to increase store percentage profit?

Growth Incentives within the industry.

Question: Are these savings, absorbed by administration, or central warehousing? Or does a percentage of savings transfer through to store profits?

Remote Area Stores.

Margins in remote area stores are usually set in conjunction with the local community and can vary from 50 - 90%. In some cases this margin includes the freight component, in others it is cost price + freight + margin.

It is generally expected that community owned stores operate at a profit and in many cases the stores employ as many local aboriginal people as possible. Employment and training of aboriginal people within their communities is extremely important, but those cost burdens associated with additional staffing should also be taken into consideration. Attendance is regarded as poor and may result in six people being employed to carry out the work normally expected of two full time employees.

It has been my observation that pilferage is very high, within a number of community based stores. While the theft is often obvious, there is usually no action taken. It would appear that staff are often powerless to stop people from stealing. I am still uncertain if staff are fearful of apprehending offenders or in fact it is a cultural matter. The stock losses however, would have to have an enormous impact on the sale price of items if the profit margins are to be maintained.

Many stores are subsidising the cost of fruit and vegetables in an attempt to provide good quality fresh food products for the community.

Freight costs to some of the remote communities within the Territory are as expensive as running from Adelaide to Darwin. Many communities are also required to provide an entire freighting section and operate the maintenance of a crane, large fork lifts, tractor-trailers and flat top trucks to transport stock from the point of delivery to destination points within the community and outstations.

Territory Health Services Survey

There have been a number of surveys conducted by Territory Health Services into Remote Area Stores. The "Community Market Basket Survey" was piloted in 1997. The 1998 survey includes a broad range of information and helps to identify price differences in district areas such as:

- Darwin Remote
- Katherine
- East Arnhem
- Alice Springs, and
- Barkly

The survey expanded to identify individual store product by product pricing. It would probably be of more assistance to break down the total cost of the remote area stores operating costs for price comparison across the Territory.

My opinion is that the survey should be carried out at least every six months, which would give a better indication of the actual situation. Further, I believe that the prices within the community stores should also be compared to Darwin based suburban supermarkets e.g. Moil, Fannie Bay, Stuart Park, and not unfairly against Woolworths and Coles major chains.

Fuel

Consideration must be given to fuel cost during the overall evaluation of prices of food within the Northern Territory. As fuel is a component added at all stages of delivery of all products including food, it would seem logical that the cost of fuel within the Northern Territory should also be compared to other Australian regional areas.

Given the current international price of oil, the fact that the majority of the Northern Territory's fuel is imported direct from Singapore, the community generally has difficulty understanding why unleaded fuel in Darwin is ~.74c compared to Townsville where it is currently 54c. Naturally there are similar comparisons for leaded petrol and diesel fuel.

Sales Tax

Another major item effecting prices is sales tax. The current law states that sales tax is effective on the last wholesale price.

The major chain stores pay sales tax on items as they are delivered into their central warehouses before redistributing stock to regional centres.

Northern Territory wholesale companies operate on a product price from the manufacturing company, add freight and a mark up to cover operating cost, cost and return a profit, then sales tax, as is set out by law – to the final selling price.

Technically, the major chain stores are avoiding the additional sales tax component on freight from interstate depot to Darwin depot by taking stock into central warehouses and redistributing the stock themselves, which, in effect lessens their cost even further over the small operator.

Without becoming involved in the wholesale sales tax - v - GST argument, consideration could be given, at a federal level for sales to be taxed at the manufacturing base, which would remove sales tax

being paid on freight and mark up by wholesalers. Manufacturers would probably argue the viability of this method because of the uncertainty of recovery.

Summary.

Generally, my opinion is that there is probably no system available that would please everybody. ~I do believe that we are operating under a private enterprise system, which gives good service to clients. While quantities of product being offered and handled are very small compared to the national figures, as the population in all Territory centres increases, so too will the competition.

Competitive prices are available within the transport industry. The major chain stores competitive nature does offer the urban based consumer the opportunity to compare prices regularly and make choices on purchases on a regular basis.

Smaller supermarkets are forced to stay as close as possible to the chain store price or move towards specialising in a niche market.

Remote community stores, I believe, do the best that they can, and are unlikely to be able to bring down prices, until they are able to address some of the real problems that are sometimes not taken into account i.e. additional staffing and training costs and pilferage and freight.

Areas, in which governments could assist are in the areas of sales tax structures and by monitoring fuel costs.

BARRY BAMFORD

SUBMISSION 13

Northern Territory Chamber of Commerce and Industry
GPO Box 1825
DARWIN NT 0801

14 April 1999

The Secretary
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Sirs,

The Chamber is writing in response to the call for submissions into Territory Food Prices.

At the outset, we express our concern over the justification of this enquiry as there has been no advice on what actions the Northern Territory Government can or will do on receipt of the results.

The NT Chamber of Commerce and industry is the largest employer association in the Northern Territory, representing over 1200 businesses or approximately 20% of Territory business. Membership covers a wide range of industry sectors including security, manufacturing, retail, tourism, hospitality, communication, technology, automotive, construction and many others. Our membership in the retail sector constitutes 22% ranging from very small operators to the large chain outlets.

Feedback from our members indicates there is no doubt that some goods and services are dearer in the Territory than in comparable locations elsewhere in Australia.

The reasons for the variations are also well known and the NTCCI has been lobbying NT and Federal governments over many years and to many Committees regarding these issues.

In broad terms these are the costs of doing business in the NT. Electricity, payroll taxation, higher wages, sales tax on freight, higher costs of infrastructure, higher costs of loans, and fuel costs, all contribute.

The NT government has admitted electricity costs are too high and has undertaken a review and reduction over the next 5 years. Payroll tax is now also under review after extensive lobbying by the Chamber.

Sales tax on freight has been a bone of contention in the Territory for ever and taxation levels on fuel in remote areas has been ignored by the Federal Government.

The high costs of infrastructure development and higher costs on loans also contribute to development costs and are borne by industry.

Higher wages in most industries also add to costs. The Territory boasts of our low employment but this means a smaller skills pool and higher wages.

It is unclear what the Territory government can or will do to restrict or contain prices and costs in the NT. The Chamber will vigorously oppose any steps to introduce legislation controlling trading hours or prices.

However we will strongly support the government actively working to reduce costs to business through efficiencies in power generation, reducing payroll taxation burden. on small business and encouraging more people in the Territory and enhancing and increasing the skills base.

Yours sincerely

Carole Frost
General Manager

SUBMISSION 13A

Northern Territory Chamber of Commerce and Industry
GPO Box 1825
DARWIN NT 0801

**Submission to the Select Committee on Territory Food Prices
Legislative Assembly of the NT**

Dear Sirs

Further to our initial response to the above enquiry, I offer the additional comment.

Over many years it has been accepted that it is more expensive to do business in the Northern Territory. Almost to the degree that it has become acceptable and used as an excuse for uncompetitiveness used as in industry throughout the Territory. There has been little action taken in trying to reduce the costs or inputs to business as the whole-issue has been seen as too big and ingrained to do anything achievable. These costs cannot-be borne by business and are passed -onto the consumer, therefore affecting prices.

The need to reduce the costs to business is becoming more important as the Territory is exposed to more and more competition from interstate and overseas companies who recognise the opportunities available in the NT. The major project coming on-line in oil & gas, transport and defence will see Territory business left behind if it cannot compete through cost inputs and infrastructure costs. As our population increases the demands from the consumer will see calls for reductions to prices and costs.

The Chamber considers that the costs to business are too high in such areas as power generation, payroll tax, fringe benefit tax, labour costs and freight costs. These high costs contribute to the overall uncompetitiveness of NT business and will be addressed by the Northern Territory Chamber of Commerce and Industry through lobbying the Federal, NT & local Governments at every opportunity.

Electricity Costs

The direct cost of electricity to business has been identified as a major issue by NT business in a survey done in June 1998 requesting members from across the Territory to identify their concerns leading up to the 1998 federal election. This survey was done by all state Chambers across Australia, including the Northern Territory through the Australian Chamber of Commerce and Industry. In the top ten issues for the Territory, six concerned taxation reform, two were in relation to Industrial and Workplace Relations. Complexity of government regulations was number eight and energy cost was number nine. Australia wide energy costs ranked eighteenth.

The cost of electricity to businesses is exacerbated by climate, geographical location, and customer and staff expectations. Our climate makes climate control a necessity all year round across the Territory. Our geographical location requires business to keep more stock on hand than our interstate counterparts, and in the food industry that means more refrigeration and freezer capacity, and customer and staff expectations are for business to provide a pleasant, comfortable shopping and work environment. Customers also expect seven day trading, longer trading hours and retail establishments

to be open even on public holidays which means businesses are open longer than interstate outlets, increasing operating costs.

Payroll Taxation

As part of the Chamber's concern over the high costs of doing business in the Northern Territory, the Chamber has identified that NT Payroll Tax as uncompetitive for NT business in comparison to our neighbouring states and has been lobbying the NT government for some time to review NT Payroll Taxation and bring it into line with other states and Territories.

It is the Chamber's considered opinion that in the first instance there should be no NT Payroll Tax. This tax is a direct levy on employment and the NTCCI believes the NT government should be encouraging employment at all levels rather than taxing employment. Evidence shows employers consider payroll tax when employing more staff as they come close to the thresholds for payment for payroll tax.

The Chamber's position is that if the abolition of Payroll Tax is not achievable in the short term then the Northern Territory Government should have a comparable tax system with other states. The Chamber believes that the threshold for Payroll Tax should be raised to \$675,000pa before Payroll Tax applies and that there should be a flat taxation rate of 5%. The Chamber will continue to lobby the Northern Territory government to achieve this.

Labour Costs

The Chamber has identified several labour costs that impact on the cost of doing business in the Northern Territory and that are uncompetitive in comparison with interstate businesses. The issues are public holidays and long service leave. The substitution provisions in the Public Holiday Act that enables certain public holidays to be observed on a day other than the actual day if the public holiday happens to fall on a weekend.

The days where substitution provisions apply are New Year's Day, Australia Day, Anzac Day, Christmas Day and Boxing Day. Given that the celebrations in respect to Australia Day, Anzac Day and Christmas Day are all held on the actual day, to grant a day off on another day serves no good purpose and is, in our view, a luxury that cannot be justified and which business should no longer have to bear. As more retail outlets open on public holidays - additional public holidays add directly to staffing costs.

The Northern Territory Long Service Leave Act which provides three months leave after 10 years service is now out of kilt with most other states. Other state entitlements provide three months leave after fifteen years. The Chamber has written to the relevant Minister regarding the Public Holidays and is drafting a submission on the Long Service Leave provisions.

Other costs to business include fringe benefits tax, sales tax on freight and the costs of recruiting, training and retaining skilled staff. The Chamber is also lobbying the Federal Government on these issues through the Australian Chamber of Commerce and Industry and by direct representation.

In the short term, the big issues for business in the Territory, especially the retail industry will be compliance with Year 2000 requirements and implementation of a new tax regime.

Other costs to business such as direct operational costs, occupancy rates and economics of scale haven't been addressed by the Chamber in the submission as they are more appropriately being addressed by the retailers themselves.

In closing we reiterate the statement in our original submission, the Chamber will vigorously oppose any steps to introduce legislation controlling trading hours or prices, but we will strongly support the government actively working to reduce costs to business through efficiencies in power generation, reducing the payroll taxation burden, encouraging more people to the Territory, and enhancing and increasing the skills base.

The Chamber feels that the major issues for Territory business in the costs of doing business in the NT are in the NT government's hands, and they should take these issues on board and continue to work towards reducing these costs wherever and whenever they can. The NT Chamber of Commerce and Industry would be pleased to provide whatever assistance we can in achieving this.

Yours sincerely

Carole Frost
General Manager

MEDIA RELEASE

Northern Territory Federal Pre-Election Survey Results

Preliminary Figures from Chamber members surveyed

The NT Chamber of Commerce & Industry's recent survey of members across the Territory, in conjunction with the Australian Chamber of Commerce & Industry's survey of Australian business, has identified the major issues of concern to Territory business

General Manager Mrs Carole Frost said, "The results show that Territory businesses are deeply concerned over the complexity of the tax system, the level of taxation, costs of telecommunications and energy costs, and the lack of a skilled, readily available work force."

The top ten concerns as recorded in the survey are:-

1. Frequency and complexity of changes to Federal Tax Laws and Rules
2. Compliance costs with Tax the System
3. Level of Taxation
4. Government Debit Taxes on bank deposits
5. Unfair Dismissal legislation
6. Recruiting employees with appropriate skills
7. Fringe Benefits Tax
8. Complexity of Government regulations
9. Energy Costs
10. Personal Taxation

These are followed closely by availability of skilled personnel and telecommunications costs.

On a macro economic level, the survey results show loud and clear that taxation is the most important issue, with the taxes of most concern being Fringe Benefits Tax and Debit Tax, followed by the costs of compliance.

On a macro economic level, the survey results show loud and clear that taxation is the most important issue, with the taxes of most concern being Fringe Benefits Tax and Debit Tax, followed by the costs of compliance.

In the industrial relations arena, the unfair dismissal legislation is still seen as a deterrent to employment by small business operators. Also of concern is the recruiting and keeping of skilled labour.

In relation to infrastructure issues it is not surprising that the two major issues are telecommunication costs which featured as a large concern, and energy costs which were seen by Territory businesses of critical importance. These two issues contribute largely to the cost of doing business in the Territory.

Those businesses involved in international trade are concerned over the exchange rate volatility and the value of the exchange rates.

"Across Australia the issue of taxation compliance and complexity featured in the survey in the top ten issues,' said Mrs Frost, "the major difference in the Territory is the concern over energy costs and recruitment of skilled labour, these were not in the top ten Australia wide."

"These issues have been relayed to the Federal Government by the ACCI and the NT Chamber will be ensuring that our local federal representatives are aware of Territory concerns,' said Mrs Frost.

Date: June 1998

For further information contact
Carole Frost, General Manager

Phone: 89815755
Mobile: 0417 806 953

June 1998

Northern Territory Ranking of Problems

1.	Frequency and Complexity of Changes to Federal Tax Laws and Rules	86.0
2.	Compliance Costs and Tax System	80.9
3.	Level of Taxation	80.5
4.	Debit Taxes	79.2
5.	Unfair Dismissals	78.4
6.	Recruiting Employees with Appropriate Skills	77.6
7.	Fringe Benefits Tax	75.6
8.	Complexity of Government Regulations	75.0
9.	Energy Costs	74.4
10.	Personal Taxation	74.2
11.	Availability of Skilled Personnel	73.4
12.	Telecommunications Costs	72.1
13.	Cost of Compliance with Govt regulations	71.6
14.	Stamp Duty	71.3
15.	Superannuation Guarantee	70.0
16.	Retaining Skilled Employees	69.8
17.	Penalties for Not Complying with Govt. Reg	68.8
18.	Sales Tax	68.6
19.	Capital Gains Tax	67.7
20.	Company Tax	67.6
21.	Quality of Vocational Education and Training	66.6
22.	Employee productivity	65.2
23.	Absence of Internationally Competitive Tax system	64.9
24.	Payroll Tax	64.7
25.	Redundancy and Termination Payments	64.5
26.	Penalty Rates	63.8
27.	Foreign Debt/Current Account Deficit	63.5
28.	Responsiveness of Financial Institutions	62.5
29.	Level of Public Spending	61.9
30.	Getting Information from Govt. Agencies	61.1
31.	Adequacy of Telecom Infrastructure	60.9
32.	Getting Appropriate Training for Employees	60.9
33.	Complying with Award Regulations	60.8
34.	Wage Levels	60.5
35.	Achieving Workplace Change	60.1
36.	Cost of Finance/Interest Rates	60.1
37.	Economic Effects of Instability in Asia	59.7
38.	Slow Pace of Waterfront Reform	59.1
39.	Uncertainty over Native Title	59.1
40.	Value of Exchange Rate	58.8
41.	Workers Compensation	58.7
42.	Unemployment	58.3
43.	Exchange Rate Volatility	58.1
44.	Compliance with (Non-tax) Govt Paperwork	57.7
45.	Road Transport - Cost and Reliability	56.9
46.	Adequacy of Transport Infrastructure	52.8

47.	Compliance with OH&S Requirements	52.6
48.	Trade Practices - Unconscionable Conduct	50.9
49.	Access to Govt. Procurement and Tenders	50.3
50.	Air Transport - Cost and Reliability	49.4
51.	Excise Tax	48.6
52.	Corporation Law Requirements	47.1
53.	Unfair Competition from Govt. Businesses	47.1
54.	Workplace OH&S Inspections	47.1
55.	Absence of Junior Wage Rates	47.1
56.	Compliance with Environmental Regulations	46.8
57.	Availability of Finance	46.3
58.	Industrial Disputation	45.9
59.	Licensing Provisions	45.9
60.	Rate of Inflation	44.2
61.	Speed of Govt. Payment	43.9
62.	Obtaining Quality Assurance	42.8
63.	Sea Transport - Cost and Reliability	37.1
64.	Rail Transport - Cost and Reliability	36.2
65.	Gaining Access to R&D Tax Concessions	30.0
66.	Low Level of Tariff Protection	29.7
67.	Gaining Access to Foreign Market blocked by Protectionist Measures	29.1
68.	Availability of Export Assistance	27.6
69.	Compliance with Australian Customs Regulations	25.9

SUBMISSION 14

A&M Allen
C/- Royal Darwin Hospital
Rocklands Drive
TIWI NT 0810

17 April 1999

Dear Mr Gray,

With reference to your inquiry into NT Food Prices, my husband and I wish to lodge out complaint.

Having recently moved to Darwin from Perth we were absolutely astounded at the prices supermarkets were charging here. It is pertinent to not the high prices are not just on fresh food but on all groceries.

Of course it is logical for prices to be somewhat higher for two reasons:

- a) Transport to Darwin would not be cheap; and
- b) Many items, especially fresh foods could not be sent in bulk amounts due to the small population up here ... a basic supply / demand equation which would prevent the bigger players, such as Coles and Woolworth, realising some economics of scale they might realise in larger cities.

Nevertheless, we are certain the mark up on the prices of groceries in the NT is more than just covering costs of transport. Since moving to Darwin our grocery bill has risen from an average of \$70 per week in Perth to \$150 per week in Darwin! Our eating habits have not changed and we're still feeding the same number of mouths.

No one in Darwin, other than small shop owners, would want the Coles and Woolworth's shops in Darwin to move out of the NT. It is not argued that they should make less of a profit on goods sold in Darwin than those sold elsewhere. They should not be making too much additional profit on transport and on the lack of market competition, however, and I fear these latter two points may be the reason for our highly priced goods.

The cost of living in Darwin is too high and is driving people out of Darwin. We love the place but have decided this wont be our home forever because we know we can be better off financially in other cities.

Yours Sincerely

Angela J Allan

Matthew P Allan

SUBMISSION 15

Mr N Harman
C/- GPO Darwin
NT 0800

Mr Rick Gray
Territory Food Prices Review
C/- Parliament House
Darwin NT 0800

Dear Mr Gray

I read the article, Have Your Say On Food Prices, NT News Sat April 17.

I can give you information on only one specific, but dramatic price drop I noticed after the kerfluffle back in January.

I have lived in Darwin for 8 years; for the last 2 or 3 years I have shopped regularly at Woolworths in the City.

I like brussel sprouts, but be damned if I would pay over \$9 a kilo - which is what they were for months prior to all the January publicity. Within a week the price dropped to around \$5 a kilo and has been about that level ever since (I bought some yesterday at \$4.79 per kilo).

I suppose such a huge price drop was just a coincidence?

I can't name any other specifics in vegetables but I did get the general impression that prices of vegetables in Woolworths (city) were dropped across the board shortly after the outcry - their pricing records would be interesting to see, post and pre outcry.

Steak is definitely much cheaper in there now than it was for a long time prior to January, but I suspect the large fall in live cattle exports has a lot to do with that i.e. more going now into the domestic market.

Anyway, hope this small bit of information is of some use to your inquiry.

Yours faithfully

N Harman

* It would be fanciful also, to think it was the only price that dropped.

SUBMISSION 16

Mrs M Kohlman
PO Box 74
NIGHTCLIFF NT 0814

Rick Gray
Territory Food Prices Review
C/- Parliament House
DARWIN NT 0800

Dear Sir

RE: FOOD PRICES

I read your article "Have your say on food prices" and realised why the price of fresh vegetables has suddenly fallen.

I am one of those people who keep receipts. Back before the hue and cry hit the newspapers about the cost of food in Darwin it was quite normal for rockmelon to be priced at \$2.69 per kilo. Now we are able to buy a whole rockmelon for \$2.69. Watermelon has also gone down as well to \$1.69 per kilo instead of between \$3 and \$4 per kilo.

Going back to when the Stuart Highway was cut during the Katherine floods a supermarket representative went on TV to say that there was no need to "panic buy" as food was being flown into Darwin "at no extra cost to the customer". What a hoot! Lettuce went from \$2.95 each to \$5 each that day.

You are welcome to call for copies of any of my grocery receipts if you wish. I keep receipts for everything and attach them to my statements. I buy everything on credit card.

I had wondered why fresh vegetables were becoming affordable - after reading the news article that explained everything. I also notice that we can get steaks, occasionally, at marked down prices from \$12/kg to \$6/kg. We have found it more economical to eat out and follow the 'cheap circuit' family of 4 for \$20 or Adults \$7.50 kids under 10 free. To put snacks in the kids lunches, Popper/cheese/biscuits, costs approx \$65 per week for two children. I wonder how that compares with the southern prices.

Thanks for the opportunity to comment. Good luck with your price investigation.

Yours faithfully

Maureen Kohlman

SUBMISSION 17

Ms Stacey Omberg
15 Myola Crt
Durack NT 0853

18 April 1999

To whom it may concern,

Subject: Territory Food Prices Review

I was unaware of the above mentioned review being conducted until reading the article in Saturday's Territory News. Since it mentioned the lack of written response from other Territorians, I thought I'd at least have a little input.

I have lived in the NT for just over a year. Being only a young, single person I am used to living by the skin of my pants from pay to pay like most of my peers. Having lived in Brisbane & Melbourne I could always rest assured that although my bank account was seriously dwindling, with the few dollars remaining I knew I could buy more than enough fresh fruit and vegetables to fast me. Another characteristic of my ignorant age meant that I really didn't take any notice of the prices I was paying for these goods, all I knew was that my last \$20 could buy a few different types of fruit and a range of veggies to amuse me until next pay.

Since living in Territory I have changed my ways. After being confronted with a huge grocery bill, after a usual food shop, I now study the prices. I'm shocked at paying \$5 for a small cauliflower, \$4 for a bunch of broccoli and normally sacrificing the beautiful tropical fruit to save money. The prices for fresh fruit and vegetables are unbelievable!!! I now don't eat anywhere near as healthy as I use to for the simple reason its too expensive up here.

I am lucky enough to be subsidised by defence housing up here, but I don't know how a lot of middle class families can survive with expensive rents and food prices. The cost of living in this beautiful territory really lets it down.

Sincerely yours,

Stacey Omberg

SUBMISSION 18

Ms Kathleen Parker
PO Box 2324
KATHERINE NT 0851

20 April 1999

Dear Sir

In response to your letter in Saturdays NT News.

I have been living in Katherine for the past 12 months and have continually complained too my friends about the food prices in Katherine. After having spent the past eight years in Darwin.

Having come down here after the flood last year, I have noticed the prices at Woolworth's exceptionally high and commented a number of times that I thought that. The people in Katherine should have been getting help, not ripped off after the flood. Things were notably much more expensive than Darwin shops.

However I am still finding that 12 months down the track that we are paying about \$2.00 per kilo more than you pay at the Darwin Woolies. My last shopping trip to Darwin, Woolworth's had bananas at \$1.69 KG and 2 days later in Katherine they were \$3.69 at Woolworth's. I have noticed that other items are up on the Darwin shop (Woolworth's).

We the people of Katherine are hoping that something will be done about this as it gives the tourists a bad impression too, that Katherine is a very expensive town and possibly only buy what they have too.

Yours faithfully

Kathleen Parker

SUBMISSION 19

Ms Di Leo
12 Smyth Court
KATHERINE NT 0850

Dear Sir/Madam

Further to your article in the Sunday Territorian, I am enclosing a checkout docket from my shopping in Woolworths at Katherine today 20/04/99.

We have known for a long time that we have been ripped off down here, but we all have to eat and so we pay the price. The ironical thing is that all of the "fresh" produce that goes into Darwin has to pass through our town on its way to you up there, then we get the leftovers on it's way back. This was really evident during the floods of last year as the trucks were stranded in Katherine and so we were treated to REALLY FRESH!!! Fruit & Vegetable. From the commandeered loads.

I would like to point out though that it is not only the fruit & veg that is well overpriced but the long life milk as well. My husband and I have been on a health kick for a while and so have been buying Skim milk of the long life variety. We usually pay 51.42 per litre for the tasty skim in the green pack, which is the same price as most of the other brands, and sometimes get a "Special" price of \$1.37 per litre. On a recent trip to South Australia I was rather dismayed to find the supermarket at Nuriootpa, 100kms north of Adelaide in the Barossa Valley had our same milk for sale at 89c per litre and even cheaper for the Home brand stuff, some of the brands were 79c per litre. My daughter lives in Palmerston and came down two weekends ago and went to Woollies for a few things and even she remarked on the price of the milk and said it was under a dollar up there too, so if all of the freight has to go past us in Katherine to get to Darwin then how can they justify charging us up to 50c extra for something that can sit on a shelf for ages without refrigeration???

If you like to peruse my docket you will also see that Apples are the big price at present, just when they should be cheap. And as for tomatoes - well I can live without them as they usually are over 54.50 per kilo and up to \$6.99 per kilo later on in the year. Bananas are on Special today for \$3.19 per kilo but they are so large that you only get about 3 for that price and people with small children cannot afford to buy them. My husband and I are middle aged and both still working, all our kids are grown up and left home, so we should be well off but I still cannot bring myself to buy some things as they are too expensive.

We did see a slight change in fruit & veg prices after the first comparisons were made, lettuce even went down to 52.19ea for iceberg but that did not last long as they know we have to buy and the price was up again after about three weeks. These same lettuces are normally no less than \$2.99ea. and have been that price for as long as I remember in Katherine. Even after the floods when they had a temporary shop we were bringing back bulk supplies from Darwin through the fruit fly checkpoint and getting a much fresher and cheaper deal.

I hope something comes of these price comparisons as we know it does not cost 50cents per item on freight, or the truckies would be driving mercedes benz instead of carting our food around. Thank you for the opportunity to have a whinge.

Yours sincerely

Di Leo

SUBMISSION 20

Ms Ann Wallace
 PMB 19
 WINNELLIE NT 0821

Prices for Monday 8 February 1999 to 13 February 1999:

	Perth Prices \$	Darwin Prices \$
Skinless Chicken Thigh Fillets	8.59	8.99
		40¢ more per kg
Silverside	6.99	7.99
		\$1 more per kg
Pork Leg Steak	8.99	11.99
		\$3 more per kg
Pork Leg Schnitzel	8.99	10.99
		\$2 more per kg
Pork Loin Steak	12.99	13.99
		\$1 more per kg
Pork Forequarter	3.29	3.49
		20¢ more per kg
Beef Stir Fry	9.99	10.99
		\$1 more per kg
Round beef Medallions	11.99	14.99
		\$3 more per kg
Trim Lamb Stir Fry	11.99	14.99
		70¢ more per kg
Veal Leg Steak	9.99	10.99
		\$1 more per kg
Champagne Ham	12.99	13.99
		\$1 more per kg
Prosciutto	18.99	25.99
		\$7 more per kg
Leg Ham	10.99	11.99
		\$1 more per kg
Atlantic Salmon Steak	4.97	5.47
		50¢ more per kg
Twiggy Stick	13.99	17.99
		\$4 more per kg
Chicken Choice Med BBQ Chicken	4.97	5.47
		50¢ more per kg
Ingham Frozen Chicken	No 19 5.47	No 17 5.77

		30¢ more for 2 sizes smaller
Peaches	3.49	3.99
		50¢
Nectarines	3.49	3.99
		50¢ more per kg
Michelina's	2.67	2.77
		10¢ more
Whole Cashews	1.85	1.90
		5¢ more per pack
Frozen Farmland Peas	2.27	2.47
		20¢ more per pack
Old El Paso Dinner Kits	4.27	4.47
		20¢ more per pack
Schweppes 1.25 litres	97¢	1.27
		30¢ more per bottle
Pepsi 12 pack	5.97	8.97
		\$3 more per pack
Valencio Orange & Apple Juice	3.27	3.47
		20¢ more

There is thirteen more items dearer than Perth ranging from 7¢ to 70¢ more per item.

I will like to point out that these were their sale items from their catalogue dated 8 February 1999 until 13 February 1999. There seems to be no reasoning behind the price difference. For years, we were told it was freight. I do not accept it is freight and power. Our local can bring the same thing up here (fruit, vegetables and meat) and sell in some cases dollars and dollars cheaper. I know that Red Grapefruit was delivered to the door of Coles Palmerston for \$1.66/kg. Coles Palmerston put them straight up on show for \$4.99/kg. The same person delivered Red Grapefruit to Coles Karama for \$1.66/kg and they were put on show for \$3.49/kg. Can you please explain to us WHY? These grapefruit are local, same with the bananas, why do we pay so much for local bananas when they are delivered daily free. I would like to talk to you about all I have found out.

Yours sincerely

Ann Wallace

SUBMISSION 21

Senior Citizens Association
PO Box 693
ALICE SPRINGS NT 0871

Wednesday, 21 April 1999

Dr Richard Lim
Chairman
Select Committee on Territory Food Prices
GPO Box 3721
Darwin NT 0801

Dear Richard,

In response to the above call for submissions, I wish to advise that we have canvassed this issue at length with many of our members and submit the following information on behalf of those members of the Alice Springs Senior Citizens Association.

- Several of our members are regular interstate travellers.
- Those members all say that the quality of fruit & veg purchased interstate, is far superior to that which is available in Alice Springs.
- It was also general consensus that the majority of prices of fruit & veg in Alice Springs is at least 30% higher than most interstate.
- As fruit & veg, along with staples such as bread & milk is one of the main commodities for most of our group, we really feel that we in Alice Springs do not get a fair deal.
- As the majority of our senior citizens are pensioners, even though a remote area allowance is incorporated into our pensions, it is not sufficient to cover the higher costs of food.
- Our group feels that we are definitely disadvantaged by the higher prices of basic foodstuffs.

Yours sincerely,

Marilyn McVeigh
President
Senior Citizens Association

SUBMISSION 22

T.C. Lovegrove MBE
PO Box 557
Howard Springs NT 0835
Phone 89831441

The Chairman.
Select Committee on Food Prices
NT Legislative Assembly
Mitchell Street.
Darwin NT 0800

NT Food Prices Select Committee

I note in the NT News of 17th April 1999 the Chairman of the Select Committee on NT Food Prices is seeking more written submissions about food prices in the NT. It is worrying to think that the receipt of only 12 written submissions may be seen by the committee as an indication that the concern of NT shoppers has been greatly exaggerated. That would be a very wrong impression.

A written submission is a daunting task for most people. They see it as the domain of politicians, public servants, consultants, cricket commentators and such clever people who love words and statistics and who often make their living from them. People with time and resources at their disposal to do the research and put it together in a well structured paper aimed at influencing the reader. Most people don't mind writing letters but shy off submissions which they see as far more complicated than letter writing. Those who are the butt of the complaints about high prices will have the skills or the wherewithal to engage submission writers to defend them and clothe them in a cloak of innocence.

Ordinary Mr, Mrs, or Ms, Territorian will have their say at the pub or the shopping centre or at church or wherever they meet socially and discuss their current worries and exchange gossip and believe me, food and other prices are high on the agenda. From experience they probably doubt that anything will be done about the things that worry them though they will remain cynical about the cry, "Freight costs, power and water costs. rents. terrible high wages to and the like as a valid excuse for the high prices they experience. After all they also suffer most of those added burdens that businesses complain about. But they have no way of being able to assess the validity of those excuses. What they do know is that their trolley full of tucker costs a lot more than it did last year or the year before and there is a lot less in the kitty to give the kids the little luxuries they have been able to give them in the past and that their income is not keeping pace with costs. They also find that other goods and services are skyrocketing and worry that this will be exacerbated if and when the Federal Governments GST comes into being in view of the inflated starting prices here e.g. car running costs. medical services, insurance to name just a few.

Those who have come back from holidays out of the Territory will recognise the truth of the statement in the Business Review Weekly that, "Darwin food shoppers were being charged some of the highest prices in Australia" and that they paid "57.6% more for fresh produce than shoppers in Mackay in Queensland". They find it hard to escape the thought that someone in the supply line is being excessively greedy.

People who are most affected by the down side of those prices are not able to do the research necessary to prove the prices are unreasonable but those who are on the upside are well able to afford

the cost of defending their position. So the average Territorian has to depend on a Committee such as the Parliamentary Select Committee. to marshal the resources to do that research and assessment. They also expect their parliamentary representatives to look after their best interests. with as much zest as they do those who may be exploiting them. So for the average Territorian the ball is very much in the Committee's court.

In the event that it finds the food (and other) prices to be exorbitant. what can be done? I cannot imagine a free enterprise government as we have in the Territory even contemplating a price control policy so our MPs will really have to do some lateral thinking if they are going to see that Territorians get a fair go. One thought that enters my head is that government could put strict qualification on the provision of hidden subsidies to businesses such as cut rates on power, water and sewerage, specific tax concessions and withdraw such special benefits from those who are not prepared to give us a fair go. This may have the effect of levelling the playing field to make competition more realistic, a situation to which a free enterprise government could surely have no objection am sure there are many other possibilities.

There are many Territorians who have not put their thoughts forward in writing,, who are waiting expectantly to see whether there is a will within their representatives in the parliament. to do something on their behalf about this problem. Alternatively they expect to be told why such high prices are justified. They don't want to hear it from the players, they want to hear it from the umpire. You !!!!

T.C Lovegrove MBE

SUBMISSION 23

J. Williams
PO Box 528
HUMPTY DOO NT 0836

To Rick Gray
Territory Food Prices Review
C/- Parliament House
DARWIN NT 0800

Dear Sir,

I submit my concerns regarding food prices in the Northern Territory.

Points of concern are;

- Value for money
- Optimum freshness – many perishables offered for sale are of poor quality often rotten and last only a day or two in the fridge at home.
- High prices of perishables plus extra freight charges raise the issue of Aboriginal Health. Outlying/rural Communities and the people in them cannot afford this which then in turn means required dietary intake is minimal affecting health across the board.
- I question the extra costs being blamed on opening hours of the big supermarkets as the price of perishables in the NT have always been astronomically high.
- How can prices of foods grown in the NT be cheaper in Southern states than here?
Is this greed on the part of growers or is there another reason – either way how is it justified.

Thank you for the opportunity to have my say and I hope the outcome of this review is a positive one.

Yours sincerely

J. Williams

SUBMISSION 24

Stewart Blair
Nhulunbuy NT 0880

26 April 1999

**TO: LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY.
SELECT COMMITTEE ON TERRITORY FOOD PRICES.**

Attention: Dr. Richard Lim, MLA.

Dear Sir,

I am glad to be allowed to make comment on the issue of food prices for the select committee on Territory Food Prices.

Has the Committee undertaken a check of the patterns in:

- 1) Cape York
- 2) The Kimberley

to see if these regions have a similar pattern to that of the Territory?

The history of Darwin, going back to 1869, is enmeshed with the problems of the climate, distance and people not readily understanding the geographical problems that exist, whether it be through transport, telecommunications, industry including livestock and horticulture or fishing and cultural issues. It was only at the last moment that the O.T. line came to Darwin instead of the then already established trading center of Burketown, had this happened then we probably would not have this committee today!

The fact is, the Northern Territory is and always will be unique. Uniquely Territorian.

The Territory has only very recently been populated. It was only just over 100 years ago that the first cattle drovers were bringing the mobs of cattle into the Territory. 1908 saw the first car driven to Darwin from Adelaide. Darwin has been rebuilt a few times due to war and tempest. The entrepreneurs have tried growing everything in the Territory with many expensive mistakes. Rice and cotton come to mind. Sugarcane cost many people there livelihoods because of the ignorance of people from 'down south' due to ignorance of the soil and weather conditions. Given the correct planning cotton, rice and sugar could have made the Territory rich not only in revenues but in the population increase that would have come from success in these fields.

As in any new lands you will find the entrepreneur looking to make his fortune. The risks in developing a business in an unproven and unknown field are high, but if success follows, so are the profits. Vestey's come to mind in 1913, when the Federal Government came to arrangement with that company re: building and operating the Bullocky Point meatworks. The beef market in Darwin should have assisted the cattle stations of the Territory and the meat export markets. But Vestey's bought all the cattle stations they could and then processed only their own meat. Vestey's closed in 1919! Another failed enterprise, but not before it sent many pastoralists bankrupt. The missing rail link is another area that has dogged the politicians and businessmen of the Territory. Failed contracts and lack of understanding of the idiosyncrasies of the Territory by people from 'down south'.

All these snags on the way to the development of the Territory, have kept it as The Territory, instead of a State. Lack of population restricts development. Large populations increase that development. And this is still the problem with Territory today.

Manufacturers need turnover to survive. The retailer needs to make profit. But when you have many small retailers with low turnover, they do not have the buying power of businesses in a larger populated areas. They cannot negotiate the rates for transport or stock that the big companies can. This then can give the small business operator a reason to charge high prices, there high prices then give the larger companies a higher mark to aim at and still remain cheaper. G &R Wills is one of the largest hardware/clothing wholesalers in the

Territory, but, a couple of years ago could not get a specific brand of cheap T.V. from China for three months as a firm from the U.S.A. had placed an order for 1 million sets. Customers looking for TVs had to purchase more expensive ones. Even if the railway is built, goods in Darwin will not be cheaper, simply due to the size of the market. It is a pity that when Hong Kong was handed back to the Chinese, that a special trading status was not given to Darwin or on a larger scale the ~N.T. What a perfect place for off shore banking. Look at the wasted harbour! And our proximity to Asian markets. These benefits should not only be sold to Darwin businessmen, but, to their counterparts 'down south'. There is a still a high percentage who would not be aware of that as the Brolga flies it is closer to Djakarta than Brisbane, closer to Manila than Sydney and closer to Singapore than Melbourne. Hong Kong is closer than Hobart!! And look how successful the T.D.L has not been!

I believe that the lack of population combined with the distance from major markets on the Australian mainland is the main contributor to higher than average prices in the Territory.

However a tribunal set up to investigate individual claims of excessive pricing could be formed. The tribunal need not be restricted to food prices but prices for all commodities.

Fair trading is probably not operating in the Territory. Once again situations where the bigger companies work together to make profits leaving the small operator high and dry is still prevalent. Is this protectionism? You just need to look around at the Real Estate industry in Darwin to see this! Or speak to shop owners in the Casuarina Shopping precinct, the small businesses I mean, not the group and chain stores. But politics is rooted into this and it all boils down to one thing. A vote. Nothing will change, but at least we can see why!

Protectionism is strife outside of Darwin as well. Perkins shipping has the sole market for Gove, with a deal with Nabalco and the N.L.C. A Brisbane company has tried continually to sail freight to Gove direct from Brisbane. The freight service would reduce the prices of goods at retail level in Gove and when it comes to perishables they would be fresher. The people in ~Gove would welcome this, but have no say. due to the big companies closing the door on competition. It also transpires that one of the owners of Perkins is also a committee member of the N.T.C.C. and regularly chairs meetings in Gove! The freight company that has been trying to get into Gove is 'Gulf Freight Services'. PH: 1800640079 FAX: 0733583386. It can take up to three weeks to receive goods originating 'down south' via barge ex Darwin. This time would be cut in half if originating from Brisbane. Businesses would not have to have so much money tied up in stock, or if they wanted to have the money tied up in stock, the range could be extended.

I will not enter into the politics behind the transport limits on the Arnhem Highway.

I manage a small community store in Yirrkala. Our fruit and veg and eggs are flown from Cairns. The eggs originate in Victoria as do some of the produce. The landed product is cheaper than if I barged it from Darwin. And fresher!

I recently undertook a price check with two of Goves foodstores, Woolworths and Foodland. The result is enclosed. I can not see any problems in prices here. And if there is a price to pay for being so far from anywhere else, are we not compensated with a district allowance?

Summary: Thank you for taking time out to read my ramblings. I originally thought that people in the N.T. were being ripped off at the excuse of the 'freight'. But it is the lack of population that creates the prices. We are fortunate to have the K-Marts and the Woolworths etc. Not only do they bring a better price but they bring a larger range of goods and better business standards. Nothing is better for business than competition. There are areas of protectionism that need looking at, particularly in Gove. The railway will have no effect on Darwin unless we spend the money on the port and further develop international trade.

And if people knew more about the history of the Territory, maybe then they would realise the massive cost in the last 100 years of establishing the Territory, both through government and private enterprises. Someone has to pay for this.

Establish a tribunal to investigate unfair price allegations by individuals.

Have the select committee meet every five years and receive reports and make comparisons as the population increases.

Keep promoting tourism.

Further develop industry through incentives for export to Asian and other foreign markets. Maybe have another look at the advantages of the TDZ.

Congratulations on your Committee, but it goes deeper than just the cost of food on our shelves.

Stewart Blair

SUBMISSION 25

Anglicare Top End
PO Box 36506
WINNELLIE NT 0821

Submission to Select Committee on Territory Food Prices

Geoffrey Lohmeyer - Anglicare Top End, Katherine Financial Counselling.

As a financial counsellor, and previously as a substance abuse counsellor with Katherine Alcohol and Drug Association, I have needed to work on all communities within the Katherine Re 'on. During this time I have observed a growing emphasis by the Territory Health Service on encouraging community people to develop healthy eating patterns. This is made difficult because of a number of factors that effect the price of food on remote communities.

1. Distance is the most common factor. Usually the further a community is away from a major regional centre and how difficult it is to get there, effects the price of the goods in the store.
2. Competition is usually non-existent on remote communities. Prices in a place like Borroloola, are remarkably low considering the distance, when compared to Bulman. Some of this must be attributed to the apparent competition in the town.
3. Store ownership and management plays a large part. Communities which have a strong store committee seem to have lower prices, approximately 15% higher than Katherine prices. The stores which don't have a store committee, the prices can be up to 60% higher than Katherine prices.

This is again reflected in that some stores have EFTPOS and managers have chosen to put a surcharge on the transactions, \$3.00 per transaction. This adds to the food costs for the people on that community.

One community has concerns over the store manager not pricing items in the store, nor allowing them to see progressive totals on their "book-up" and doesn't give receipts, so not being aware of the amount they are spending.

1. Anticipated effects of a GST on food prices. For communities where prices are already between 15% and 60% higher than those in Katherine (and these are already some 30% higher than Adelaide prices) will mean that the most disadvantaged in Australia will be even further disadvantaged.
2. Fuel costs: in the major centres of the Northern Territory fuel prices are some 20 30 cents higher than down "South". In remote areas of the Territory it is not unusual to see fuel prices well over the \$1.00 mark. Because of the high flow on effect this effects food prices so that several community stores fail to stock fresh fruit and vegetables or the choice is extremely limited, the cost of travel into town is prohibitive. Some choose to travel into town and return by taxi. This can more than double the cost of the shopping.
3. As the community stores are at the end of the food marketing chain, it becomes very difficult to stock good quality fruit and vegetables. The poorer quality foods still attract premium prices.
4. Several stores have been miss-managed in the past, accumulating large debts. Therefore, current managers have artificially elevated the price of food in order to wipe out the accumulated debt.

I believe, in short. it can be expected that there will be some price increase between Katherine and the more remote communities but anything over 15% is somewhat excessive.

Communities need to be supported more by the Territory Health Service to develop strong store committees to maintain control over the store managers they employ, as this can have a major effect on community empowerment, as well as the prices and other costs of buying food.

Furthermore, when a store manager has fleeced the community store, there needs to be an amnesty on debts so that the community is able to recover without being disadvantaged any further.

If you require further discussion with me, I will be more than happy to oblige.

I can be contacted at Anglicare Top End
Katherine Financial Counselling
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SUBMISSION 26

Australian Competition & Consumer Commission
PO Box 1199
DICKSON ACT 2602

27 April 1999

Dr Richard Lim MLA
Legislative Assembly of the Northern Territory
Select Committee on Territory Food Prices
GPO Box 3721
Darwin NT 0801

Dear Dr Lim

Enclosed is a submission from the Australian Competition and Consumer Commission ("ACCC") to the Select Committee on Territory Food Prices.

The ACCC is responsible for ensuring compliance with the competition and fair trading provisions of the Trade Practices Act 1974 ('the TPA'). The ACCC is also responsible for price surveillance in certain 'declared' markets as per the Prices Surveillance Act 1983 ('the PSA'). Except for these 'declared' markets, the ACCC does not have an active role in the pricing of goods and services. Generally, the pricing of goods and services is established by market forces. The ACCC only intervenes if there is evidence of price collusion or other anti-competitive conduct within an industry. If evidence is brought to the attention of the ACCC of anti-competitive conduct in the retail industry then the ACCC will investigate the matter thoroughly.

As an enforcement body, rather than a research or policy development body, the ACCC bases this submission to the Committee on its competition law enforcement experience. There are some limitations on the issues that the ACCC is able to discuss with any authority. For instance, the ACCC does not maintain comprehensive historical data on retail prices which do not impinge or have not impinged upon its work in ensuring the sector's compliance with the TPA.

Please contact the ACCC if any further information is required to assist the work of the Select Committee.

Yours sincerely

Hank Spier
General Manager

**Australian
Competition &
Consumer
Commission**

SUBMISSION

TO THE

**SELECT COMMITTEE
ON TERRITORY FOOD PRICES**

APRIL 1999

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INTRODUCTION

The Australian Competition and Consumer Commission (the Commission) provides this Submission in response to an invitation for submissions by the Select Committee on Territory Food Prices (the Committee).

The Committee has been appointed to inquire and report on:

- (a) whether or not the prices of food, groceries and household items across the Territory are substantially different to those in comparable locations elsewhere in Australia; and
- (b) if so, identify the reasons for the variations in prices.

The discussion within this Submission focuses on those issues which the Commission considers it can best address given the scope of its functions under the laws it administers, and given its experience carrying out those functions. In this respect, it is useful to outline the Commission's role and functions before identifying the scope of this Submission.

The Role and Functions of the Commission

One of the core functions of the Commission is to administer and enforce the provisions of the Trade Practices Act 1974 ("TP Act"). The objective of the TP Act is to enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer Protection.

The Act is divided into several parts. The most important part of the Act for the purpose of considering the issues raised by the Committee's terms of reference, is Part IV, which deals with anti-competitive practices.¹

Part IV of the TP Act

Much of the Commission's work relates to the competitive conduct rules of Part IV. The rules are complex but are based on two broad principles:

- That any conduct which has the purpose, or effect, of substantially lessening competition in a market should be prohibited; and
- Such conduct should be able to be authorised (under Part VII of the TP Act) if it can be shown it results in a net public benefit.

The main types of anti-competitive conduct which are prohibited include anti-competitive agreements; primary and secondary boycotts; misuse of market power (which is not able to be authorised); exclusive dealing, including third line forcing; resale price maintenance; and anti-competitive acquisitions.

¹ Other Parts of the TP Act deal with access to natural monopolies (Part IIIA); unconscionable conduct (Part IVA); unfair trading practices (Part V); liability for defective goods (Part VA); international liner cargo shipping (Part X); anti-competitive conduct in the telecommunications industry (Part XIB); and the setting up of a telecommunications access regime (Part XIC).

In ensuring compliance with the TP Act, the Commission has a number of different tools at its disposal, most notably its enforcement powers. For instance, it has the ability to seek in the Federal Court monetary penalties, injunctions and ancillary orders of various kinds in favour of persons who have suffered loss or damage because of the anti-competitive conduct. In certain circumstances in respect of mergers, the Commission can seek divestiture of assets illegally acquired.²

The Commission is always keen to ensure that it chooses the right enforcement tool to achieve the Commission's goals and objectives. In making this decision, the Commission will take into account a series of factors, including blatant disregard of the law; significant public detriment; the educative or deterrent effect; new market issues; and the need to test the reach of the Act.

In choosing the appropriate method for enforcing a particular section of the Act, the Commission will take into account the aims of any enforcement action. These would include stopping the unlawful conduct; obtaining compensation/restitution for the victim; undoing the effects of the contravention; deterring/preventing unlawful conduct; and punishing the wrongdoer.

The Scope of this Submission

As an enforcement body, rather than a research or policy development body, the Commission bases this Submission to the Committee on its competition law enforcement experience. There are some limitations on the issues that the Commission is able to discuss with any authority. For instance, the Commission does not maintain comprehensive historical data on those aspects of the retail sector which do not impinge or have not impinged upon its work in ensuring the sector's compliance with the TP Act.

The Commission is also constrained by the parameters of its enforcement responsibilities under the TP Act. For instance, the Act does not empower it to overcome any laws or regulations which might restrict competition (e.g. relating to shop trading hours).³ In some cases, increased concentration in the retail sector may occur through organic growth, e.g. where a change in shopping trends may favour a large chain over small independent stores. There is no breach of the Act attaching to such an increase in concentration.

The Commission considers that it can best contribute to the Committee at this stage by outlining:

1. A background to the grocery retail sector and its supply chain relationships. In this way, the Submission can describe how, in the Commission's experience, the structure of the retail sector has changed over the years (with and without Commission involvement) to a situation where the

² If the Commission is of the view that an acquisition that has been completed has substantially lessened competition in a substantial market, the Commission may apply to the Federal Court for an order pursuant to s 81 of the TP Act that the acquirer dispose of the shares or assets acquired in contravention of the Act, or may apply to the Court for a declaration that the acquisition is void. An application in this respect must be made within three years of the date on which the contravention occurred.

³ Prior to the deregulation of trading hours in most states in Australia, the ability of independent retailers to trade over extended hours provided independent retailers with a competitive advantage over chain supermarkets. The deregulation of trading hours has removed this competitive advantage from independent retailers, and once removed, this advantage is unlikely to be regained. While the impact of deregulated trading hours may raise socio-economic concerns, the pro-competitive nature of deregulation is unlikely to raise competition concerns. Deregulation of trading hours has provided consumers with a broader range of choice of retail venues and when faced with this choice, consumers appear to be favouring retail chains. Thus the decline in market share of independent retailers attributed to deregulated trading hours may simply be a result of market adjustment.

chains, through increasing concentration, may be in a position to exercise market power at the expense of other participants (e.g. competing independents, manufacturers and other suppliers, etc).

2. The issue of market power in retailing, the competition issues that may stem from this market power, and what the Commission can do under the TP Act in respect of these issues.

BACKGROUND TO THE GROCERY RETAIL SECTOR

Major Participants in the Retail Grocery Sector

Australia has a highly concentrated retail grocery sector which is dominated by three national chain store groups - Woolworths Limited (Woolworths), Coles Myer Limited (Coles Myer) and Franklins Limited (Franklins).

Woolworths is Australia's largest grocery retailer and trades across Australia. It is also involved in general merchandising through various discount department stores, liquor retailing, food manufacturing and processing, women's fashion retailing and retailing of electronic products. It has no connection with similarly named groups overseas.

Coles is the grocery division of Coles Myer and trades across Australia. Coles Myer is Australia's largest retail conglomerate, being a major market participant in both traditional and discount department stores, liquor, retailing, fast food and women's fashion outlets.

Franklins operates in the eastern and south-eastern States of New South Wales, Victoria, Queensland and South Australia. Previously a "no-frills" discount chain specialising in dry groceries, it has recently moved to convert many of its retail stores into full-service supermarkets with fresh produce.

The remainder of the retail grocery sector is made up of a large number of generally smaller, independently owned stores. Many of these stores operate under banner groups, and are supplied by a grocery wholesaler. While a few banner groups operate nationally, many only operate within their home state, **Dauids Limited (Dauids)** is the dominant wholesaler and operates in all states and territories in Australia, except Western Australia. Dauids is the largest independent grocery wholesaler and distributes groceries, refrigerated foods and general merchandise.

In Western Australia, **Foodland Associated Limited (FAL)** is the major supplier to independents in that State. FAL is the sole independent grocery wholesaler in Western Australia and distributes around 40 per cent of the branded packaged groceries sold in that State (4 per cent nationally) to over 700 stores.

Woolworths has a wholesaling division - **Australian Independent Wholesalers (AIW)** which supplies independent stores in competition with Dauids. AIW supplies over 300 retailers previously supplied by Dauids.⁴ It was recently reported that around two per cent of Dauids volume switched to AIW when most of the Rite-way supermarkets in Victoria and NSW formed a new banner, Food-way, to be supplied by AIW.⁵

⁴ See: Business Review Weekly, "Metro buys a warehouse of trouble", 5 Oct 1998, 24; Foodweek, "78 Rite-ways make the split with Dauids", 22 February 1999.

⁵ See e.g. Foodweek, *ibid.*

Market Shares

The approximate positions of the players in the national market are:

	End 1998 ¹ %	End 1994 ² %	End 1990 ³ %	End 1987 ⁴ %
Woolworths	35.9	32.9	28.5	27.2
Coles Supermarkets (including Bi-Lo)	29.5	23.9	21.7	25.8
Franklins	13.4	15.4	14.4	10.6
Dauids	14.3	11.2	12.5	N/A
FAL	3.8	4.7	5.5	N/A
AIW⁵	1.7	-	-	-
Others	1.4	11.9	17.4	36.4 ⁶

¹Source: Foodweek Industry Yearbook & Directory, 1999 Edition

²Source: Foodweek Industry Yearbook & Directory, 1995 Edition

³Source: Retail World, 12 December 1990

⁴Source: Retail World, 9 December 1987

⁵AIW was acquired by Woolworths in 1996

⁶This figure would include independent wholesalers such as Dauids, FAL and AIW (and CBI, and QIW before their acquisition by Dauids in 1996)

For the past two decades, the share of the Australian grocery industry held by the national supermarket chains has been growing at the expense of independent retailers. The National Association of Retail Grocers of Australia (NARGA) claims that the chains' share of the retail grocery market has grown from 40 per cent in 1975 to 60 per cent in 1985, to around 80 per cent in 1998.⁶

There may be competition issues that flow from the declining market share of the independents. However, market shares of themselves do not necessarily indicate competition problems. Whether or not the declining market share of the independent sector impacts on the competitiveness of that sector depends on certain factors, including the impact of that declining share on the supply costs of independents, whether it signals to them a need to respond to competition (e.g. in some dynamically efficient way such as changing format), and whether there is competition between the chains themselves. From a competition perspective, even if the independent sector were less competitive as a consequence of its market share, an issue would only arise if there were a lack of competition between the chains. NARGA has argued that a critical mass of independents is needed for the sector

⁶ These shares relate to dry groceries, and do not include produce like meat and fresh fruit and vegetables. The movement in shares over the years is likely to be starker if one takes account of the shares chains have been acquiring in respect of fresh produce in comparison with independent supermarkets. However, if one accounts for such competitors as specially butchers and fruit and vegetable merchants, the chains would have a lesser share of the national market for those products. However, the competitive constraint that such merchants have on the chains is questionable. There is little agreement among industry participants as to the appropriate way to measure the market share of supermarkets (see e.g. QIW Retailers Limited v Dauids Holdings Pty Ltd & Ors; Attorney General of the Commonwealth v Dauids Holdings Pty Ltd & Anor (1 993) ATPR 41-226).

to be a viable competitive constraint on the chains. If this is true, then the declining market share of the independent sector may be compounded by the split of the independent wholesale sector because of the acquisition of AIW by Woolworths, and its subsequent successes in taking market share from Davids.⁷

The Distribution System

Groceries reach the shelves of retail stores in three main ways: (1) direct delivery by the manufacturer or processor; (2) delivery by the manufacturer or processor to the distribution centre of a major retail chain which then delivers the goods to its own stores; and (3) delivery by the manufacturer or processor to the warehouse of a grocery wholesaler who then sells and delivers the goods to retail outlets. While some manufacturers may deliver products (e.g. soft drinks, tobacco products) directly to some independent retailers, a retailer cannot rely completely on direct delivery as an alternative to an independent wholesaler.⁸ For instance, the costs associated with an independent accepting separate deliveries (e.g. in terms of time, storage etc) can be prohibitive.

Independent wholesalers and the chains centrally warehouse groceries. Woolworths, Coles and Franklins are vertically integrated, compared with independent retailers who are supplied with groceries from wholesalers like Davids, FAL or AIW. These wholesalers are principally concerned with the purchase, warehousing and supply by wholesale of an extensive range of groceries. The wholesalers provide to independent retailers a range of services and support (similar to those provided by the chains to their retailers) intended to assist in developing the businesses, business skills, market share and profitability of those independent retailers. A fee (e.g. based on warehouse withdrawals) may be levied on each retailer.

Independent retailers operate under a number of different banner groups. A banner group can be loosely defined as a buying group. However, the activities of banner groups extend beyond product purchasing; they also have in common store signage, layouts and product ranges, and participate in the joint advertising and promotion of products. Thus the banner group can offer a collective brand or position in the market.

Independent retailers vary in size and operation, and were categorised in the *QIW v Davids* case as "Convenience Stores", "Top Up" stores or supermarkets.⁹ However, it would seem that the dynamics of the grocery retail sector (with, for instance, new formats being recently tested and developed by the chains, discussed further below) is rendering categorisation of the sector more difficult, if not meaningless.

⁷ It should be noted that, when AIW was purchased by Woolworths, it was a considerably smaller operation than it is now. In February 1997, Woolworths announced it was planning to double AIW's warehousing capacity in Queensland, NSW, Victoria and ACT. The acquisition of AIW and the Cannons Food Barns is detailed in Case Study 4 below.

⁸ See *QIW v Davids*, op cit.

⁹ In *QIW v Davids*, the Federal Court considered that Convenience Stores have an average floor space of 400 square metres, do not attempt to provide consumers with an alternative to weekly supermarket shopping, and offer items consumers are often likely to require at short notice. such as bread, milk, confectionery and soft drinks. Their prices are correspondingly higher. "Top Up" stores have an average floor space of 800 square metres, and their function is to supplement consumers weekly shopping. Supermarkets have an approximate floor space of 1000 square metres, and satisfy consumers' regular needs, directly competing with the chain stores.

Differences Between the Chains and Wholesalers

There are a number of differences in the purchasing, warehousing and pricing practices of independent wholesalers and the major retail chains. For instance:

While deliveries to retail stores in a chain are an internal transfer, with the retail cash sales allowing the chain daily cash flow, independent wholesalers carry the debt risk for many of the retailers they supply.¹⁰

- Arguably, the independent sector has reduced opportunities for "investment buys" (i.e. the purchase of goods on some sort of promotional deal, or when the purchase is made prior to a known price increase) from manufacturers and suppliers, compared with the investment buying opportunities of the chains. It should be noted, however, that investment buying in a period of low inflation may be an unattractive proposition where the benefits are somewhat offset by the costs of working capital and additional space required.
- Settlement terms on purchases (i.e. discounts based on speedy payment) generally are the same for independent wholesalers and the chains. However, the credit risk incurred by independent wholesalers when supplying independent retailers is different to that incurred by the chains when they supply their retail outlets. In the past, manufacturers shared the credit risk with independent wholesalers by providing a rebate to make some allowance for that risk. Subsequently the chains requested and received the same allowances.
- The range of products carried by independents is larger and turns over more slowly, necessitating higher stock levels to service the wholesale business. The chains' product range is determined by the head or state office, while a necessarily broader product range of an independent wholesaler is dictated by its retailers - a diverse customer base. The chains supply company-owned stores only (except in the case of AIW, which supplies the independent retailers with which its parent company, Woolworths, competes).
- In *QIW v Davids*,¹¹ it was considered that the average store order for retail chains involved larger warehouse picking runs resulting in economies, while the average store order from a wholesaler was mainly small to medium, which was more expensive. It was considered that independent wholesalers had higher average stock levels and lower stock turns than the chains. The chains are able to spread their retail overheads over greater volumes.
- The chains can derive their profitability from retail operations, while in the independent sector, both the warehouse and the retail stores make separate profits. Thus, the future of the independent retailer depends on the viability and success or failure of the broad based wholesaler who supplies it, and vice versa.

¹⁰ The price paid by retailers to the wholesaler consists of the cost of the product to the wholesaler plus a service fee (around 3-4%). An additional rebate to "banner store" retailers may be allowed by the wholesaler.

¹¹ Op cit.

- The comparative advantages enjoyed by a chain in the above areas are compounded by sales tax differences which result in wholesalers paying tax on a higher value than a retail chain.¹²

Consumers can benefit from the operation of the chains, to the extent that any cost savings are passed through.

Manufacturers and Retailing

The importance of grocery retailing to food processing businesses should not be understated. While manufacturers of food products can sell their output to a variety of customers for a variety of purposes (e.g. to manufacturers who use food products as inputs, to the food service industry, or to export markets), Australian retailers account for approximately 80% of food product purchases, indicating a heavy reliance by food manufacturers on the custom of retailers.

The competitiveness of a retailer or wholesaler is dependent in part upon the relationships it has with its suppliers. The agreement between a manufacturer and its customer is constituted by a series of trading terms, which set out various discounts and allowances paid by manufacturers to retailers.

The wholesaler or chain will negotiate specific trading terms with all manufacturers which supply it. These terms cover settlement discounts, warehouse allowance, quantity buy allowances, and ullage (which is an allowance given by manufacturers for shrinkage and damage). In addition, case deals (contributions to support a particular product promotion) are paid by a manufacturer. Special price reductions are funded in whole or in part by the manufacturer.

While trading terms may vary among manufacturers, the percentage of retail revenue spent on promotions of various sorts (trade spend) appears to be approximately the same regardless of which retailer or major wholesaler the manufacturer is dealing with. This could be partly due to the movement of personnel and information within the grocery sector and subsequent demands by retailers for equivalent trading terms.

Nevertheless, independent retailers incur significantly higher costs for a variety of reasons, including:

- their higher cost of supply due to the wholesale link in the supply chain;
- the wholesale tax system which results in the independent sector paying tax on a higher value than the major retailers; and
- if promotional costs are essentially fixed, then the major retailers obtain a substantial benefit by receiving much larger absolute amounts for promotions than the independents.

A manufacturer's trading terms with its customers are influenced by the manufacturer's brand strength. A strong brand name enables a manufacturer to negotiate from a stronger position. However, in most cases, the power derived from brand strength is modified by manufacturers' reliance on the custom of the major retailers.

Trading terms between a manufacturer and a chain are closely monitored by other chains (and major wholesalers). If one chain suspects a manufacturer of offering a competing chain a discount, it is not

¹² Sales tax has a differential effect. The retail chains buy stock on which sales tax has been paid by the supplier. The sales tax is calculated on a product value which does not include a warehousing cost. The independent wholesalers buy pre-tax and pay tax on the value which includes the value-added warehousing component. As a consequence, the independent wholesaler pays tax on a higher value than the retail chains.

unusual for the disgruntled chain to demand the difference between what it pays for stock and what it believes its competitor is paying.

Retailers are said to earn greater revenue from discounts and allowances than they do from margins on product sales. Thus manufacturers experience considerable pressure from retailers for greater discounts and allowances. It is not clear whether and to what extent the discounts and allowances received by retailers are passed on to consumers. Further, the value received from the promotional monies (a component of trading terms) paid by manufacturers to retailers is not always apparent.

Major retailers employ category managers, who work with manufacturers in their product categories to decide upon such issues as shelving lay-out and design. A manufacturer's involvement in the layout of the shelves (the "plan-a-gram") depends upon the manufacturer's product position in the product category. The shelf layout in a particular category would usually be determined by that category's leading manufacturer, who may be required to pay for the privilege.

Brand leaders contribute significantly to the plan-a-gram while smaller manufacturers tend to have little input. Consequently, weaker brands may be prejudiced in terms of obtaining prime shelf space. However, retailers will still tend to retain weaker brands on shelves, despite small sales volume, at the expense of the products of large manufacturers. Retailers expect brand leaders to 'drive' product categories but are wary of manufacturers developing market power.

The role of the retailer in relation to manufacturers is evolving. Supermarket shelf space has obviously become critical to the sales of many manufacturers' products, and each manufacturer is, to a certain extent, competing for shelf-space against all others. Retailers are essentially becoming lessors of shelf space, particularly in light of the changes to inventory management which may involve retailers not actually paying suppliers for the goods until the goods are actually scanned on sale.¹³ While such a system may hold benefits for those whose products are turning over rapidly (as they will be paid faster), it might disadvantage those whose goods are slower moving.

In addition, as manufacturers pay an increasing amount on co-operative advertising allowances or trade promotion to retailers, some are reducing their direct advertising budgets. In this way, retailers are taking over the marketing function of many manufacturers.

The Role of Generics in Supply Relationships

All retailers require private label products as part of their product range. The independent retailers source these from their wholesale supplier. These products comprise a not insignificant proportion of sales in Australia although there is a close inverse link between the demand for generic or private label products and the prevailing economic conditions.¹⁴

There are three categories of private labels:

- The generic or no frills label;
- The house label which is branded with the retailer's store name; and

¹³ It is unclear what will become of settlement terms as this sort of system is implemented.

¹⁴ It is estimated that own-brand sales comprise about 15 per cent of the volume of grocery sales, and 10 per cent of sales by value.

- The private label which is exclusive to particular retailers.

In the past, Australian retailers have not viewed stocking private labels as an important part of their grocery business. Private labels were carried because consumers expected retailers to offer such products and to promote traffic within stores. To this end, retailers may attempt to replicate successful branded products with their own house-brand products. Where private labels products are designed to resemble the brand leader, retailers may be free-riding on manufacturers' investment in brand image.

Australian retailers have focused private label development on generic or no frills labels.¹⁵ Franklins was the first retailer to introduce a generic range (No Frills), with Amalgamated Australian Wholesalers Pty Ltd (a national purchasing body for independent wholesalers) introducing its Black and Gold generic brand in response. As discussed in the *QIW v Davids* case,¹⁶ generic brands are intended to provide value for money products of reasonable quality which are less expensively packaged and sold at lower prices. Unlike some countries, in Australia, generic brands have been promoted primarily on price.

Australian retailers and wholesalers seem to be investing in the development of higher quality private labels. Franklins is developing First Choice, Coles is developing its Coles brand and Davids has its IGA label. These brands are designed to compete with brand leaders in terms of both quality and price. Franklins is planning to position its First Choice and No Frills house brands to cover both ends (in terms of price and quality) of each product category. However, these attempts to develop quality-based private labels have not been particularly successful as yet, since consumers in Australia have tended to associate these labels with the cheaper generic brands.¹⁷

By contrast, LTK and US retailers have developed strong house labels and private labels. Sears, a US retailer, has been so successful in developing its private label that some Sears products are considered to be superior to their branded alternatives and retail at a premium to manufacturers' brands. In both the US and the UK, house label and private label products have been marketed on a quality basis and are supported by costly marketing campaigns. UK retailers can generate enormous scale to justify such investment. At Marks & Spencer not only does the merchandise consist solely of its private labels, but the house credit card is the only one accepted. Sainsbury's house brand accounts for approximately 55% of the chain's total sales volume. Successful private labels enable retailers to build up power within particular product categories and make them less dependent on manufacturers.

Despite the difficulty faced by Australian retailers in developing private labels, private label competition is rising in importance. Access to generic products is considered to be an essential input into grocery wholesaling.¹⁸ An entrant that is unable to provide a range of such products would have difficulty attracting retail customers. Development of a generic range takes time and considerable expense and there are significant economies of scale associated with volume orders. A new entrant to the grocery retailing sector would have to either develop its own range of products or seek to obtain access to a

¹⁵ Woolworths has its generic "Home Brand", Coles its "Savings", Franklins its "No Frills", and Davids its "Black & Gold".

¹⁶ Op Cit.

¹⁷ OECD Roundtable on Buying Power, Note by Australia, 19 October 1998, p. 6.

¹⁸ Ibid.

current supplier of generic products. Access to private brands may be considered to be a considerable barrier to entry into the grocery industry in Australia.

The development of private labels and particularly quality private labels impacts upon the relative bargaining power of the chains compared with manufacturers. For instance, private labels can be promoted by retailers at the expense of branded goods and can decrease the bargaining power of the manufacturer. A number of benefits are available to retailers from the development of a range of private label products. First, since retailers frequently carry private and national brand merchandise in each product category, private labelling usually amounts to "tapered vertical integration", conferring negotiating advantages obtained by that strategy, i.e. expanded options and better cost information, especially where the retailer owns its supplier.¹⁹ The development of private labels may allow the retailer to avoid the costs of marketing incurred by the producers brand.²⁰ The retailer in a sense becomes a double agent. As agent for the brand owner it has forward information of new products, promotions and pricing, yet as agent for its private label it is motivated to develop new and better own label products.²¹

Secondly, retailers have final control over shelf space, and may discriminate in favour of their private label products (because they receive higher margins on these). Private labels may grow at the expense of weaker brand products. As a result, the product range within a particular product category may shift from four brand products and one private label product to between one and three brand products and one private label product. Thus the strengthening of private label may result in reduced consumer choice, as well as undermining the brand strength of branded products.

Further, while a chain's support of the establishment of a generic brand can give a new entrant at the manufacturing level a sufficient customer base to be viable, together with possible chain support through assistance in product development and packaging etc, that manufacturer would become heavily dependent upon that chain.

Primary Producers and Retailing

Historically, some retail chains have had a direct ownership link to upstream production in various industries. In this way, retailers have been vertically integrated into agricultural industries, resulting in the upstream operations of the retailer competing directly with other primary producers or manufacturers in that market for the supply of product to that particular retailer.

For example, until January 1992 Coles Myer owned a Victorian milk processing plant, Sandhurst Dairies, which was responsible for providing a percentage of the required volume of processed milk to Coles directly. The other Victorian milk processors, therefore, competed directly with Coles' own manufacturer of milk. Coles also had an interest in another primary production business - the production of grain-fed beef. In 1996 Coles sold its beef production business, Charlton Feedlot, stating at the time that the sale was in line with its strategy to focus on core retail operations and dispose of non-core assets.

¹⁹ Ibid, p. 5.

²⁰ Bell R, Davies R and Howard E, "The Changing Structure of Food Retailing in Europe; the Implications for Strategy", *Long range Planning* V 30 No 6 December 1997, 854.

²¹ Ibid, 857.

Buyer power can be exercised against processors (with flow-on effects to primary producers) as a result of vertical integration. It may still be possible for the chains to exert market power over some suppliers, generally those operating in relatively competitive markets and with limited avenues for disposal of their products. For example, some farmers' groups have argued that processors, possibly under pressure from retailers, are able to unilaterally reduce the prices they pay for produce. There is a concern that there is pressure up the supply chain as first the supermarket chains and then the manufacturers/processors seek to attract higher returns. This is ultimately felt by those who have the least options and are the weakest participants - the primary producers. The options available to producers are relatively few in these circumstances - they may be able to bypass the system of supply to the chains if they have export capabilities (for goods which do not require processing). An example of such goods might be fruit and vegetables, but not meat or dairy products which require processing before moving further along the supply chain.

Case Study 1- The Australian Meat Holdings Case

- Australian Meat Holdings (A.NM) was a consortium of the four main meat processors in Queensland and was a major meat processor in Queensland. In 1988 it attempted to acquire the Borthwicks meat processing plants at Bowen and Mackay in Queensland. The Commission argued that the acquisition would make AMH dominant in the northern and central Queensland markets for the slaughtering of cattle.
- The Commission's concern related to the price which the merged processor could be expected to pay farmers for their cattle. As a significant proportion of the meat was exported, end product prices were not likely to be impacted by the merger. However, this provided an incentive to minimise the prices paid to farmers for their livestock in order to maximise the margin between the output price and the input price. Wilcox J in the Federal Court found that the acquisition was likely to result in AMH becoming dominant. Consequently AMH was ordered to divest the Borthwicks works.

The nature of the relationship between primary producers and retailers has changed significantly in recent years. This has been due mainly to deregulation of many of the grower industries in Australia. Deregulation has forced upstream sectors to be more competitive and, as a result, food products are generally being supplied at lower, more competitive prices than they had been previously. Lower international commodity prices add to the competitive pressure on domestic producers to supply at lower prices (as does the easing of quarantine restrictions on food products such as pork). There may be a relatively weak correlation between the price paid by supermarkets for a product and the retail price of that product for a number of reasons, including the fact that the supermarket may average supply price increases and decreases over a product range (e.g. if beef prices go up, this price hike may be spread across all meat products), the appropriate share of various overheads needs to be added, or allowance needs to be made for product spoilage. If the competitive constraints exerted on the chains by the independents is not sufficient, profit margins might increase.

In the dairy industry, regulation gave primary producers a protected environment, but at the same time, impeded the potential for increased returns, development and innovation. Companies had little incentive to develop new products or packaging because they could not set their own prices or distribution strategies. All states have now been deregulated post-farmgate and this has led to increased competition - at least in the areas of product differentiation and marketing.

While there has been public concern over the increasing price of white milk in various states, the farmgate price of raw milk has not been deregulated. In the Commission's investigations into various primary producing/rural industries, some processors/manufacturers have stated that the capacity of the chains to dictate market dynamics is paramount.

Growing Links in the Supply Chain

The links between various participants in the supply chain (such as producers, transporters, marketers, processors and retailers) may alter the dynamics of the grocery sector in the future. Vertical integration into agriculture by the chains may have implications for primary producers and consumers.

The nature of vertical relationships in grocery retailing is changing. Previously some chains have had direct ownership links to primary production. They now appear to be developing exclusive contracts with particular primary producers.

The chains recognise that it is important for them to have a supportive relationship with producers. There appears to be a trend towards the development of exclusive contracts with particular primary producers. There has been an increase in the number of privately owned plant varieties through the application of gene technology, which, when coupled with formal food production supply links between retailers and processors, can have significant implications for primary producers.²² For instance, farmers are increasingly becoming contract growers, delivering their harvest to those who have proprietary rights to the crops concerned. It should be noted that it is not unusual for those further down the supply chain in the food industry to influence the product they are receiving. Exclusive contracts can save transaction costs and provide the chosen provider with security and a bankable asset, in an environment where international commodity prices are declining.

The value of exclusivity is being increasingly recognised by retailers. Woolworths, for example, has been exploring opportunities for the commercialisation of new fruit and vegetable varieties, through its subsidiary Breeders Rights International Pty Ltd. Woolworths has the rights to a new variety of red pear, Sophia's Pride.²³ Such supply chain management can have positive implications for consumers, with new fruit and vegetable varieties being developed, and earlier access to new varieties being provided. Such varieties may otherwise take considerably longer to get to the market without the funding and support that retailers can provide in this respect.²⁴ However, this can have an adverse impact on wholesalers as their volume declines, and as the risks associated with quality and supply may increase. The residual markets become less predictable and more variable.

Having outlined, the relationships between participants in the grocery industry, it is appropriate to examine recent structural adjustments within the industry, as they have had a direct impact on the concentration and competitive influence of the independent sector.

The Changing Structure of the Grocery Sector

Retail Acquisitions

²² The Australian Financial Review, "High-tech holds out land of promise", 13 January 1999, 14.

²³ The Australian Financial Review, "Debut of a landless farmer", 18 Nov 1998, 41.

²⁴ In the absence of the chains taking out such proprietary rights, some producers may be shut out of associated production given that they may not have the funds to pay the requisite licensing fees.

The late 1980's saw considerable rationalisation in the grocery sector. In 1984 -1985, the then Trade Practices Commission considered the acquisition of 9.9 per cent of the issued capital of Woolworths by Coles. It informed Coles of its opinion that if it moved to take over Woolworths such a move would be in breach of section 50 of the Trade Practices Act (which at the time prohibited only mergers which created or strengthened dominance), principally in respect of food.²⁵

In mid-1985, the Coles acquisition of Myer was the subject of considerable controversy. It was considered that, through the merger, Coles Myer would become Australia's biggest retailer with substantial market power across the range of products sold (particularly in department stores), with a consequential aggregation of substantial power as an acquirer of those products.²⁶ The Trade Practices Commission decided not to move to restrain the acquisition. It stated that it was unable to identify any particular market which would clearly be dominated by Coles Myer after the merger, as a supplier or as an acquirer. The Commission did however require Coles to divest itself of the 9.9 per cent shareholding of Woolworths it had earlier acquired. The Commission noted that the market power of Coles Myer would be substantial by any test.

Subsequently, Woolworths and Safeway merged their operations. The Trade Practices Commission did not seek to restrain that merger either - the strengthening of Woolworths was seen as important in the context of its future competitive abilities against the Coles Myer group.²⁷

In 1986-1987, the Trade Practices Commission investigated the proposed acquisition by Coles Myer of John Weekes Holdings Pty Ltd, which operated the Bi-Lo grocery stores (a no-frills discount chain) in and around Adelaide. The Commission's concern stemmed from the buying power of the Coles Myer group and the ability of Coles Myer to superimpose its purchasing power of grocery products on the market presence of Bi-Lo. Following an examination of Coles Myer's buying practices and of its perceived strength as a purchaser of groceries, the Commission took the view that it could not restrain this acquisition (under the dominance test).

In 1987, representatives of Shoeys sought the Trade Practices Commission's views on the proposed acquisition of Shoeys by Coles Myer. The Commission objected to the purchase by Coles Myer of ~Shoeys food barns in northern New South Wales because of the anticipated post-merger market dominance of Coles-Myer in the Newcastle area. As a result, Coles Myer agreed to sell some of the chain's 45 stores, which were purchased by Davids.

In 1993, the provisions of the TP Act dealing with mergers and acquisitions were amended from prohibiting only acquisitions that resulted in the creation or strengthening of a dominant position, to prohibiting acquisitions that had the effect or likely effect of substantially lessening competition in a market. One of the reasons for the change of test was the concern that some of the retail chain acquisitions that had occurred in the 1980s were able to proceed without challenge under the dominance test.

The Wholesalers Response - Development of "the Fourth Force"

²⁵ See *Trade Practices Commission, Annual Report 1985-1986*.

²⁶ Ibid.

²⁷ Ibid.

The growth in market share of the chains over the last two decades appears to have been at the direct expense of the independent retail sector, whose market share and profitability continues to decline. In the early 1990's Davids considered that if it could increase its size, by joining together all of the independent wholesalers in Australia, they could attain the necessary efficiencies and volume of purchases to compete with the three chains on equal footing. Thus, Davids undertook a program of acquisitions of regional and state based independent wholesalers to build itself up as a "fourth force", a unified wholesaler which could provide retail and financial support to independent retailers to help them compete with the chains.²⁸ It was considered that independent retailers could survive only if they were part of a larger group that could deliver the benefits of scale and scope in terms of buying and marketing, merchandising, store design, information technology, signage etc., while retaining the advantages of an owner operator at the store level.²⁹

In Davids' application for authorisation of its proposed acquisition of Queensland Independent Wholesalers ("QIW") in 1996, Davids referred to the need for the independent sector to respond to the dynamic changes in the grocery sector, in order to provide effective competition to the chains. Davids claimed the independent wholesalers must effectively become a fourth force or chain with the stores they supply. Davids envisaged the establishment of a strong unified wholesaler to provide retail and financial support to a coordinated, disciplined and formula driven group of independent and corporately owned retailers to combat the chains.

Development of this fourth force necessarily involved a deliberate strategy of mergers, acquisitions and rationalisation of banner groups and retail stores. The larger integrated group would have greater volume and therefore greater buying power and be better able to obtain terms and prices similar to

²⁸ In 1992, Davids made a take-over bid for Queensland Independent Wholesalers (QIW). This bid was opposed by QIW which sought a declaration from the Federal Court that the take-over would constitute a contravention of the merger provision of the TP Act. In addition, the Commonwealth Attorney-General, the Minister then responsible for the administration of the TP Act, sought a Federal Court injunction restraining Davids from acquiring QIW. In April 1993, the Court held that Davids' proposed take-over of QIW would breach the TP Act and this decision was upheld on appeal.

In 1993, FAL applied for authorisation of a proposed acquisition of Composite Buyers Limited (CBL). With the application was a joint announcement by FAL, CBL, Davids and Independent Holdings Ltd (IHL) that the four independent wholesalers were discussing the possibility of a merger to form a single independent grocery wholesaling group. FAL withdrew its application before the Commission was to make its determination.

In 1994, Davids proposed to acquire IHL. The Commission sought and received an undertaking that if the Commission formed the view that the indirect acquisition of IHL's interest in CBL would substantially lessen competition between Davids and CBL, Davids would cause IHL to dispose of such shares in CBL as the Commission determined.

In February 1995 Davids sought authorisation from the Commission to acquire CBL. At that time Davids and CBL were the sole wholesale grocery suppliers in Victoria and held 94 per cent of the independent wholesale market in New South Wales and a small share in Tasmania. The authorisation was granted by the Commission, and the decision was upheld by the Australian Competition Tribunal, following an appeal by QIW. However, the acquisition did not eventuate. In September 1995, QIW successfully acquired CBL instead. Davids then acquired the merged QIW/CBL in 1996. This resulted in Davids significantly increasing its share of the national market from 6.3 per cent in 1975 to 17.4 per cent in 1997.

²⁹ See: IBIS Business Information Pty Ltd (April 1995) Review of the Supermarket & Grocery Store Retailing Industry and the Grocery Wholesaling Industry, pp 32 - 33.

those enjoyed by the chains. Davids encountered considerable difficulties in providing an effective fourth force, due apparently to managerial difficulties experienced at the time.

Chain/Wholesaler Acquisitions

Around the same time, the Commission considered another important proposed acquisition. In 1994 Rank Commercial, a New Zealand company, announced a take-over bid for the Australian and New Zealand assets of FAL, the only independent grocery wholesaler operating in the state of Western Australia. Prior to the merger, the Coles supermarket chain had a 23 per cent share of the Western Australian retail grocery market, with FAL being the dominant market player, supplying 51 per cent of the groceries sold in that state.

A proposed agreement between Rank Commercial and Coles would have seen FAL's Australian assets pass to Coles, increasing their market share to 75 per cent. Because FAL was (and is) the only wholesaler of groceries to independent retailers in Western Australia the acquisition would have resulted in Coles supplying groceries to independent retail stores competing with its own retail outlets. The Commission obtained an injunction to restrain Rank Commercial from issuing its take-over documents. Rank Commercial/Coles subsequently decided not to proceed with the bid, ostensibly on commercial grounds. The Court then made final orders preventing Coles and Rank Commercial from proceeding with the bid.

Against this background of change, another development is worth noting: the acquisition in 1996 by Woolworths of a small regional wholesaler -AIW. AIW has grown to now supply a number of independently owned retail stores in eastern Australia operating under the Spar and Foodworks banner groups.³⁰ This is a relatively recent development, but it signals an interest by Woolworths to diversify its operations to include wholesale sales to independent retailers. While AIW has a relatively small market share, its market share has been acquired at Davids' expense.³¹

Davids' Revival Efforts

Since Davids was acquired by South African grocery wholesaler Metro Cash & Carry in early 1998, it has endeavoured to revive its declining market share. Metro has pursued a number of different strategies, including splitting Davids into different divisions; encouraging refurbishment of the 3,500 retail stores that buy from it; proposing to sell Davids' 130 company owned supermarkets; instituting new trading terms with suppliers; and through a retail banner rationalisation program.³² Davids has acted to consolidate its 29 banners into three channels (based under the IGA banner), aiming to obtain better marketing economies of scale.³³

³⁰ AIW has recently sought to purchase the licence for the Spar banner (once it was relinquished by Davids). Davids had sought to encourage those Spar banner retailers to convert to the proposed IGA banner (as part of Davids banner rationalisation process). Apparently fifteen of the nineteen official Spar stores have decided to retain their identity and be supplied by AIW stores. See e.g. *The Australian Financial Review*, "Davids a Goliath of a job for a Metro man", 24 Aug 1998, 20; *Foodweek*, "Most official Spars accept AIW's offer", 11 Aug 1998, 3.

³¹ Recently, many of the 85 Rite-way stores in Victoria and NSW switched their allegiance from Davids to AIW, and will now form a new Food-way banner: *Foodweek*, 15 Feb 1999, p I.

³² *Business Review Weekly*, "Metro buys a warehouse of trouble", 5 Oct 1998, 25.

³³ IGA Supermarkets in the top channel, IGA Everyday in the middle channel, and IGA Express or Friendly Grocer, depending on metropolitan or suburban or country location, in the bottom channel.

Expansion Strategies in Retailing

The volume of food sales in Australia is probably fairly static (subject to increases in population). Accordingly retailers are seeking to grow through a variety of expansion strategies. For instance, the chains appear to be increasingly entering regional and rural markets.³⁴ Many regional areas have traditionally been uncontested by the chain stores. It is arguable that, due to a shortage of appropriate sites in urban areas, perhaps caused by maturity and/or saturation of the urban market, this is changing. It has been put to the Commission, however, that there is still ample scope for the chains to expand in major urban centres, particularly Melbourne and Sydney. While larger regional centres are likely to be attractive to the chains, smaller centres are unlikely to provide the volume to make it worthwhile, particularly in view of distribution costs.

Another strategic development by the chains is their development of smaller, more focused, retail stores in urban areas to compete head on with the independents. On top of this, the chains are developing a variety of other new formats in their drive to respond to consumer demand and increase market share. Coles Myer has more than a dozen concept formats under trial, which are driving much of the group's current sales expansion. The following are some illustrations of the changing nature of supermarket retailing:

- In limited area sites, Woolworths has developed a small-scale supermarket it calls the 'Mighty Mouse'. These stores aim to deliver a wide range of products in a trading area smaller than the average supermarket.
- In November 1997, Woolworths launched the Woolworths Metro, a smaller store format that specialises in pre-prepared foods for 'time poor' customers. In 1997, Coles launched the Coles Express with a similar format.
- Woolworths has established around 18 Marketplace Shopping Centres which provide access to a Woolworths supermarket, Big W and Rockmans store, plus a select range of specialised services. In 1997, Coles opened its Broadway shopping centre in Sydney, which includes a number of Coles Myer stores - Coles, Kmart, Bi-Lo and Liquorland.
- In 1997, Woolworths introduced its fresh flower concept under the 'Clover Hill' brand. There are now 400 'Clover Hill' sections in its supermarkets nationally. It sells more flowers than any other retailer in Australia.
- Woolworths has announced a strategic alliance with the Commonwealth Bank of Australia, and is preparing to offer banking services in conjunction with its retail operations. The initial financial products are expected to be delivered during 1999. Like Woolworths, Coles is proposing to offer new services like in-store banking, but appears to be opting for a multibank strategy.

³⁴ Traditionally smaller regional and rural markets were not considered promising, primarily due to the smaller size of these communities relative to the metropolitan areas. In *Davids Limited* (1995) ATPR (Corn) 50-185 it was considered that the coverage of the chains in non-metropolitan areas was limited. It was stated that 11 and 14 per cent of the populations of NSW and Victoria respectively were not directly served by the chains and that 8 and 9 per cent of their populations did not live within 50 km of a chain store. These percentages are likely to be even higher in Queensland, Western Australia and the Northern Territory where, on average, the population centres are smaller and are more geographically remote.

- Coles has recently enhanced its range of grocery products and services through the development of new formats: including ready-to-eat meals, dedicated health and Asian food areas in selected stores, key cutting, photo labs, dry cleaning and photocopying.
- Woolworths has opened at least 85 Woolworths +Plus Petrol sites (it is planning 200 sites by the year 2000), thus extending the 'one stop shopping' convenience concept to petrol. Fuel discounts are offered to Woolworths customers. In January 1998, Coles joined with Mobil Oil Australia Ltd (Mobil) to trial an offer of a discount on fuel for Coles customers. It also rolled out a "fast and fresh" format, a convenience centre concept, in association with Mobil.
- Woolworths has commenced trials for an Internet based food shopping system -'Homeshop'.
- Coles-Myer has developed a variety of new retail concepts, primarily in its non-grocery area: CBD Officeworks, Target Home, Myer Books, Music, Video and Cards, Myer Megamart (electrical and furniture), and a Myer Direct outlet store.
- Franklins has commenced changing its "No Frills" stores to a new "Fresh" format, which in 1998 represented some 50 per cent of Franklins total sales area.

As the chains expand their lines of products and services, from offering flowers, newsagency and pharmaceutical lines to photo processing and dry-cleaning services, "one-stop" weekly shopping

is likely to be favoured by an increasing number of consumers. In addition, demographic, transportation and income changes have resulted in consumers favouring one-stop shopping.³⁵ The marketplace appears to be very dynamic, although the dynamism is most apparent in the operations of the chains.

The fact that the chains are grouping a larger range of products can benefit consumers beyond availing them of one-stop shopping. For instance, with increased sales comes the opportunity to spread overheads further, potentially enabling lower prices. As each of the chains moves into areas which traditionally have been the domain of specially shops, there is the potential for margins to be squeezed as the chains compete against each other in these specially areas, leading to lower prices for consumers than the specially stores charge. Whether cost savings are actually passed through depends on the competitive pressure to which the chains are subject.

On the other hand, one-stop shopping and the expansion of chain formats may have economic implications for independent and specially stores, shopping strips etc. The chains' formats are designed to give consumers what they want in terms of store presentation, product range etc. The development and implementation of new store formats is a capital intensive activity. Independent retailers are often Unable to implement these new formats, due largely to the difficulties they have in accessing capital. As a consequence they tend to lose market share.

In competition terms, it should be noted that, in a normal market environment, firms that are inefficient or fail to respond to the changing wants and needs of consumers will be replaced through the entry of more efficient and responsive firms. One issue that arises in the retail sector is whether there is a prospect for new entry by more efficient and innovative players.

³⁵ OECD Roundtable on Buying Power, background paper by the Secretariat, October 1998, p. 3.

New Entry

In August 1996 the Commission concluded that Woolworths' move into petrol sales would be pro competitive', as it would provide competition to the four existing oil majors. Woolworths initially sounded out the Commission about the move, with the Commission seeing it as opening up the petrol market to further competition. The Commission welcomed Woolworths' entry into petrol retailing, as it was consistent with the Commission's recent petroleum report, which called for increased competition and new entry.

A recent significant development in the supermarket sector is the entry of Caltex Australia Ltd. In early February 1999, Caltex announced its opening of a supermarket in Sydney under the IGA Everyday banner of Davids. It also confirmed it would launch stand-alone convenience stores, without its traditional petrol offering, within months. The supermarket offers more than its convenience stores, supplying a full line of grocery items including fresh produce, as well as petrol. Caltex proposes to open more supermarkets, a likely response to Woolworths' foray into petrol retailing. In this respect it should be noted that both incumbent firms like the chains and new entrants like Caltex apparently face impediments to entry and expansion in the form of the delays that occur in getting site approvals from the relevant authorities.

As with Woolworths' entry into petrol retailing, the entry of Caltex may signal a prospective increase in the competitiveness in the retail sector. However, it does not necessarily signal that the retail sector is contestable to smaller independents who lack the "deep pockets" that might be required to finance expansion into different formats. Further, the entry of smaller niche players, like bakery or poultry chains, is unlikely to constrain the pricing of Woolworths, Coles or Franklins. While they may take away some of the market share of the chains, these niche players are far more likely to set their prices by reference to the chains than vice versa.

The issue of the "deep pockets" of the chains also relates to their ability to reap the rewards associated with the use of advanced technology, whether it be from things like inventory management or the development and acquisition of proprietary rights in new fruit and vegetable varieties. The lack of access to capital and information can make the independent sector uncompetitive in that it reduces the ability of independents to adjust to changes in technology (e.g. the use of brand scanning to manage inventory), and diminishes their ability to reinvest and adjust to different formats or maintain the level of format sophistication as the chains.

Technological Changes

The chains are in the best position to benefit from advances in technology, given the financial resources at their disposal. They are able to introduce state of the art distribution networks that operate with computer-aided ordering facilities. In addition, the chains appear to be at a considerable advantage over small retailers in terms of the conditions they have been able to extract from banks for EFTPOS facilities. In respect of these facilities, the banks tend to charge small retailers 20 cents for every debit transaction. The chains however receive around 15 cents per debit transaction from their bank and much of this appears to derive from the bargaining position they have relative to the banks. While these payments were originally negotiated to be an incentive for retailers to adopt EFTPOS and to encourage them to invest in EFTPOS equipment, they continue to flow to the retailers many years after EFTPOS' adoption.

Information technology permits the integration of the whole supply chain. Scanning provides the retailer full knowledge of the rate of sale of each product in each store, and facilitates daily replenishment. Increasing the speed of response to consumer demand benefits the retailer through

lower inventories and the consumer through fresher produce. The retailer is now able to influence the specification and production of merchandise.³⁶ The issue for the manufacturer is whether this information will be made available to it. Retailers sell this information to retail audit companies like A C Nielsen who sell it to manufacturers.

It has been reported that Australian companies are two years behind their USA counterparts in adopting efficient consumer response technologies.³⁷ These technologies involve data warehousing and electronic commerce to enhance the efficiency of the supply chain generally, and inventory practices specifically.³⁸ Data management can allow the chains better stock control and more effective marketing. For instance, the technology allows the chains to target particular products to particular stores and geographic areas. It is foreseeable that technology will eventually enable retailers to pay manufacturers on a daily basis using electronic funds transfer based on scanned sales per day. This technology would enable both retailers and manufacturers to gain from improvements in inventory management. It is likely that the chains will benefit from this well before it is available to smaller retailers.

It is unclear what levels of investment are needed, and what sorts of efficiency gains can be made from the adoption of such technology (although it was reported in a recent survey that the Australian grocery industry is carrying \$728 million in excess stock which could be eliminated if more efficient inventory practices were adopted).³⁹ Independents who cannot afford to adopt new technology will probably fall further behind the chains as a result.

Another technological development that may impact on the structural changes that are occurring in the retailing sector is internet retailing (e.g. Woolworths' trial of its Homeshop). While internet shopping may simply be an extension of the home delivery concept (which the chains and independents already offer), it is too early to say whether it will herald a major shift in consumers' shopping patterns.

COMPETITION ISSUES IN RETAILING

Some Benefits and Detriments of Concentration in Retailing

In competition terms the decline of independent retailers is a concern if the remaining competition between the chains is not a constraint on their market power. However, there are also a number of benefits that arise from the growth of the chains:

- The chains are able to generate economies of scale and scope in relation to the volume and range of their operations in both their wholesaling and retailing functions. In a competitive environment, these will result in cost savings that will be passed on in whole or in part to consumers.

³⁶ Bell, Davies and Howard, op cit, 855.

³⁷ The Australian Financial Review, "Local grocery industry trails US", 27 January 1999, 25, referring to a global survey by PricewaterhouseCoopers.

³⁸ The chains work with suppliers and other parties on such issues through the Grocery Industry Supply Chain Committee.

³⁹ Op cit.

- There are advantages to the one-stop shopping environment offered by the chains. The one-stop shop enables consumers with limited time to perform their shopping function relatively quickly, while at the same time offering all consumers a wide range of items from one outlet.
- By stocking a wide variety of product categories and a variety of items within each category, the chains are able to cater to consumers at a variety of different income levels. The chains cater to consumers at low income levels by developing and stocking relatively inexpensive generic label products. Further, the chains offer consumers the ability to bundle goods according to their own income constraint.
- With their access to extensive information on consumption patterns, the chains are able to work with manufacturers to develop new products (including generic products) which have features desirable to consumers. The chains also have the ability to work in conjunction with primary producers to commercialise new plant varieties. The deep pockets of the chains enable them to participate in the development of new grocery items and to bring these new items into supermarkets relatively quickly.

Despite the various benefits for consumers and producers that may result from the size of the chains' operations, the increasing concentration of the chains raises concerns about whether they can exercise power in the market at the expense of other market participants.

- High market shares may be associated with high market power. A highly concentrated market, however, may still be highly competitive and there may be valid reasons for a concentrated market to develop. Some level of minimum efficient scale may be necessary to compete effectively in a market. For example, in the grocery retailing sector, a retailer may need to be a certain size in order to acquire goods from manufacturers at competitive prices and consequently compete with other retailers effectively.
- However, if the market is not sufficiently competitive, cost savings resulting from the chains' economies of scale and scope are unlikely to be passed through to the consumer, and non-price competition (e.g. in the form of the chains' service and range of products) is also unlikely to be encouraged.
- The power of the chains, as sellers and/or buyers is also a concern to the extent that it prevents new entry into a market by entrants who can impose a competitive constraint on the incumbent firms. This is particularly so where a certain minimum efficient scale is required to be able to compete effectively.
- Competition concerns may also arise if the chains can exercise buyer power along the supply chain against manufacturers and primary producers.

Having introduced the benefits and detriments of size generally, it is appropriate to examine the issue of market power and its impact on competition in more detail, as well as how the Commission is able to deal with competition issues in retailing under the TP Act.

Market Power

Market power is the ability of a firm to behave persistently in a manner different from the behaviour that a competitive market would enforce on a corporation facing otherwise similar cost and demand

conditions.⁴⁰ That is, market power is the ability of a firm or firms profitably to divert prices, quality, variety, service or innovation from their competitive levels for a significant period of time.⁴¹

A firm's market power can be manifested on the supply side through increased prices and lower quality/service to consumers, or through predatory conduct vis-a-vis its rivals. On the demand side, a firm's market power can be manifested through lower prices being paid for inputs, and reduced terms and conditions for its suppliers; or more favourable terms vis-a-vis its rivals.

The two main tools in the TP Act for dealing with market power are section 50, which prohibits acquisitions which substantially lessen competition (the prevention), and section 46, which prohibits misuse of market power (the cure).

Before discussing these sections in more detail, it is worth mentioning briefly other provisions of Part IV of the TP Act which deal with certain types of anti-competitive conduct which can occur in the retailing sector, just as they can occur in other sectors.

- Section 45 of the Act deals with a variety of proscribed agreements. Agreements that involve, for example, market sharing or which restrict the supply of goods are prohibited if they have the purpose or effect of substantially lessening competition in a market in which the businesses operate. Agreements which contain an exclusionary provision (sometimes referred to as a primary boycott) are prohibited, as are agreements that fix prices (although such agreements are capable of authorisation).
- Section 47 prohibits exclusive dealing that has the purpose or effect of substantially lessening competition in a market. Broadly speaking, exclusive dealing involves one person who trades with another imposing restrictions on the other's freedom to choose with whom, or in what it deals. Exclusive dealing can fall into a number of categories. It can relate to the supply of goods with anti-competitive conditions attached; the acquiring of goods or services on the condition that the supplier accepts some restrictions as to the freedom to supply third parties; refusing to supply goods or services because the purchaser has failed to accept anti-competitive conditions; or refusing to acquire goods or services because the supplier refused to accept some restriction on the right to supply third parties.
- Section 48 prohibits resale price maintenance. This means suppliers, manufacturers and, wholesalers are prohibited from specifying a minimum price below which goods or services may not be resold or advertised for resale. The section imposes a ban on resale price maintenance regardless of its effect on competition, although resale price maintenance may be authorised. The prohibited conduct includes attempting to induce a person not to sell below the supplier's specified price, making it known that the supplier will not supply a person unless they agree not to sell below the supplier's specified price, and entering into an agreement containing a provision that the purchaser will not sell below a specified price.

Section 50 of the TP Act

⁴⁰ Kaysen and Turner, *Antitrust Policy* (1959), quoted with approval by Dawson J in *Queensland Wire Industries v BHP* (1989) ATPR 40-925.

⁴¹ Or any other aspect of the competitive process or its performance outcomes.

Section 50 of the TP Act prohibits acquisitions which have the effect or likely effect of substantially lessening competition in a substantial market.⁴² Other prohibitions contained in Part IV of the Act directly regulate anti-competitive conduct. Section 50 differs from those sections because it regulates market structure (rather than the conduct itself), to prevent the creation of or an increase in market power, and consequent anti-competitive conduct.

To determine whether any particular acquisition breaches section 50 requires an assessment of the following matters:

- What is the relevant market;
- Is that market substantial; and
- Will the acquisition be likely to substantially lessen competition?

The three elements are interrelated. Identification of the relevant market is an integral part of the evaluation of the competitive effects of a merger; and only when the relevant market has been delineated, can its substantiality be determined. Section 50(3) spells out a non-exhaustive list of factors to be taken into account by the Commission when determining whether a particular acquisition breaches the section, including the level of concentration in and the height of barriers to the market.

In taking account of concentration when assessing the effect on competition of a particular acquisition, the Commission uses certain thresholds as a guide in determining whether a merger or acquisition will not be likely to breach section 50, or whether further scrutiny as against other merger factors is required before the Commission can reach a conclusion as to the competitive effects of the acquisition.⁴³

Section 46 of the TP Act

Section 46 of the Act is the central provision for regulation of misuse of market power in Australia.⁴⁴ It provides essentially that a firm with substantial market power shall not take advantage of that power

⁴² Section 50 provides that (1) A corporation must not directly or indirectly: (a) acquire shares in the capital of a body corporate; or (b) acquire any assets of a person; if the acquisition would have the effect, or be likely to have the effect, of substantially lessening competition in a market. (2) A person must not directly or indirectly: (a) acquire shares in the capital of a corporation or (b) acquire any assets of a corporation if the acquisition would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

⁴³ Like competition authorities in the US, Canada and New Zealand, the Commission has issued Merger Guidelines which outline the Commission's policy for administering and enforcing those provisions of the TP Act which deal with mergers and acquisitions. With regard to concentration thresholds, the Commission has outlined in its Guidelines that, where the post-merger market share of the merged firm is 15 per cent or more and the share of the four (or fewer) largest firms is 75 per cent or more, the Commission will want to investigate the merger further before being satisfied it does not result in a substantial lessening of competition. Similarly, if the share of the merged firm is greater than 40 per cent no matter how fragmented or concentrated the remainder of the market may be, the Commission will want to give the merger further consideration. These thresholds provide "bright green lines" below which a merger is unlikely to be of concern to the Commission.

⁴⁴ Section 46 provides that: (1) A corporation that has a substantial degree of power in a market shall not take advantage of that power in relation to that market for the purpose of (a) eliminating or substantially damaging a competitor of the corporation or of a body corporate that is related to the corporation in that or any other market; (b) preventing the entry of a person into that or any other market; or (c) deterring or preventing a person from engaging in competitive conduct in that or any other market.

for one of three proscribed purposes, namely eliminating or damaging a competitor, preventing entry into a market, or deterring or preventing competitive conduct.

To prove a breach of the section, it is necessary to establish:

- first, that the corporation has a substantial degree of power in a market; and
- second, that the corporation took advantage of that power for one of the proscribed anti-competitive purposes.

Section 46(3) directs that, in determining the degree of market power held by a corporation, regard needs to be paid to the extent to which that corporation is constrained by actual and potential competitors, suppliers and purchasers. The Courts have outlined a number of factors to be taken into account in identifying market power.⁴⁵

Section 46, which prohibits misuse of market power, along with its equivalents in the statutes of other countries, often poses a dilemma for competition authorities: while intended to prevent conduct which is anti-competitive, vigorous and effective competition may force rivals from the market. The section will not be breached merely because competitors in a market are being hurt. Damage to a competitor may be a manifestation of the competitive process. The test generally asks whether the conduct in question could have occurred in a competitive market. The types of conduct likely to attract examination under section 46 include predatory pricing and price discrimination.

Before one can assess market power from a competition perspective and whether or not a breach of section 46 or 50 has occurred, the relevant market needs to be identified. A market is the area of close competition between firms and within which there is close price substitutability between one product and another, and close substitutability between one source of supply and another. Each market will differ as circumstances of each case differ. It is inappropriate to have a predetermined view on any dimension of a market, be it product, geographic, or functional. What is crucial is that the Commission applies the relevant principles of defining a market consistently.

Consistent with the Court's view in the *Queensland Wire Industries* case,⁴⁶ the Commission views s.46 as a competition provision and not a 'catch-all' for harsh behaviour by powerful corporations. In many instances where smaller businesses are damaged by larger corporations with which they deal, the conduct will not be caught by s.46 because there is no anti-competitive purpose. Under some circumstances such conduct may fall within the provision dealing with unconscionable conduct, section 51AC.

Unconscionable Conduct

⁴⁵ These factors are: the extent to which it is rational or possible for new entrants to enter the market - the extent of barriers to entry; the ability of a firm to raise prices above the supply cost (the minimum cost an efficient firm would incur in producing the product) without rivals taking away customers in due time; the extent to which the firm's conduct in the market is constrained by that of competitors or potential competitors; the market share of the firm, although this alone is not generally determinative of market power; and the existence of vertical integration, although this alone is not generally determinative of market power: Lockhart J in *Dowling v Dalgety Australia* (1992) 34 FCR 109, drawing primarily from *Qld Wire Industries case*.

⁴⁶ Op Cit.

A currently untested but potentially effective provision of the TP Act is available to smaller businesses to improve their legal protection and provide further remedies in their dealings with larger businesses.⁴⁷

The new unconscionable conduct provision (section 51AC of the TP Act) came into operation on 1 July 1998 and aims to provide protection for small business against exploitative business conduct. The section prohibits a stronger party exploiting its bargaining advantage to impose contractual terms, or engage in conduct, that would be unconscionable in the context of the particular commercial relationship between the parties.

The private parties' rights under section 51AC are in addition to, and do not affect their right to seek redress under, common law. Actions under section 51AC must be commenced within two years of the contravention.

The new provision now has a "shopping list" of matters that the Court may (or may not) take into account although it should be noted that it is restricted to transactions for the supply or acquisition of goods or services to a value of no more than \$1 million. Relief under this section is only available to persons and private companies (as distinct from listed public companies).⁴⁸

Parties who choose to take private action under the TP Act may seek redress in the form of an injunction or certain other orders, such as compensation or variation of a contract or arrangement. A damages remedy is available in the case of a business consumer or small business supplier who suffers loss or damage by the actions of another in breach of section 51AC.

The Commission itself may take either administrative or court action against a party that has engaged in unconscionable conduct. An administrative action may take a number of forms for example, the Commission might negotiate an enforceable undertaking from the company concerned. Examples of court action include injunctions or orders for corrective advertising.

The Commission's Small Business Program also aims to support small business. The Commission has a Small Business Unit that administers the Small Business Program, which is dedicated to fulfilling its primary objectives of:

- educating small business about its rights and obligations under the TP Act;
- promoting small business aspects of the Commission's activities; and
- enforcing the TP Act in relation to small business issues.

The Commission expects soon to have a full-time Commissioner with special responsibilities for small business, and has a National Small Business Manager responsible for the program and the management of seven regional small business case officers. The Government has augmented Commission resources generally, with respect to small business activities.

⁴⁷ On 4 February 1999, the Commission instituted proceedings in the Federal Court, Adelaide, alleging that a landlord of a food plaza engaged in unconscionable conduct towards one of its tenants. This is the first action under section 51AC.

⁴⁸ Section 51AC relates to "the supply or possible supply of goods or services" or "the acquisition or possible acquisition of goods or services". The reference to "possible supply" or "possible acquisition" reinforces the point that the provision is focused on unconscionable conduct generally in dealings between small and large businesses. Those words may cover promotional activities and pre-contractual negotiations.

Having introduced the issue of market power generally and how the Commission can deal with it under the TP Act, it is necessary to outline some of the specific competition problems that stem from market power in retailing, on both the supply side and the demand side.

Issues Relating to the Acquisition Strategies of the Chains

While the increasing share of the chains in the retail sector stems from a variety of different factors including organic growth, much of it has been gained through acquisition.

In the 1980s, when the TP Act's merger law prohibited only those acquisitions which resulted in a creation or a strengthening of a dominant position, the chains increased their market shares through the acquisition of other chains (e.g. Woolworths/Safeway, Coles/Bi-Lo). The Commission has had a role to play in examining such acquisitions. Under the current merger law (which prohibits mergers that substantially lessen competition) it was able to seek to restrain the Rank Commercial/Coles bid for FAL.

The Commission has also played a significant role through its assessment of mergers of wholesalers that have taken place in response to the chains' increase in market share. In particular, it did not oppose proposed mergers by Davids with other independent wholesalers QIW, IHL or Composite Buyers Limited. The key reason behind the Commission's decisions was that the strong competitive pressure from, the integrated retail chains put pressure on the independent retailers, which in turn put backward pressure on the wholesalers to restrain any monopoly power that might have arisen as a result of each of the mergers. Indeed it was considered that the achievement of some economies of scale from each of the mergers would be likely to be passed on and allow the small independent retailers to compete more strongly with the vertically integrated chains.

More recently, the trend is for the chains to acquire stores individually, through what is referred to in many quarters as "chequebook competition".⁴⁹ Over the last few years in particular, the chains have been acquiring (sometimes apparently at higher than market prices) individual independent stores. By acquiring the best located and largest stores, the independent sector can be deprived of significant volume, leaving it with higher risk operators. The acquisition of independent retailers by the chains is perhaps the most controversial factor in the increasing concentration of the chains. Chequebook competition raises issues under the Trade Practices Act; in particular, under section 46 as a misuse of market power, or section 50 as an acquisition which has the (likely) effect of substantially lessening competition.

There are a variety of reasons why retailers may decide to sell their businesses, including: the decision to retire, the business is not making an adequate return, or because a very favorable offer has been made for the business. Controversy exists as to whether these acquisitions have anti-competitive effects or are simply adjustments within the market.

The concept of chequebook competition should be considered in the context of the argument that a long term, viable independent sector imposes market discipline on the conduct of the chains. A vibrant independent sector provides a broader range of choice to consumers (if they are differentiated), and through its wholesaling support structure exerts competitive influence in markets for the supply and distribution of grocery products and associated services.

⁴⁹ Chequebook competition relates to the acquisition by the chains of existing stores, and not to the expansion by the chains through the building of new stores.

"Creeping Acquisition" and Section 50

"Creeping acquisition" refers to the long term strategy of capturing market share through numerous individual purchases which are unlikely, under any given circumstance, to breach section 50 of the Act.

The Commission is not always notified of acquisitions in the retail sector, although Coles engages in the practice of doing so. There is no obligation on the chains, nor on anyone else for that matter, to notify acquisitions to the Commission before they take place. This can make it difficult for the Commission subsequently to deal with the issue. In the last four years, NARGA claims that over 85 stores have been acquired by the chains.⁵⁰

A primary concern is the effect of the acquisitions on the operations of the wholesalers and their ability to service their independent client base, and to maintain and improve their competitive position in the marketplace. The stores being purchased are often the largest and the closest competitors to the chains. To the extent that the price at which manufactured goods are supplied include volume discounts (or are otherwise influenced by volume), the declining sales of the independent sector result in higher prices to those remaining, thus reducing their ability to compete with the chains. Further, the chains have the ability to absorb losses/low returns from picking up a few small independents as part of a parcel where the acquisition is strategically justified. However, that option is not open to independents: those who wish to acquire an independent supermarket have to be able to commercially justify it.

With the chains regularly acquiring independents (sometimes it appears at more than market value), a conclusion might be warranted that the chains are of the view that the immediate opportunity losses attending the conduct are warranted by the downstream profit protection occasioned by the prevention of the emergence/fulfillment of a strong, nationally organised, similarly scaled competitor (i.e., Davids).

The independent sector needs a financially stable and strong wholesaler to allow that sector to compete with the chains. If there is no such wholesaler the independent sector is likely to be relegated to a much smaller niche market role.

In conjunction with a strategy to reduce, through acquisition, the number of independents that buy from Davids, the extent to which AIW succeeds as a wholesaler may compound the difficulties that Davids is facing. Furthermore, it has been suggested that once independents contract with AIW for supply, the information that becomes available to AIW on sales figures etc, facilitates a bid by Woolworths for those independents. However, no evidence has been obtained that might suggest that AIW-linked independents are "the first to go" to Woolworths, although it appears that at least some of the recent acquisitions by Woolworths/Safeway are AIW-linked.

There is an issue as to whether the cumulative effect of creeping acquisition may reduce competition because, for instance, it may reduce the buying requirements of independent retailers below the minimum efficient scale of a viable wholesaler. The difficulties in establishing a breach of the law relate to the very small market shares generally being acquired and the question therefore of whether the competition effect is substantial. Of the acquisitions that the Commission has considered, none have been found to breach the Act. Under the previous dominance test that applied to mergers, the Commission would face a similar problem in that an accretion of such a small market share would be unlikely to create a dominant position.

⁵⁰ Foodweek, 15 Feb 1999, p 4.

Establishing the relevant market in which to assess the competitive effects of such acquisitions is a purposive process, that must be carried out on a case-by-case basis. A consistent application of market definition principles (established by the Commission, Tribunal and Courts) will often lead to different conclusions in different circumstances.

One issue that arises in considering the effect of acquisitions in the retail sector is the geographical dimension of the market. If defined in very wide terms, it is highly unlikely that an individual acquisition of a supermarket will lead to a conclusion that there is a substantial lessening of competition. If however, the market is defined very narrowly, it might be argued that the market is not sufficiently "substantial" for the purposes of the TP Act, or that the effect on competition is exaggerated.

In geographic terms, the view has been (as the Tribunal found in *Davids /CBL*) that as the chains are national players who make decisions at the national level, the market should be Australiawide.⁵¹ Even if one took the alternative view that there are a series of local oligopolies in grocery retailing, it might be argued that the areas overlap at the margins and so are all interconnected directly or indirectly. It is unclear whether the Courts would determine if this "ripple effect" stops at the edge of towns and cities, or would conclude that the relevant market is at least regional. The Commission has endeavored to take a commercially realistic view of the market, and has examined acquisitions of chains at a State level. The following is an illustration of such an approach:

Case Study 2 - Coles Proposal to Acquire Newmart

The Commission considered Coles' acquisition of the Western Australian retail chain Newmart in 1995. The six Perth Newmart stores accounted for only 2.3 per cent of retail grocery sales in Western Australia and there was no real overlap between Coles and the Newmart stores. The Commission noted that Woolworths is considered to be the market leader in WA and independents provide significant competition. It was also determined that the acquisition would have minimal effect on grocery wholesaling at either national or State levels. In both cases the Commission decided that the acquisitions would result in only marginal increases in market share, and that they were unlikely to substantially lessen competition. Therefore the Commission did not oppose the acquisitions.

In relation to the acquisition of individual stores (rather than chains), if one does conclude that the relevant market for the purposes of assessing a supermarket acquisition is local, one then confronts the issue that, for section 50 to apply, the market must be substantial.⁵² Further, in some cases (particularly in small regional centres), the acquisition will simply involve a transfer of assets from an independent to a chain where that chain does not already operate. As such there will not necessarily be any lessening of competition, as illustrated in the following case study:

Case Study 3 - Coles Proposal to Acquire Charlie Carters

- In 1997, the Commission considered a proposal by Coles Myer to acquire fifteen stores in the Charlie Carters chain of supermarkets in Western Australia. The Charlie Carters stores were

⁵¹ *Re: Queensland Independent Wholesalers Ltd (1995) A TPR 41-438, 40-950.*

⁵² Section 50(6) of the TP Act.

mainly located in remote and rural regions, often with little other competition. The stores were serviced by FAL, accounting for 3.75 per cent of FAL's throughput, and representing an approximate 1.5 per cent share of the market in Western Australia. There was only some overlap between Coles and Charlie Carters in five locations. Coles Myer stated that its intention was to retain ten of the stores while on-selling the remaining five.

- The proposal was considered by the Commission in light of a possible chequebook acquisition strategy by Coles Myer and with a broader view to competitive issues in grocery retailing. From the information available to the Commission at the time, it was considered unlikely that the acquisition would breach section 50 of the TP Act. Thus the Commission did not intervene in the proposal.

It may be argued that the acquisitions are part of a strategy and so should be treated jointly. However, evidence of such a strategy can be very difficult to establish. Some of the evidence necessary to assess the competitive effects is likely to be sought from those who stand to benefit considerably from the acquisition, and who therefore may not be particularly forthcoming. Two cases where evidential difficulties were central to the Commission's decision are the Cannons and Dan Murphy acquisitions:

Case Study 4 - Woolworths' Proposal to Acquire Cannons Food Barns

- Early in 1996 the Commission was informed of a proposal by Woolworths to expand the wholesaling activities of AIW. In addition, it would purchase the Cannons stores. At the time there were 7 Cannons stores, with a turnover of approximately \$62 million and a 6.9 per cent share of sales in the ACT and surrounding region. Further, it would acquire the associated wholesaling operation of Cannons. The Commission was informed that Woolworths intended to extend the wholesaling operation to supply other independent grocery retailers. Woolworths owned 8 stores in the region and these had a turnover of around \$442 million and thus accounted for 48.6 per cent of sales. Thus, the combined share of the merged entity would be 55.4 per cent. Coles had the next largest share of sales, estimated to be 8.8 per cent. Post-merger, Woolworths would have around 6 times the share of sales of its nearest rival.
- An important issue in considering this acquisition was the nature of the market: what was the appropriate geographic market and what functional dimensions should be considered. The former was considered to be the ACT and surrounding regions; the latter was confined to grocery retailing. In this context, whether Cannons had been an effective competitor was important. A Choice supermarket survey indicated that over the period 1991 to 1994 Woolworths had been consistently cheaper than Cannons. While there appeared to be community concern about the acquisition, Davids who expressed concern was not prepared to put its views in writing. The Commission concluded that, it could not establish that there was a breach of Section 50. However, in reaching a decision not to intervene, the Commission took into account assurances offered by Woolworths that it would maintain existing supply arrangements to AIW customers after the acquisition.

Case Study 5 - Woolworths' Proposal to Acquire Dan Murphy Cellars

- In 1998, the Commission considered the proposed acquisition by Woolworths Ltd of Dan Murphy Cellars. Dan Murphy Cellars consisted of five retail liquor outlets located in inner-eastern Melbourne suburbs and was considered to be the strongest independent liquor retailer in Melbourne. Woolworths operated its own liquor outlets in its supermarkets. The Commission determined that the relevant market was either the Victorian or Melbourne packaged liquor retail market.
- While the acquisition did not breach the Merger Guidelines concentration thresholds, it did raise concerns about the removal of a vigorous independent competitor and the consequent potential effect on prices in the Victorian liquor retailing industry, particularly in the Melbourne metropolitan area. The Commission advised the parties that it had serious concerns about the competitive impact of the acquisition and would take court action if it could obtain sufficient evidence. However, the Commission experienced considerable difficulties in obtaining evidence from the market to support the view that the acquisition would substantially lessen competition and consequently, the acquisition went ahead.

"Chequebook Competition" and Section 46

"Chequebook competition" may imply a predatory aspect relating to the payment to independent supermarket owners of purchase prices far in excess of the present value revenue flows likely to be achieved. The issue may not be so much the effect on a particular localised marketing region or catchment area but the longer term effect on the viability of the independent wholesaler (as a constraining element on the market power of the chains). As the wholesaler is weakened through loss of sales so also is the broader independent sector. As the financial and marketing strength of the wholesaler is reduced, so also is the wholesaler's ability to provide the full range of services to independents and their banner groups.

It is claimed that the chains, through their acquisition strategies, "pick the eyes" out of the independent sector. No specific study has been carried out on stores purchased and prices paid to determine the validity of these claims. However, NARGA has noted that in some cases the chains are paying up to 16 times earnings plus stock, while the industry norm for the acquisition of a supermarket is between 3 and 10 times average weekly earnings plus stock. If the chains pay more than the business is worth, they may expect to achieve profits which will more than compensate for their opportunity losses. This may indicate that the chains expect to recoup via higher prices based on market power. Alternatively, they may consider that through such acquisitions, they can achieve such efficiencies, and lower their risks and costs such that they will not need to increase prices.

To determine whether chequebook competition breaches section 46 requires establishing a high degree of market power; use of that power in conduct that would not be regarded as rational in the normal course of business (courts will not interfere merely because someone has been hurt: without an anti-competitive purpose, damage to a competitor may be only a manifestation of the competitive process); and a proscribed purpose under section 46. It is on the element of establishing anti-competitive purpose that the likelihood of establishing a breach of s.46 critically rests, in terms of relevant facts and evidence. However, establishing anti-competitive purpose has proved to be very difficult in practice. For instance, to prove that the predatory nature of acquisitions breaches section 46, it would need to be demonstrated that prices paid in acquiring the independents were only rational in light of some longer term strategy to capture market share and harm competitors by reducing competition in the expectation of future profits in excess of current opportunity costs/losses.

Predatory Conduct

The present market structure of the grocery industry and the pressures on retailers to cut costs may result in conduct which is anti-competitive. A supply side market power issue that can arise in this respect relates to the possibility of the chains exercising their market power by engaging in predatory conduct. That is, conduct may be engaged in whereby a particular chain will drive out independent competition in its locality through low-cost pricing.

Speciality stores and independent retailers engaging in discount pricing may face very aggressive responses from those with deep pockets.⁵³ Independents, with their lack of access to capital and technology, may not be able to survive such a strategy and exit the market as a result.

As was mentioned above, the issue that the Commission confronts in dealing with complaints relating to such aggressive conduct is the difficulty of establishing a proscribed purpose for a section 46 breach to be established. This problem arises for the Commission when it seeks to deal with market power issues on the buyer side in retailing.

Issues Relating to Buying Power in the Retail Grocery Sector

In identifying market power issues in the grocery industry, it is important to examine these issues from the retail level, and assess whether there is backward pressure along the supply chain to producers and their suppliers. This contrasts with other industries, like the petrol industry, where one assesses market power issues at the producer (refiner) level, and whether power can be exerted at the wholesale and retail levels. Traditional competition law and thinking is geared toward combating the latter type of misuse of market power, i.e. from seller to buyer. Competition agencies are having to rethink strategies for dealing with situations where buyers could misuse its market power against the companies that sell to it, as some would argue to be the situation emerging in the grocery industry.

Traditionally, monopsony power has been defined as the ability to reduce demand and as a consequence cause input prices to fall below competitive levels. However, an OECD discussion paper comments that this definition does not take into account a buyer's power to reduce prices to levels not below competitive levels.⁵⁴

Buyer power is exercised when a firm or group of firms obtain from suppliers more favourable terms than those available to other buyers or would otherwise be expected under normal competitive conditions. A retailer may be defined to have buyer power if, in relation to suppliers, it can credibly threaten to impose a long term opportunity cost (i.e. harm or withheld benefit) which, were the threat carried out, would be significantly disproportionate to any resulting long term opportunity cost to itself. Buyer power describes situations where in the long run, suppliers are induced to lower their prices despite there being no decrease in their unit costs.⁵⁵ This definition of buyer power therefore assumes

⁵³ For instance, a fruit and vegetable merchant located near a chain may lower its prices to attract more custom. The chain may cut its prices in response, and the merchant may not be able to financially withstand such a strategy for any great period. In the worst case scenario, it may ultimately be forced to exit the market.

⁵⁴ OECD Roundtable on Buying Power, background paper by the Secretariat, October 1998, p. 6.

⁵⁵ However, it should be noted that if prices are pushed below what may provide suppliers with a normal rate of return, this may cause the exit of some suppliers which is unlikely to be in anyone's interest. It may also press suppliers to find new ways of doing business and enhance dynamic efficiency. Further, buyer power may have the effect of eliminating from the supply chain the excess profits that may have arisen pre-deregulation.

that suppliers enjoy some degree of seller power whereby their prices initially exceed competitive levels, at least in some segments of the market.

If the chains' concentrated market position provides them with buyer power, this will allow them to obtain more favourable terms than their independent competitors, which in turn provides the chains with a competitive advantage in downstream markets and the opportunity to exploit seller power.

One preliminary issue is whether in fact it can be said that the chains indeed have substantial market power. While collectively they are clearly a significant force, individually none of the chains has more than about 35 per cent of the market for warehouse withdrawals. A firm's market power is related to the structural or behavioural conditions of a market. Whether a firm has substantial market power in any given case will, depend on the circumstances.⁵⁶

The types of issues that are emerging in the grocery sector are excellent examples of why the Commission needs to maintain active involvement in the regulation and supervision of the sector, and particularly in respect of buying power.

The following outlines the types of buyer power related issues that are being faced in the sector:

- Vertical integration may have significant horizontal implications. That is, the chains' bargaining power with manufacturers may have implications for the terms and conditions on which the competing independent retailers are supplied. Suppliers appear to offer the best prices and promotions to the chains, which adversely affects the independents.
- The buyer power of the chains may be exercised in a way that distorts the prices obtained by manufacturers with consequent distortions on investment and product innovation at the manufacturing level. On the other hand, independents may face higher prices from manufacturers, and may be able only to obtain lesser quality and a more limited range of fresh produce.
- An associated issue is where buyer power is used not in relation to prices, but in relation to another performance outcome, like product specification. For instance, it might be that retailers can use their power to require such things as "use by" dates that suit their shelf-life turnover, or to require manufacturers to number their packaged products with a uniform system of bar code, containing certain product and price information, which will enable retailers to increasingly automate their warehouse operations.
- In addition, there have been claims that the chains have been involved in exclusive supply arrangements and have imposed "most favoured nation" arrangements on suppliers. These arrangements entail a chain requiring manufacturers to supply it on the most beneficial trading terms that they offer. Such arrangements may facilitate price co-ordination, with implications for section 45 of the TP Act. This may itself raise issues under section 46 if retailers with a substantial degree of market power use it for the purpose of preventing competition.

⁵⁶ Although section 46(2) does aggregate the market power of related companies, a corporation may not be liable under section 46 on the basis of a shared position of market power with an unrelated corporation. Nevertheless, market power acquired through contracts, arrangements and understandings are not irrelevant - they may provide one of the sources of a firm's market power. That is market power gained through acting in concert with others will add to a firm's individual power, and as such may be taken into account: *Dowling v Dalgety Australia Ltd* (1992) 34 FCR 109.

- An oligopolistic market structure at the wholesale/retail level of the grocery industry imposes backward pressure on the agricultural and manufacturing sector which depends on the chains for the majority of their sales. This causes profits to be squeezed at the producer level and, to the extent that it drives otherwise viable and competitive players out of business, results in a misallocation of resources.

Given these buyer power issues, if these abuses occur the question arises as to what can be done about them. Section 46 of the TP Act prohibits only those exercises of market power which have the purpose of damaging competition. The effect on competition is not a consideration under section 46. Therefore, retail buying groups or retailers with significant market power may use their strong bargaining positions to obtain goods at lower prices, for the purpose of raising their own profits and giving them a competitive edge over their rivals. A firm with substantial market power will not contravene section 46 by using its power to obtain a low price, provided that it has not taken advantage of that power for a proscribed purpose.⁵⁷

As noted above, section 46 explicitly requires proof that business behaviour is for the purpose of damaging competition. The chains may engage in conduct that adversely affects the competitiveness of the independents, but in order to breach section 46, it must also be for the purpose of driving out their competitors. Such a purpose can be very difficult to infer from the actual conduct, and evidence of purpose is often difficult to obtain.

When the Commission has sufficient evidence to prove purpose, it is willing to take action, as illustrated in the 1997 Tip-Top, and 1999 Safeway bread cases:

Case Study 6 - The Bread Cases

- In 1997, George Weston Foods Limited, trading as Tip Top Bakeries, was fined \$1.25 million for fixing the price of bread and for attempted resale price maintenance. The Commission had filed Federal Court proceedings alleging that the company had ceased supplying retailers because the retailers were discounting bread. The company admitted the contravention's. The Commission alleged that each of the contravention's by Tip Top arose out of pressure exerted on it by Safeway, the Victorian division of Woolworths Ltd.
- In a matter currently before the Federal Court, the ACCC has made a number of allegations against Safeway under sections 45, 4D, 46 and 48 of the TP Act. Regarding section 46, it is alleged Safeway misused its market power for the purpose of eliminating or substantially damaging independent retailers. It is alleged Safeway refused to accept further supplies of bread from major bread manufacturers who were supplying retailers who were discounting the price of the bread. It is alleged that Safeway recommenced purchasing bread from the manufacturer concerned once the discounter had ceased discounting. Safeway denies the allegations and the matter is currently in court.

Sometimes, there will be alternative explanations for conduct which the Commission may originally consider to be a misuse of market power. For instance, in September 1996 the Commission received a complaint that FAL in Western Australia was misusing market power by altering trading terms, in

⁵⁷ *ASX Operations v Pont Data Australia* (1991) 27 FCR 492.

particular the settlement discounts of non-FAL franchised supermarkets. It was alleged that this action was designed to dissuade FAL franchisees from joining a rival franchiser, to encourage non-FAL franchisees into supply contracts, to create barriers to entry to a second independent grocery warehouse, and to inhibit the sales of supermarkets due to uncertainty of terms. The matter was pursued until it was established that FAL had valid commercial reasons for its conduct. FAL agreed to put in place a more responsive customer complaints handling system.

The Authorisation Process

Under the TP Act, the Commission is able to act in other ways that impact on buyer power issues. This can be observed particularly in the rural producing sector in relation to authorisation applications.

Through trying to enhance their bargaining positions in the supply chain, rural producers may be inadvertently caught by the TP Act in certain circumstances. Such circumstances might include if grower members of a co-operative agree on price (price fixing), if a co-operative offers packing services only to those growers that use transport services (third line forcing), or in the event that a co-operative has the power to determine how much producer members may sell or to whom members may sell (boycott).

While this type of conduct may breach certain provisions of the TP Act, producers have the option of obtaining an administrative exemption from the Commission through a process called authorisation or notification. Its effect is to grant immunity from prosecution from the TP Act and prevent the Commission or third parties from taking producers to court. Essentially the applicant must satisfy the Commission that the public benefit resulting from the conduct in question outweighs any anti-competitive detriment.

The Commission has considered a number of applications for authorisation or notification relating to rural products including wine grapes, milk, poppies, chicken growing, selling of wool, sale of cattle, eggs, oyster production and tobacco growing. Where small growers or producers deal with relatively few, large and powerful processors or retailers, there may be inequality in bargaining power. In certain circumstances the Commission has allowed arrangements that prevent small producers from being exploited.

Case Study 7 - The Inghams Authorisation

On 9 April 1997, the Commission granted authorisation to Inghams Enterprises Pty Ltd to give effect to and/or to enter into its proposed grower agreement and code of practice. Inghams proposed to collectively negotiate a standard five year growing agreement with its contract chicken growers. Contract growers have the option of negotiating individually with Inghams if they do not wish to be part of the collective negotiation process.

In granting the authorisation, the Commission was satisfied that the anti competitive effects of Inghams' proposed arrangements were outweighed by the public benefits. These public benefits included:

- assisting a smooth transition from regulation to deregulation, to ensure lower adjustment costs for the South Australian chicken industry;
- providing chicken growers with countervailing bargaining power; and
- a decrease in production costs resulting from the collective negotiation process that should result in lower retail prices.

Inghams' application was lodged in anticipation of deregulation of the South Australian chicken meat industry. Currently under regulation, chicken grower contracts, terms and conditions, including fees and matters arising therefrom are negotiated on an industry basis.

Inghams has since lodged another application for authorisation on behalf of itself and its contract growers in Tasmania. This application, lodged on 28 May 1998, relates to a proposed Broiler Chicken Growing Agreement that provides for a standard fee payable to contract growers each growing cycle as well as a code of practice. The Commission issued a draft determination on 10 February 1999 concluding that in all the circumstances the arrangements for which Inghams has sought authorisation are likely to result in a benefit to the public which would outweigh any public detriment.⁵⁸

Other Areas of Commission Involvement in Retailing

Technology Issues

In 1988 the Minister for Consumer Affairs asked the Commission to consult with the Australian Retailers Association (ARA) and consumer organisations to develop a national code of conduct for retail stores using computerised checkout systems. The Commission negotiated extensively with ARA and the Australian Federation of Consumer Organisations (AFCO), as well as consulting individual consumer groups and State consumer affairs authorities. The code began operation in supermarkets in September 1989.

In 1991 AFCO and some State and Territory agencies expressed concern about the level of compliance and some aspects of administration. A review of the self regulatory code covering bar code scanning by computerised supermarket check-outs was carried out by the Commission in early 1992. In essence it concluded that supermarket performance was generally within acceptable limits. Some minor changes were recommended.

The ACCC has also become aware of the growing importance of on-line commerce to the retail industry. On-line networks like the Internet allow consumers to shop for goods and services using their personal computer. In 1996 the Commission was asked to help with the development of a code of conduct for on-line or home shopping. In October 1997 the Commission provided a submission to the Joint Committee on Public Accounts Inquiry into Internet Commerce, and continues to provide input into the Internet Industry Association on its draft code of conduct.

Consumer Protection Issues

In March 1996 the Commission discovered highly flammable children's nightwear on sale in Safeway supermarkets in Melbourne. The garments were incorrectly identified as "Styled to Reduce Fire Danger". The Commission alerted the company, resulting in the quick withdrawal of garments for sale from supermarkets around Australia, and the placing of public notices in newspapers. The Commission and Woolworths later agreed to consent orders in the Federal Court. Under the terms of the settlement Woolworths gave undertakings to the court to do a range of things to improve its compliance with mandatory standards for children's nightwear and its recall system. Such undertakings included the appointment of an independent external investigator to report to Woolworths and the Commission on how the contravention's occurred and who was responsible, identify necessary modifications to Woolworths quality assurance, warehouse, inspection and product recall procedures, and to pay the costs of the Commission's investigation and legal costs.

⁵⁸ It was acknowledged in the recent Ingham's draft determination that the Commission recognised an inequality of bargaining power existed between the chicken growers and the processors. A number of factors result in chicken growers being disadvantaged in the negotiating process. Processors tend to be large vertically integrated companies that own and control virtually all inputs in the production process.

The Commission has also acted on such complaints as those relating to "No Refund" signage. For instance, a 1997 Commission investigation into such signs at Big W resulted in their withdrawal.

SUBMISSION 27

Mrs Carol Cornock
17 Finlayson Street
Alice Springs NT 0870

Submission to the Select Committee on Territory Food Prices

I am a resident of Alice Springs of 31 years standing and am concerned about the prices of food in the Northern Territory. I would like to raise the following points for the committee's consideration.

1. Co-operative

Some 26 years ago several residents tried to establish a co-op to buy food in bulk from Adelaide and have it freighted up via rail. An approach was made to the railway for discounted freight rates. The supermarkets of the day, Piggly Wiggley's, Woolworths & Egar Beavers intervened with the railway to prevent the coop group from receiving the same freight rates as themselves. The whole idea was then discarded. Even though this was a long time ago it is a classic example of supermarket power over small groups / business to control prices.

2. Vegetables

(Pumpkins)

Two years ago I was on holiday in the Port Fairy / Warrnambool area of Victoria. On a day out we came across a grower selling vegetables direct from his property. Among the selection, he had pumpkins of 2-2½ kgs in weight which he was selling for \$1.50. On inquiry he advised that the pumpkins were from Katherine. Yet in Alice Springs at this time we were paying approx \$1.98 per kilo. I fail to understand how a grower in Victoria can sell an NT product for less than it costs in the NT.

(Spring Onions)

On the same trip spring onions in a Melbourne outlet were in bunches of at least 12 large for \$1.69. Whilst they were a similar price in Alice Springs they were smaller bunches of 5 and a much poorer quality.

(Butternut Pumpkin)

Has undergone a major price hike in a small space of time recently. At the beginning of September 1998 I noticed it was selling for \$1.89 kilo. At the end of the same month I again took note of the price which had increased to \$4.29 kilo. This is a big discrepancy.

On my return from this trip I contacted the Manager at Coles in Alice Springs and queried the prices of Katherine produce in Victoria, and how come that Alice Springs could not sell at similar prices. I also asked why Alice Springs supermarkets were not selling local NT produce. I was given an assurance that he would look into the matter for me. Subsequent to this, I made several follow up calls and was literally fobbed off every time. I eventually gave up trying. Once again, Supermarkets win over individuals

3. Freight Charges

Whilst the following is not related to food prices, it does reflect the differences that companies charge in relation to freight prices. An example of this follows: Many years ago I worked for Alice Springs Timber & Joinery. I had occasion to purchase a lounge suite from Adelaide, and was given permission to have it freighted up under the company name as long as I covered the costs involved. When

arranging delivery I was advised that the freight for the suite would be \$40. Imagine my shock when it arrived marked COD and was I was asked for \$400. On explaining the arrangements which had been made the delivery person checked with his office and eventually found that someone had made a mistake, and that the original charges of \$40 would be billed to the firm I worked for. I do not understand how a business can be charged so much less than a private citizen. A small difference is acceptable, but not to the magnitude of the above example. I know this example was a long time ago, but I believe such practices still occur.

4. Fruit

(Grapes)

I noticed recently that Bi Lo in Alice springs were selling Grapes for \$2.98 kilo. While this is a reasonable price, there was an accompanying sign, which stated that the product might have been in contact with sulfur. Having several food & chemical allergies I inquired as to the health risks. I was told that it might effect people with asthma. I query the logic of selling a product in this manner. Several people also purchasing these grapes were not aware of the sign (I asked). This could definitely be a health hazard to the unwary.

Strawberries, Apples Bananas

In fact most fruit available in Alice Springs is of lesser quality than similar lines interstate and have a very short keeping time. The prices are usually much higher also.

5. Nuts

Various different kinds of coated peanuts, seaweed etc, a few months ago were selling in Adelaide for \$8.99 per kilo. At Coles in Alice Springs at the same time the same lines were \$11.99 and \$12.99 kilo. After I made an inquiry to the Coles Manager I was told that I could purchase these items for \$9.99 kilo. However, the price was never altered on display, and to obtain the lower price I had to make a request, which would have to be verified by the checkout operator each time I made a purchase. Surely all customers should have had the consideration of the lower price. If it could be lowered for one, it surely could have been lowered for all.

SUBMISSION 28

Areyonga Community Inc
Areyonga NT 0872

29th April 1999

Select Committee on Territory Food Prices

If people think prices in the main centres of the NT are high we would like to point out that

Areyonga - 250 km west of Alice Springs pays 55% on all goods and higher on some items e.g. videos
- above the price paid by consumers in Alice Springs.

Most consumers here are on Centrelink - how are people expected to survive out here!!!!

The cost of freight is the reason given for this disgraceful hike!!

P Oliver

SUBMISSION 29

Mr Jan Fikus
5/77 Nightcliff Road
NIGHTCLIFF

30 April 1999

NOTES ON TELEPHONE CALL TO SECRETARY

3:20 PM, 29 April 1999

- Why do we (NT) pay more for MacDonaldis
 - All other States have same price but not here (NT)
- Concerned with GST - prices will be higher because of this tax
- Came to Australia in 1981 - at that time every item was priced - now today there is bar coding and you can't see the prices. Therefore:
 - you don't know what the price is when have a full basket /trolley
- Understand there has to be competition but they (supermarkets) do not have any responsibility
- Have to have to fight for our rights and they (supermarkets) can do what they like.

Thank you.

SUBMISSION 30

Mr Alan Morris
5 Star NT Group

**Submission to the
Select Committee on
Territory Food Prices**

Driver 5 Star HandiMart
Fannie Bay 5 Star Supermarket
Katherine 5 Star Supermarket
Moulden 5 Star HandiMart
Nightcliff 5 Star Supermarket
Stuart Park 5 Star HandiMart
Winnellie 5 Star Supermarket
Wulagi 5 Star HandiMart

April 1999
Produced by Alan Morris for the 5 Star NT group of stores

Executive Summary

- 1) United Star Supermarkets Ltd is a retail company that was formed in Queensland in February 1997 by a group of independent grocery retailers to co-ordinate the collective buying power and marketing for member stores. 5 Star Supermarkets is a part of this group.
- 2) 5 Star is a totally autonomous and is not owned by any warehouse this is a significant point of difference.
- 3) Because no warehouse or any other organisation has control of the company, strategic direction and marketing is focussed on store based promotion as well as retail development at every level.
- 4) 5 Star has led industry change since its inception two years ago when an initial supply agreement was negotiated with wholesaler, Australian Independent Wholesalers.
- 5) United Star Supermarkets (5 Star Supermarkets) has over 250 stores in Australia (ACT, NSW, Qld and NT) These Stores are all independently owned and operated and they are all family businesses and in some cases they have passed through a number of generations.
- 6) The 5 Star Supermarkets Mission Statement is:-

5 Star will provide members with the tools to achieve growth, security and profitability. in a totally independent environment.
- 7) As an organisation comprised of small independent business operators 5 Star Supermarkets submit that the retail sector is on the verge of a major crisis because of the growth in market dominance by corporate retailers particularly the grocery sector.
- 8) We tender this document to the Committee for consideration and we would like to point out that we would also welcome the opportunity to assist the Committee through. consultation and discussion if so desired.

5 Star Supermarket Contact is

Alan Morris Winnellie 5 Star Supermarket
 Phone 8981 6960 Fax 8981 9020

Introduction

- 1) The pricing of products in the Northern Territory has got to the point where unless something is done the small convenience stores (mini suburban supermarkets) will be priced out of existence and forced to close their doors.
- 2) The reason for this is the dominance of the major chain stores in the NT Between the two Woolworth's & Coles they control in excess of 88% of the NT market share.
- 3) The population of Darwin as at June 1998 was 69,301 (ABS) and the area is serviced by 4 Woolworths Supermarkets and 2 Coles Supermarkets 2 Bi-Lo Supermarkets (which are owned by Coles). This is a ratio of 1 supermarket per 8622 people in the greater Darwin area.
- 4) The population of Palmerston as at June 1998 was 17,275 (ABS) and this area is serviced by 1 Woolworths Supermarket and 1 Coles Supermarket a ratio of 1 Supermarket per 8637 people.

*NO OTHER SMALL CITY IN AUSTRALIA HAS THIS
CONCENTRATION OF MAJOR CHAIN STORES*

- 5) The population of NSW on census night 1996 was 6,038,696 (ABS) they have in 1999, 275 major Supermarkets (Telstra Yellow Pages) in NSW. Woolworths 101, Coles 41, Bi-Lo 33 and Franklins 100 this averages out at 1 chain store per 21,958 people
- 6) The major chain stores are able to, and do average their freight costs, across all their stores in Australia this means that there should not be any difference in their prices in any capital city or regional store for any of their products but there is major differences as shown in a recent survey.
- 7) Small convenience stores do not have the luxury of averaging freight costs they must be included in their pricing. The 5 star Group in Darwin & Katherine has a combined freight bill **per week** of \$6,600 or \$384,200 **per year** and has to be added to the cost of the products it cannot be absorbed in costings.
- 8) Extended trading hours is another reason for the increase in prices in the NT a business cant run for 24hrs without additional costs and that is passed onto the consumer. The viability of the small stores has been eroded due to the advent of this in 1992 in Darwin, When the small business operators told Government if extended trading hours were allowed prices would rise the Chief Minister of the day decided in his wisdom to ignore the warnings, we now have a situation of extraordinary prices in particular for fresh vegetables.

Consumer Indications

Many surveys have shown that in reality the majority of consumers do not require retail stores to be open any more than currently and generally not to the extent that they are open currently

Coles Supermarkets commissioned a survey by Sutherland Smith Pty. Ltd. in May 1992 to ascertain the impact of extended trading hours around three of its stores in Sydney. The survey found the market did not find much added benefit in extended hours

75% were making no extra trips to supermarkets than they were two years previously.

71% were making no more frequent trips to other food or grocery stores.

75% of those surveyed were not shopping outside the normal shopping hours.

45.3% stated that extended trading hours had not effected the day of the week that they shopped and 57.7% said they had not changed the time of their shopping.

Conclusions

- 1) A monopolistic situation has developed over the past decade in the grocery retailing sector of the Darwin Market, with the significant market dominance by two corporate retailers Woolworths and Coles including Bi-Lo. These corporate retailers are trading under many other names and in many other areas of retailing. The chain stores are also now attempting to deregulate the market place for newspapers, magazines and chemist only pharmaceuticals this would have a disastrous effect on another two traditional small businesses chemist's & newsagents.

Without controlling legislation against the retail monopolies the corporate chain stores will have market share of over 95% of the grocery retail within 2 years this is not conducive to better prices for the consumer.

In the past 18 months throughout Qld & the NT, The chains have acquired around 30 large independent retail stores making offers in some cases, double that of market value.

- 2) Small business is major source of employment in the Australian economy generating over 1.3 million Jobs (ABS)
- 3) Job losses in small business will impact heavily on the Australian economy in a number of important ways
 - For every Job created by the Chain Stores 1.7 jobs in the small business area is lost
 - Annual loss of federal government income tax, wholesale tax and sales tax
 - Added pressure on the unemployment system and related benefits
 - Loss to the community of self sufficient superannuation.
 - Added burden to the social security / pension system
 - Job losses in small business will contribute to long term unemployment.
- 1) Predatory marketing practices by the chain stores should be outlawed this practice has a disastrous effect on small retailers
- 2) No other country in the world has allowed the dominance of the market place by so few.
 - In Japan 1998 the top 5 grocery retailers have 17.5% other competitors have 82.5%
 - United States 1998 the top 3 grocery retailers have 21% other competitors have 79%
 - United Kingdom 1998 the top 3 grocery retailers have 45% other retailers have 55%
 - Australia 1998 the top 3 grocery retailers have 80% others have 20%
 - While other countries have legislated to stop the growth of the large retailers, Australia is losing ground at the rate of 2% per year.
- 1) Until the smaller independent supermarkets are able to get turnover up to breakeven point they cannot compete against the chain stores and the price of goods will keep on rising. The chain

stores without competition from the smaller stores will have open slather to increase market share and to charge what they like.

- 2) The manager of Coles when in Darwin this year to speak with the Chief Minister re the high costs of food advised him that Coles were operating on about 3.5% nett and nothing could be done to reduce prices the Chief Minister made much of this statistic. Most small independent supermarkets in Darwin are operating on about 1 to 1.5% nett and struggling
- 3) Should the chain stores be successful in their campaign to dominate the Territory market place this would also have an adverse effect on the local wholesalers in the Territory. The chains get all product from central warehousing down south and buy nothing locally except for some fruit and vegetable. In the event of floods / cyclones the chains attempt to purchase all local stock from local warehouses and close out the small retailer
- 4) In all cases the major chain store is in a large shopping centre which means that the elderly and underprivileged either need a car or public transport to get to the centres to shop where the small independently owned convenience supermarket is usually in the suburbs and easily accessible to this section of the community.

Recommendations

A moratorium on any more chain stores in the Darwin, Palmerston, Katherine or Alice Springs areas.

- 1) Legislation to cap the market share of the major corporate grocery retailers to 75% of the market. This would stop the situation where a chain store closed and then a couple of years later purchase the local independent and then open another store in the same area,
 - 2) Urgent legislation to restrict the trading hours of the major corporate grocery retailers 8am to 6pm 7 days a week and 1 late night shopping to 9.00pm their choice Thursday or Friday (this would reduce the market share of the chain stores by about 8 to 10% immediately)
 - 3) Territory and local governments insist that it be mandatory for economic and social impact assessment statement to be prepared prior to any consideration of further applications by the major retail chains for proposed new shopping centre or significant retail developments
 - 4) The NT Government to legislate and allow smaller independent stores to operate liquor licence for the times they are open e.g. 8am to 8pm and Sundays.
 - 5) The NT Government should lobby the Federal Government to legislate to stop the monopolistic ways of the major chain stores and they should legislate to reduce the hold of the major chain stores on the Australian economy.
- To immediately place a cap of 80% on the retail grocery market on the three major chain.
 - The 80% cap be reduced to 75% in 5 years with each major chain being allowed to control only 25% of the total retail market share

Summary

There are five good reasons to justify our recommendations

- 1) An Increase in Jobs in the independent sector. The 5 Star group in Darwin and Katherine employ some 70 Territorians
- 2) Better prospects for small business to expand and employ more Territorians.
- 3) A boost for family life
- 4) A more secure price competition environment for consumers
- 5) Any profits made by small business are spent in the NT. The chain stores profits go to corporate headquarters down south.

Attachment

Enough is Enough campaign material used throughout Australia.

SUBMISSION 31

Mr Brian Bates
6 Bald circuit
CASUARINA NT 0810

29th April 1999

Mr Rick Gray
Territory Food Prices Review
C/- Parliament House
DARWIN NT 0800

Dear Sir,

RE:- REVIEW INTO THE PRICES OF FRUIT AND VEGETABLES IN DARWIN

The following comments are provided in regard to fruit and vegetable prices in the NT specifically in Darwin - as per the media invitation of 17th April 1999.

As a resident of Darwin since 1968 I believe that I am well placed to provide meaningful comment on the above the subject.

Darwin fruit and vegetable prices have over the past 30 years been dictated by competition, or the lack there of, rather than fair and responsible business principles.

In the late 1960s Woolworths were the only significant supplier of fresh fruit and vegetables in Darwin and prices were unreasonably high. As a consequence it became a relatively common practice for neighbourhood groups of four or so families to band together to purchase fruit and vegetables remote from Adelaide on a fortnightly roster. This system produced fruit and vegetables at significant price savings despite purchasing in relatively small quantities and paying maximum freight rates (for small quantities).

Once Coles established their store at Casuarina the price of fruit and vegetables reduced significantly for some months, before both sources of supply (Coles and Woolworths) increased prices in parallel.

Post 1974 the "old" Rite Price at the end of the Nightcliff shopping centre built up their fruit and vegetable section, and provided a stabilising influence on the Darwin market. Although not making a great impact on the supermarket prices, Rite Price at least made fruit and vegetables of reasonable quality, available to the residents of Darwin at an affordable price.

For a time the opening of Cheaper Foods (and subsequent name changes) held the supermarket prices in check, however following the purchase of the group by Coles, and the sale of Rite Price to Woolworth's, fruit and vegetable prices again increased significantly to the level they currently enjoy.

I believe that this very brief scenario leads credence to my contention that fruit and vegetable prices are determined by lack of competition (for want of stronger words) between the two major supermarket chains in Darwin.

I have frequently observed persons carrying out price checks in both supermarkets with extensive price checking lists. The most memorable occasion was one evening when I struck up a conversation with a person (wearing a competitor's identification) in a big name supermarket liquor outlet. This person volunteered his firm's prices relative to the competitor and made suggestions that I purchase liquor "C" at the competitor as it was below their price, but that they (the competitor) had liquor "Y" at a much better price. He made no secret of the fact that price comparison-in all areas-was a weekly practice by both chains.

To venture into specifics, I believe that the price of all tomatoes have increased dramatically since "vine ripened" tomatoes have been available. It is my opinion that the supermarkets provided this line at a premium and found that their customers would pay the premium for the new line, so increased of the price of all tomato varieties until buyer resistance was met and prices stabilised.

"Ordinary" tomatoes are frequently in the area of \$5.00+/kg at the major supermarkets. whilst the fruit and vegetable outlet on Bagot Road consistently them in the order of \$3-4.00/kg. This outlet is buying and freighting in smaller quantities, yet consistently sells at lesser prices than the major supermarket chains who are buying and freighting in bulk.

Some two to three years ago a natural disaster in Queensland resulted in a national shortage of bananas. The price of the bananas overnight increased from in the order of \$1.50-\$2.00/kg to \$3.00/kg and have remained at that price, irrespective of the quality of the produce and despite the fact that bananas are produced locally, less than 100k from production point to retail sale outlet.

I have recently visited New Zealand where I was interested in the price of fruit and vegetables, as I left Darwin some two weeks after the review of fruit and vegetable prices was mooted.

I was particularly attentive to the price of bananas whilst travelling both islands. I noted that all bananas in New Zealand were imported from South America, and the highest price observed was in a roadside stall in the central west of the South - \$NZ 2.85 (\$A 2.50)/kg. These bananas were equal in quality to the best available in Darwin and had been:

- Transported from farm to market in South America
- Transported market to wharf in South America
- Shipped across the Pacific presumably to Christchurch
- Through a second market in Christchurch,
- And then by road transported across the island by a fairly indirect route to the point-of-sale.

This particular stall would have been lucky to sell two boxes of bananas per week, hence had no buying power and very little volume to reduce freight costs, as the bulk of produce on sale was grown "on the adjacent orchard".

Generally the prices of bananas in New Zealand supermarkets were in the order of \$NZ 2.00 (\$A 1.70)/kg and in support of this statement I provide a checkout document from a supermarket at Whangerei (150 km north of Auckland on the North Island) (Attachment "A") to which is affixed a small sticker from the bananas identifying the country of origin as Ecuador. I accept that the cost of production maybe less in Ecuador than Queensland or the NT, but I suggest that the produce has been through two, if not three markets and shipped some of 9000 km across the Pacific as refrigerated cargo.

The price of the bananas in question was \$NZ 2.09 (\$A 1.77)/kg!

On my return to Australia (Brisbane) I travelled to Toowoomba, and noted that roadside stalls were offering potatoes at \$0.09/kg compared to loose potato prices in Darwin supermarkets of \$1.50+. Other fruit and vegetable prices were equally ridiculously low compared to those in Darwin supermarkets. I accept that this is not a valid direct comparison but does beg the question of the price differential.

Gala apples were in season (and obviously in plentiful supply) and the smaller apples were \$NZ 0.25 (\$A 0.22)/kg at roadside stalls and \$NZ 0.49 in the supermarkets, compared to \$A 3.50 in Darwin at this time.

I believe that the above comments and examples add credence to my contention that the price of fruit and vegetables in Darwin is excessive and the direct result of lack of meaningful competition between the two supermarket chains operating in Darwin.

I thank you for the opportunity to provide these comments and trust that they are of assistance to your investigation.

Please contact me on 89851474 after business hours, should you require clarification or amplification of any of the above comments.

Yours faithfully

Brian Bates

SUBMISSION 32

Ms Dawn Schwarze
PO Box 1088
HOWARD SPRINGS NT 0835

27 April 1999

Mr Rick Gray

I would just like to say that the prices of fruit and vegetables up here are shocking. I lived in far north Queensland before coming to the NT. The prices over there are no way like they are here. They never had any more competition, really far less than here.

If opening hours cause such high prices for fruit and vegetables, I am sure people would not want the shops open 24 hours a day.

I do hope that something can be done about it.

I remain yours
Sincerely

Dawn Schwarze

SUBMISSION 33

Ms Shirley Pendlebury
PO Box 500
KARAMA NT 0812

Territory Food Prices Review
C/- Parliament House
Darwin

Attention: Mr Rick Gray

I am enclosing some receipts of groceries from January 1999 to April 1999. I have highlighted some items for easy checking. Some examples:

F/F Yoghurt 2 x 200g	\$ 1.85	19/1/99
F/F Yoghurt 2 x 200g	\$ 1.89	16/2/99
F/F Yoghurt 2 x 200g	\$ 1.99	30/3/99
Blue Ribbon Ice Cream 2lt	\$ 4.69	19/1/99
Blue Ribbon Ice Cream 2lt	\$ 5.62	27/4/99

Hoping this is some help in your quest to bring our prices down.

Yours sincerely

Shirley Pendlebury

SUBMISSION 34

Mr David Mitchell
PO Box 804
NHULUNBUY NT 0881

30 April 1999

RE: Inquiry into Prices

Dear Committee Member,

- 1) All our groceries in Nhulunbuy are sourced in Sydney, Melbourne, Brisbane and Adelaide. Everything is shipped from Adelaide. Therefore it is handled in all those centres before arrival in Adelaide.

The goods are then containerised and is off loaded on the way north. When the goods arrive in Darwin they are unpacked. No dedicated container leaves Adelaide destined for Nhulunbuy. On arrival in Nhulunbuy the goods are taken to a Woolworths warehouse and unloaded. The goods are then trucked to the store in town as required. This allows Woolworths in Darwin to send old stock to Gove. The evidence for this is that most promotional competitions etc that are fun on manufacturers packaging are out of date before we get the goods. The evidence of the logistical farce is in a report commissioned by Nabalco Pty Led with a logistics support company about 18 months ago.

- 2) The strange set-up that allows exclusivity of Barge landing facilities to one company is also a factor in the high prices at Gove.

Recently a barge operator attempted to run a barge from Karumba in Queensland. I require your Committee to investigate the reasons behind his failure to negotiate landing rights.

It appears to me that workers are reminded everyday of the need to be competitive and that market forces are what drives costs and service availability. As soon as there is a gain for workers, in the form of lower costs, by having competition, an invisible force ensures that competition is stifled. Is this because Darwin is happy to have all goods routed through there so that they can have another pound of flesh from country Territorians? Will the mythical railway be less viable if we were able to source goods from the East Coast and are country Territorians paying more than their fair share of the railway burden because of this?

After hearing Dr Lim whinging on the radio yesterday I now believe that your inquiry will be a cover up. We will never be able be a cohesive society until the remote areas interests are given equal consideration and attention with those of Darwinites and the member of the Silver Circle .

It is with this in mind that I seek, formally, your Committees permission to forward this submission to Mr Alan Fels of the Australian Competition and Consumer Commission.

Yours faithfully

David Mitchell

SUBMISSION 35

Northern Territory Council of Social Service
GPO Box 3360
DARWIN NT 0801

30 April 1999

Dr Richard Lim, MLA
Chairman
Select Committee on Territory Food Prices
GPO Box 3721
DARWIN, NT 0801

Dear Dr Lim,

The Northern Territory Council of Social Service (NTCOSS) would like to offer its congratulations to the Northern Territory Government on its initiative to review food pricing in the Northern Territory.

Food is a basic need. The cost of food and other basic necessities form a substantial proportion of the household expenditure of low income people. There is clear evidence that this proportion is significantly higher for people on lower incomes, therefore the cost of food has a higher impact on people and communities affected by poverty and disadvantage. The Northern Territory Council of Social Service is a peak body for the social and community services sector and an advocate for social justice for people and communities affected by poverty and disadvantage. We are very concerned about the impact of the historically high prices of food for Territorians. The proposed introduction of a GST on food adds to these concerns.

Should you have any queries about this submission, or would like NTCOSS to advertise your visits in our newsletter, which is distributed across the NT, please don't hesitate to contact Ms Marcia Dwonczyk, the NTCOSS Executive Director.

We look forward to hearing of the work of the Select Committee.

Yours sincerely,

Janice Jessen
President

**SUBMISSION TO THE LEGISLATIVE ASSEMBLY OF THE NORTHERN
TERRITORY
SELECT COMMITTEE ON TERRITORY FOOD PRICES**

OVERVIEW

Low income households spend, on average, 24.6% of their income on food as compared with 12.5% in high income households. The impact of high food prices is therefore greatest on people on low incomes.

The evidence from the Australian Bureau of Statistics and Life Be In It surveys shows that people in the Northern Territory pay more for food and other grocery items than their counterparts in other states/ territories.

People living in remote communities, dependent on community stores pay significantly more for food than those people able to shop in Darwin and Alice Springs.

A range of options need to be explored in order to minimise both the cost of food for Territorians and the impact of food prices on the health and wellbeing of those people and communities affected by poverty and disadvantage.

BACKGROUND

The NT Government Select Committee Review of Territory Food Prices comes at an important time for NT people and communities affected by poverty and disadvantage.

Emergency Relief agencies across the NT are reporting an increase in demand for their services (NTCOSS Australians Living on the Edge Survey 1999). An extensive NT emergency relief data collection in 1996-97 identified food costs as the main budget problem faced by applicants for emergency relief ("A little relief, but no respite" NTCOSS 1998). Some agencies are also reporting an emergence of a new group of 'working poor' due to changes in housing policy, youth allowance and other costs.

Further, there have been significant concerns raised about the impact of the Federal Government's tax reforms as proposed. There is increasing evidence that the proposed GST on food will threaten the living standards of pensioners, unemployed people, low wage workers and other struggling Australians.

At the same time, Federal and Territory agencies responsible for improving the health and well-being of all Territorians are moving to a more evidenced based and outcome oriented approach. Within this framework, the importance of good nutrition is crucial in the promotion of good health and the prevention of chronic disease.

ISSUES

High food prices in NT urban centres

The high cost of Territory food is consistently raised as an issue in National Surveys and by the community in general. The Legislative Select Committee call for submissions acknowledges this as an issue. Choice Magazine provided a comparison of a basket of groceries across Australian cities looking for the cheapest prices in July 1998. Darwin was the fourth most expensive city surveyed (\$59.56), exceeded only by Rockhampton (\$62.27), Launceston (\$63.00) and Hobart (\$64.06).

Territory Health Services staff conducting a survey of the costs of food prices in remote community stores reported that the average cost of their 'family basket' purchased in Australian capital city supermarkets was \$301, compared with Darwin at \$329 and Alice Springs at \$335.

Higher food prices in NT remote community stores

A Northern Territory Store Survey conducted in 1998 found that the cost of the total food basket averaged for all remote community stores was 47% more expensive than in Darwin, 44% more expensive than in Alice Springs and 61 % more expensive than the average cost in Australian capital city supermarkets. Further, the Food and Nutrition Unit of Territory Health Services found that, as a result of these higher prices, the average NT Aboriginal family living in a remote community spent approximately 35% of their income on food.

The issue of high food prices in remote communities is not unique to the Northern Territory. "Market Basket Surveys" have been conducted by Community Health and Aboriginal Medical Services in the Kimberley region of Western Australia since 1992. These survey results also show significantly higher prices for the "basket" surveyed in remote communities when compared with Perth prices. While the 'baskets' surveying in WA and the NT are not directly comparable, it is interesting to note that the Perth price for October 1998 of \$305.35 compares with a Darwin price of \$329 and Alice Springs price of \$335 for the April to July 1998 period. Similarly, the total basket averaged for all remote community stores in the NT was \$484 compared with \$432 in WA.

Fruit and vegetables are of particular concern. The importance of fruit and vegetables to a healthy diet is well documented. The NT evidence is that the average community store in the NT has the fruit portion at 67%, and the vegetable portion at 80% more expensive than the average capital city supermarket cost.

Economic and social disadvantage

There is clear evidence to indicate a nexus between level of income and health and well-being. People in lower socio-economic groups experience a higher incidence of diet related ill health such as diabetes, cardiovascular disease, certain cancers and dental cavities. Poor diet is also shown to have significant negative impacts on children's education, resulting in difficulties in concentration and memory (let alone energy) which have direct link to poorer educational outcomes.

It is therefore of particular concern that the highest cost items within NT surveys are healthy foods such as fruit and vegetables. It is also worth noting that the Public Health Association of Australia identifies that the proposed GST on food will increase the costs of healthy foods and lower the costs of foods such as carbonated drinks, confectionery and snack foods which are high in sugar, fat and salt content. Further, Australian Bureau of Statistics (ABS) analysis of consumer price index increases source overall increases in food prices to significant increases in fresh fruit and vegetables. In its report to the end of the 1998 calendar year, the ABS notes that for fresh vegetables, this is the fifth consecutive quarterly increase.

Those people most negatively affected by the high cost of food within the NT are those people who are already most disadvantaged or at risk of disadvantage people in receipt of pensions and benefits, and a wide range of people on low incomes, including older people, families with children, people with disabilities and their carers, Aboriginal people living in remote communities.

The current impact of high food prices on people and communities affected by poverty and disadvantage is currently being observed within the health and welfare sectors. Poor health and demands for emergency relief are the most directly linked. However, it is fair to say that the educational issues previously identified are only the tip of the proverbial iceberg in respect of the

broader ramifications for individuals, families and communities. Violence and crime are common responses when people are hungry and cannot afford to eat.

OPTIONS

The options listed below provide a range of possible strategies to either reduce the cost of food to people in the NT, or to minimise the negative impacts of the high cost of food. The strategies are not mutually exclusive.

Increase to the Remote Area Allowance

An increase in the Remote Area Allowance paid to Social Security recipients would, in part compensate for the additional costs of food for those people eligible to receive it. It is grossly inadequate when comparing the cost of food in remote communities to other areas. This strategy would not address the needs of those people on low incomes not in receipt of Social Security payments. There is also some evidence to suggest that the value of such compensation would be eroded overtime or, in fact, almost immediately as prices rise to what the 'market' can bear.

Investigate the feasibility of a remote communities co-operative buying project

Clearly there are significant issues for people living in remote communities. While a range of strategies have been tried over the years, the evidence suggests that they have not been effective.

Establish a performance monitoring system for stores in respect of prices on core items.

The introduction of a broad based performance monitoring system in respect of a 'basket' of core food items would enable the Government and the public to monitor the costs of these foods. This would be of particular benefit for remote community stores.

Introduce a system of price regulation on core items.

It is disappointing that the Committee has already announced that it does not intend to recommend price regulation prior to being in receipt of all the available information. It may be that there is merit in adopting a system of price regulation on an agreed 'basket' of core items to ensure that healthy food is not subject to market gaming for profit.

Increase competition.

Early information coming out in the media of the food pricing inquiry being undertaken in other parts of Australia, indicates that where monopolies of large supermarkets exist, prices are higher, regardless of geographical location. This would suggest that the dependence of NT residents on Coles and Woolworths as the major providers and their capacity to push out any significant competitors (e.g. Nightcliff Rite Price) has a bearing on the food prices in the NT.

Exempt food from the GST

There has been significant concern expressed about the impact of the proposed GST on food. For people in the NT, already paying a high price for food, the impact will be doubly felt. Because people on low incomes spend a higher proportion of their income on food, they will be hit harder by the new tax on food. (See attached Facts Sheets)

Introduce a schools food program

The current system addresses the needs of families and children only when they become known to health and welfare services, for example emergency relief assistance. However, this approach is inadequate and stigmatising. Many families will go without rather than seek assistance, especially if they fear that contact with the service system may place them at risk of having their children taken away. School breakfast and/ or lunch programs are an effective way to ensure that children receive

at least one healthy, nutritious meal a day. Not only does this have immediate benefits for the health and well-being of children and their education, but it can have longer term health benefits in both physical and mental health prevention and education about healthy diets.

Market gardens and health promotion/ community capacity building

The information available suggests that fruit and vegetable prices are of particular concern. The development of a Government funded program to promote and support the development and ongoing maintenance of community market gardens has had some success in community development projects in remote and urban communities (community gardens for people living in flats and retirement villages for example). The benefit of such approaches is in both the fresh food produced and the community building that occurs in undertaking such a project.

Reduce the costs of electricity

The high costs of power have been cited by shopkeepers as a significant factor in the resulting need to charge high prices. A reduction in electricity costs would also have a significant direct benefit for people on low incomes. An NTCOSS survey of emergency relief service providers in the NT during 1997/98 identified that 53.5% of those seeking assistance did so due to a temporary rise in expenses. Electricity bills was cited as a typical cause.

SUBMISSION 36

Arnhemland Progress Association Inc
GPO Box 3825
DARWIN NT 0801

29th April 1999

Dr Richard Lim, MLA
Chairman
Select Committee on Territory Food Prices
GPO Box 3721
DARWIN NT 0801

Dear Dr Lim

I am in receipt of your letter regarding the pricing review of food in the Northern Territory and wish to advise that we would be pleased to meet with and assist your Select Committee.

Arnhemland Progress Association currently operates 9 stores across the "Top End" of Australia, including 4 in East Arnhemland, and will be able to supply you with an invaluable insight into the problems associated with running retail outlets in isolated communities. Much of the information you require may be confidential, particularly financial details, and we acknowledge your statement that "all information will be kept in strict confidence..."

I have enclosed information that may be of assistance to you in deciding our potential to advise your Committee, including promotional video, most recent annual report and a brief company profile.

We look forward to working with the Select Committee and await your instructions.

Yours faithfully

Frank Mannix
Executive Officer

1st January 1999

Arnhemland Progress Association has operated successful retail businesses in Northern Australia since 1972, currently turning over in excess of \$25 million per annum. Our commitment to communities and organisations that utilise our services, is to provide a better range of products and services, at cheaper prices, employing and training local staff, whilst returning profits to the appropriate local authority or traditional owners.

The following is a brief description of some of the services that we can provide;

Training

ALPA is a registered training organisation, recently endorsed by the NT Employment and Training Authority with QETO (Quality Endorsed Training Organisation) status. Under the mutual recognition principles of the Australian National Training Framework arrangements, we are authorised to conduct training in all States and Territories.

ALPA currently implements a number of nationally accredited courses, including;

- Workplace Trainer Category 1 and Category 2
- RPL Assessor and RPL Consultant
- Certificates 1 to 4 Retail Operations and Management

ALPA can customise programmes, or introduce additional courses to compliment other environments, including tourism, hospitality, office administration and finance. We can also conduct staff assessments and skills audits, recommending suitable courses and training packages.

Staffing

ALPA has access to a pool of qualified personnel, offering short term, long term and emergency relief staff, backed up by a supervisory team, ensuring projected outcomes and requirements are achieved.

We are also able to conduct management reviews and assessments, as well as assisting with staff recruitment, human resource and industrial relations issues.

Enterprise Management

ALPA has for many years, successfully owned and operated a number of retail outlets in remote communities, as well as assisting with the development of a variety of family enterprises and homeland stores. We conduct short term management and consultancy services on behalf of many communities, not directly associated with ALPA. This can involve establishing managerial, operational and administrative procedures, where they may not already exist. We also establish a monitoring process and reporting system back to the owners, often correcting financial anomalies that existed prior to our involvement.

This experience allows ALPA to offer a range of services, including assistance to produce business development plans and conduct feasibility studies, through to store design and layout.

Product Range and Supply

Our stores are generally the only retail outlet operating within the community or region and the product range is designed to cater for all requirements. This includes fresh fruit and vegetables, dry groceries, meat, dairy products, as well as clothing, Manchester, electrical goods and hardware. The majority of lines not carried by the stores can be ordered.

Our larger stores also operate take away outlets, offering a complete range of products, including freshly made sandwiches, fresh fruit, hot meals, prepared foods such as pies, pasties, hamburgers and oven baked chickens. The outlets also carry a small range of confectionery and an extensive range of drinks, including aerated, fruit juice and milk based products.

To guarantee a reliable supply of competitively priced quality products, ALPA has a well developed network of wholesalers, distributors and transport companies, both local and interstate, with a choice of suppliers available to meet the specific needs of our clients. This has been a crucial element in the success of our organisation, with the majority of our enterprises servicing regions that are remote and inaccessible. Quality control of both the merchandise and transport services, including air, barge and road, is paramount to ensure the timely delivery of fresh produce, meat, milk and other commodities.

Accountancy

ALPA has a fully resourced accounting division, offering accounting, bookkeeping and payroll services. In addition to long term support, we can also provide short term or one off services, including monitoring, stocktaking, mini audits and stores performance reviews.

I hope that we can be of assistance to your enterprise, organisation or community. If you should require any additional information, please do not hesitate to contact our Manager Retail Operations - Consultancy and Business Development, Alastair King, our Manager Retail Operations - ALPA Stores, Graham Cook, our Senior Training Consultant, Chris Edwards, or Human Resource Coordinator, Henry Harper.

SUBMISSION 37

Dr Howard Dengate
Director, Agribusiness
Office of Resource Development
GPO Box 2901
DARWIN NT 0801

Dr Richard Lim, MLA
Chairman
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Sir,

Thank you for the opportunity to provide input into your Committee's review of food pricing in the Northern Territory.

In considering an appropriate response, we have restricted our comments to those directly related to 'primary produce' i.e. fruit and vegetable, meat and seafood lines.

Within these food categories, it is a fact that the Territory produces a minimal amount of what it consumes. The Territory's unique geographic location, and associated climatic conditions/ seasonality (vis-A-vis the more highly populated temperate areas of Australia) provides considerable opportunity to gain premium prices for 'out of season' or 'season stretching' tropical produce in the Southern markets (e.g. mangoes & table grapes). Additionally, the sheer volume of short seasonal production necessitates sale into larger markets, as is the case with the local prawn catch. Additionally, the Territory provides only approx 5% of its meat production, and approx 20% of fresh vegetables, for local consumption.

As a consequence of the foregoing, almost all primary produce retailed in the Territory is imported from the Southern States (with some exceptions such as bananas and melons). Such a situation then raises the much-touted issue of 'tyranny of distance and the associated elements of transport costs, cool chain requirements, handling, quality control and wastage costs, all of which must, by commercial necessity, reflect in the eventual retail price to the consumer.

The Department would be happy to further assist your Committee with the provision of any primary production statistical data that it may require, a sample of which is attached for information.

Yours faithfully,

Dr Howard Dengate
Acting Secretary,
Department of Primary Industry & Fisheries
(Director, Agribusiness
Office of Resource Development)

SUBMISSION 38

Lyn Callanan
6 Bellatrix Court
Woodroffe NT 0830

29 April 1999

Rick Gray
Territory Food Prices Review
Darwin NT 0800

Dear Sir,

I am writing to you regarding the very high cost of living in the NT, and will discuss at length food prices.

My husband, son & I arrived from Townsville in January 1998. We were shocked at the food prices up here compared with Townsville which we considered to be expensive compared with Victoria which we had left in 1993.

Townsville is also considered to be a 'remote area' by the government but as we found out there is a lot of difference between the cost of living in both 'remote' Darwin and 'remote' Townsville.

On an average we spent \$ 120.00 on food in Townsville per week. Here we spend up to \$200.00 per week when I am working. When I am not we just get by on much less quality and quantity of food, e.g. vegetables, fruit and meat. In fact I rarely buy any other fruit other than apples. We do not buy oranges or orange juice or fish because I refuse to pay the high prices. Fruit, vegetables, fish and canned goods seem to be higher in price than meat compared with Townsville. Broccoli which we eat everyday is on average at least \$2 - \$3 per kg dearer here than Townsville. Fruit is about the same. I don't buy lettuce or tomatoes very often because of the high prices - usually \$2.50 and \$5.99 per kg respectively. Potatoes are about \$1 dearer per kg and they are definitely not a luxury item (ugh). The prices are high all year around here, but in other states the prices are governed by the availability- mostly determined by the seasons.

Interestingly meat at the butcher is on average about the same price as Townsville, yet some of it comes from Victoria. The butcher still has to pay higher prices in freight & electricity so how can supermarkets justify the high cost of food I wonder, especially since last weekend I spent time at a Humpty Doo independent supermarket, where I noticed some prices were lower than Coles and Woolies.

Although not asked for by you, I must comment, on the housing prices and electricity costs. Have a look on the Internet at the real estate market in Townsville, and see what a bargain you can pick up for the same price as an average cottage in Palmerston. You can get a four bedroom house with a inground pool. Darwin has no electricity tariffs, why not? As far as I am aware, all other states do. Our average electricity bill in Townsville using 1 two horsepower and 2 one and a half horsepower airconditioners was on average \$ 120.00 a quarter. The equivalent amount of airconditioners in Darwin is costing on an average \$400.00 a quarter comparing the same amount of usage. We have dropped our usage of airconditioning accordingly, but why should we, it is hotter here.

All the best with your study,
Lyn.

SUBMISSION 39

NABALCO
PO Box 21
NHULUNBUY NT 0881

Mr Rick Gray

Attached please find a submission from Nabalco concerning Territory Food Prices. The original will be sent via air-bag to you at Parliament House by Tuesday 4 April 1999.

Please contact me if you have any questions on this communication. My contact number is 8987 5317.

Kind Regards

Bruce McCleary
Supply Manager

30 April 1999

The Chairman
Select Committee on Territory Food Prices
GPO Box 3721
DARWIN 0801 NT

Dear Dr Richard Lim, MLA

SELECT COMMITTEE ON TERRITORY FOOD PRICES

Thank you for your letter of 5th March 1999 seeking a submission from Nabalco on the important issue of Territory Food Prices.

In response please find attached a report which details our company's findings about food prices in Nhulunbuy. There are significant cost increases being borne by remote communities such as Nhulunbuy in obtaining basic food requirements.

A survey of a basket of goods undertaken on 17 March 1999 shows relative Woolworths food prices as follows.

	Nhulunbuy	Darwin	Perth	Brisbane
Basket of Goods (\$)	\$ 159.17	\$ 126.29	\$ 127.91	\$ 121.77
% Variation to Brisbane	30.7%	3.7%	5%	0%

We believe that a standard basket of goods needs to be Established in order to make valid comparisons. We suggest the goods be defined and weighted in accordance with ABS Catalogue No. 6440.0, Guide to the Consumer Price Index.

Food prices at Nhulunbuy will increase relative to capital city prices if the existing GST legislation is approved in its current form. This will only exacerbate the cost differentials already being experienced in remote townships like Nhulunbuy.

If you have any further questions on this matter please don't hesitate to contact the undersigned.

Yours faithfully
NABALCO PTY LIMITED

Colin J Agnew
MANAGING DIRECTOR

SUBMISSION TO TERRITORY FOOD PRICE REVIEW

Background

Nabalco is the Manager of the Gove Joint Venture; a bauxite mine and alumina refinery located at Nhulunbuy on the Gove Peninsula. Nabalco employs around 1200 people in its operations and is the largest private employer in the NT.

For many years Nabalco has compared the food prices paid at Nhulunbuy with Darwin and other Capital cities such as Perth and Brisbane. The reason for this is to ensure new employees have some understanding of the cost differentials for food at Nhulunbuy.

Methodology

The current methodology utilised is similar to that used by the Australian Bureau of Statistics (ABS) to establish the Consumer Price Index (CPI). ABS lists a specific range of items which then have prices compared to determine overall costs. The list of goods are 'weighted' so as to reflect a typical household's purchases in one week. As such the selection becomes a 'basket of goods'.

Based on the ABS Household expenditure survey of 1993-94 an average weekly expenditure for an 'average' household (Cat 6535) has been established. The results of Perth have been adopted by Nabalco as the Baseline City for the 'average' household.

The specific food items are investigated by Nabalco three monthly, Nabalco reflects an amended weighting (%) since many items are not incorporated in Nabalco's food analysis (e.g. clothing, housing, household equipment, transportation and tobacco). The changed %'s reflect the revised ratios after the other GPI elements were removed.

Although the brands used in the ABS study are unknowns the same size (e.g. 1 litre of milk) is investigated and the same brand is reported for all locations.

The approach used ensures the best comparison is available to food prices in other cities. Additionally it provides some objectivity to an otherwise emotive topic. For example, corned silverside at \$9.99kg can be seen as expensive, however, if the weighting for the 'basket of goods' is only 0.8%, the overall impact to the family budget is minimal.

The locations reviewed by Nabalco three (3) monthly are:

- 1) Woolworths Nhulunbuy
- 2) Woolworths Casuarina, Darwin
- 3) Woolworths Belmont, Perth, and
- 4) Woolworths Indooroopilly, Brisbane

Additionally, Nabalco sometimes reviews other alternatives such as Foodland Nhulunbuy and Marty's Fruit Shop Darwin.

The last review completed by Nabalco was on Wed 17 March 1999. All the nominated Woolworths locations were reviewed together with Marty's Fruit Shop, Darwin. The most recent results are attached at Annex A.

Results

For the weighted index of good in ABS's revised basket of goods, Nhulunbuy is 26% more expensive than Darwin, 24% more expensive than in Perth and 31% more expensive than Brisbane. A 'typical' Nhulunbuy basket of goods costs and additional \$32.88 compared to a 'typical' Darwin basket of goods. Major cost differences (around 30%) between Darwin and Nhulunbuy can be seen across the board, except for alcohol (14%) and household supplies (19%).

Issues

There are a number of issues, which are of concern to Nabalco management.

- 1) The price of alcohol sold at Woolworths Nhulunbuy appears very low given the high freight component associated with carton beer. The pricing appears closely aligned with prices at The Arnhem Club, a non-profit organisation based in Nhulunbuy. Freight costs do not appear to be fully applied to alcohol. If this is the case, other foodstuffs are believed to subsidise a significant portion of the freight costs associated with alcohol.
- 2) Marty's fruit and vegetable costs air freighted to Nhulunbuy are similar to Woolworths Nhulunbuy (Marty's are 2% lower). Marty's product is better in quality with generally a longer life.
- 3) Fresh fruit and vegetables at Nhulunbuy are generally between 30-49% more expensive than from capital cities. The exception is the March survey for Perth where the differential was only 9%. This is a strange result given the ABS results for Perth for Dec 98 (shown in findings) reflect a 90% differential.
- 4) Spoilage rates at Woolworths Nhulunbuy for fruit and vegetables are believed to be in the order of 15-20% against a normal store's amount of 6%. This additional wastage would need to be factored into any on-costs applied to products sold at Nhulunbuy.
- 5) Freight costs are a factor for any remote location and Nhulunbuy is no exception. From Nabalco's own experience we calculate our freight (and associated on-costs including warehousing) at 10% of the cost of goods. In Nabalco's case this includes air freight, road freight and sea freight, both domestically and internationally, This amount is reviewed regularly against 'actuals' but has always remained below 10% of the cost of goods purchased since 1993. If this same analogy could be used for Woolworths then a maximum of 10% of increased costs should be applied against freight.
- 6) We estimate that electricity costs at Nhulunbuy represent about 0.6% of Woolworth's Sales revenue, and that increased prices at Nhulunbuy are not significantly impacted by increased electricity costs.
- 7) There may be some additional costs to Woolworths in housing its Staff in Nhulunbuy. Wage rate differentials between Woolworths employees at Nhulunbuy, Darwin, Brisbane and Perth are unknown.

Annexes:

- A. Supermarket Price Survey Results -Wed 17 March 1999
- B. % weighting used by Nabalco to align with ABS information
- C. CPI Background Information including ABS CPI Results (example)

SUBMISSION 40

Office of Aboriginal Development
GPO Box 4450
DARWIN NT 0801

Dr R Lim, MLA
Chairman
Select Committee on Territory Food Prices
C/- Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Dr Lim

REVIEW OF FOOD PRICING IN THE NORTHERN TERRITORY

I am pleased to provide a submission from the Office of Aboriginal Development to the Review.

This Office has a particular interest in the welfare of Aboriginal people and regards the issues of Northern Territory food pricing as an important element in maintaining Aboriginal well-being.

Thank you for the opportunity to lodge this submission.

Yours sincerely

R J BEADMAN
Chief Executive Officer

SUBMISSION
to the
SELECT COMMITTEE ON TERRITORY
FOOD PRICES
by
The OFFICE OF ABORIGINAL
DEVELOPMENT

The Office of Aboriginal Development welcomes the opportunity to make a submission to this Review of food pricing in the Northern Territory.

Introduction

The Office of Aboriginal Development's charter is to increase the social and economic well-being of Aboriginal people. As such the Office has a concern that the well-being of Aboriginal people can be threatened by higher than average food prices, particularly of the more nutritious food items, in remote areas.

This submission cites the 1996 Territory Health Services report entitled *Factors which Influence Food Transport to Remote Communities in the Northern Territory*, prepared by R. G. Hughes, and the 1999 ATSIC report entitled *Impact of the Government's Plan for a New Tax System on Rural and Remote Indigenous Communities*, prepared by the Allen Consulting Group.

Background and Current Situation

1. FOOD PRICES ARE HIGHER ON REMOTE ABORIGINAL COMMUNITIES.

- 1.1 A 1996 study by the Territory Health Services⁵⁹ found that Family Basket⁶⁰ food prices in Aboriginal community stores could be as much as 200% higher than capital city prices, compared with about 15% for Darwin. A follow-up survey in 1998 indicated that this trend was continuing.⁶¹
- 1.2 Furthermore, it is an economic reality that the prices of food in small stores will generally be higher than that for the same product in a larger store.
- 1.3 About three quarters of Territory Aboriginal people live in remote areas and Lee(1992)⁶² advises that 95% of the food consumed by these people is purchased through a local community store. It is therefore critical that any review of Territory food prices take these consumers into account.

1. Several Causes of higher food prices on communities have been identified.

2.1 Quality and circumstances of local management.

2.1.1 Various studies⁶³ since the late 80's found that the store manager was the prime determinate of the quality, quantity and availability of foods in remote communities, and eventually the nutritional health of a community.

2.1.2 In remote communities the store is commonly not regarded by its owners as an economic enterprise, but rather a convenient source of funds for other community interests:

- so preventing the manager from rational commercial decision making that would preserve the viability of the store;
- some community stores consequently become insolvent. others compensate by an even higher markup;
- suppliers consequently regard dealing with such stores as high risk, and charge accordingly.

2.2 Road transport problems.

⁵⁹ Hughes, R.G. (1996), Report on Factors which influence Food Transport to Remote Communities in the Northern Territory. Territory Health Services.

⁶⁰ The foods in the hypothetical Basket are those necessary to meet the average energy and recommended nutrition needs for a family of ten people.

⁶¹ Territory Health Services (1998), Survey of NT Remote Community Stores. Food and Nutrition Unit, T.H.S.

⁶² as cited in Territory Health Services (1998), above.

⁶³ as cited in Hughes (1996), above.

- 2.2.1 Under a funding agreement with the Commonwealth the NTG maintains *several strategic roads* to Aboriginal communities. Nevertheless road transport is long, hot and weather dependent.
- 2.2.2 As transport vehicles travel slower the temperature of frozen and chilled food is harder to maintain.
- 2.2.3 Incorrect loading of vehicles add to losses and thus costs during transport.
- 2.2.4 Refrigerated or freezer containers are not suited to the rough conditions so most freighters use 'cold boxes' that have a maximum chill life of 6 hours:
- a breakdown, bog or flooded crossing can result in a complete loss. This risk has to be reflected in the price charged to the consumer.
- 2.2.5 Road freight charges into the Northern Territory are very competitive, but not so the services into outlying communities:
- it costs more to transport food 500km out from Alice Springs than from Adelaide to Alice Springs.⁶⁴
- 2.2.6 Power, equipment, fuel, transport and spare parts are 13-50% higher in the Territory and the working life of road transport servicing outlying communities is about half the life of vehicles which use sealed roads.
- 2.3 Preference for Fast or Take Away Food.
- 2.3.1 The Territory Health Services survey found that up to 40% of food expenditure on remote communities goes to fast foods.
- 2.3.2 Such food is freezer/chilled freighted out to communities at a freight cost 33% higher than non-perishable food.
- 3. Food on sale in Aboriginal communities is of lower quality.**
- 3.1 Territory Health Services⁶⁵ found that most fresh fruit and vegetables arrived in the Territory early in the week, after being purchased in the capital city markets as leftovers of the previous week at a lower price.
- 3.1.1 As such it arrives nearly two weeks out of market, and of a quality rejected by southern buyers.
- 3.1.2 It can then be another two weeks before it is redistributed to the community store shelves - or a month if travelling by barge.
- 3.2 Freight problems (as above) cause a. deterioration in quality.

⁶⁴ Op. cit.

⁶⁵ Op. cit.

- 3.3 Store managers can have preference for non-perishable, non-breakage food items which lack appeal. It follows that this must be reflected in the price differences between perishable and non-perishable items.
- 4. Opportunities for addressing these disadvantages are limited.**
- 4.1 There are limited opportunities for providing better and more cost effective store operations to remote communities.
- 4.2 However one successful measure has been through the forming of cooperatives.
- 4.2.1 The establishment of Arnhem Land Progress Association in the north, and Anangu Winkiku Stores in the Centre has significantly improved the operation of member community stores:
- features of such cooperatives include cost saving freight contracts, store manager relief and training, accounting systems, and bulk ordering.
- 4.3 There may be an opportunity for the NTG to either review or conduct research into ascertaining the effectiveness of such cooperatives in maintaining a favourable level of food price and quantity. A more pro-active policy approach fostering the development of cooperate networks may be called for.
- 5. The introduction of the Goods and Services Tax Reforms could reduce some commodity prices and increase expandable income. Various submissions on the proposed Reforms have illustrated the vulnerability of remote Aboriginal families to food prices.**
- 5.1 The GST Tax Reforms include a removal of Wholesale Sales tax (WST).
- 5.1.1 Currently WST up to 22.5% is levelled on some food items, particularly processed foods.
- 5.1.2 WST is charged at the point of wholesale sale. Wholesalers in the Territory have to pay the tax on the foods they receive from producers with the freight component added. Wholesalers elsewhere pay the tax, then pay the freight:
- this is a serious disadvantage for Territory householders because, not only are they buying at a higher price, but also they are paying proportionally more WST.
- 6. The GST could increase prices of some food commodities in community stores. The introduction of GST will add to the urgency with which remote community store prices of nutritious foods must be addressed.**
- 6.1 The proposed GST Tax Package will provide a Transport Fuel Credit scheme to prevent the GST from increasing freight charges reliant on diesel fuel.
- 6.2 Air freight (unlike that dependent on diesel and petrol) will be subject to the GST.
- 6.2.1 This increased cost will be reflected in perishables air freighted to communities, especially fresh fruit and vegetables.

- 6.2.2 The smaller and more remote communities are particularly dependent on perishables air freight.
- 6.3 Community stores will be required to collect GST at the point of sale. This will require extra accounting skills and resources that will have to be exported in, adding to the cost of store operation.
- 6.3.1 The Commonwealth is offering assistance in the form of start up packages, but the need for upgraded accounting skills will be on-going
- 6.3.2 The impact of GST on Aboriginal run small businesses may be to reduce the spending power of community consumers, where expenditure on food can be in excess of 50 per cent of earnings.⁶⁶

Summary

It is recommended that the Select Committee note:

1. Aboriginal people in remote areas of the Northern Territory are particularly vulnerable to higher food prices, where:
 - in excess of 50% of family incomes is spent on food
 - most have to depend on small community stores for supply.
1. The perishable (and nutritionally desirable) foods are at a greater price disadvantage to non-perishable foods in remote areas of the Northern Territory as distinct from the larger rural and urban sector.
2. That remote area food pricing could be reduced through more efficient and cooperative networks, such as is currently being provided by Arnhem Land Progress Association and Anangu Winkiku Stores. Research on the benefit of these cooperatives with a view to developing a more proactive policy approach is recommended.
3. That the introduction of GST will have an inequitable effect on remote retailers and food prices, increasing the urgency with which existing remote area food pricing issues will need to be addressed.

⁶⁶ ATSIIC (1999), *Impact of The Government's Tax reform Proposals on Rural and remote Aboriginal and Torres Strait Islander Communities*. Submission to the Senate Inquiries into the GST and the New Tax System.,. ATSIIC Canberra

SUBMISSION 41

Sing Eng and Willy Pedersen

7 Mills Street
MILLNER NT 0810

26 April 1999

Dear Sirs/Madams

We are very unhappy about the way prices are in Darwin.

We can accept that we should pay a little more than people do down south because of freight.

It is plain slaughter when we buy goods, be it electrical, mechanical, electronics, household items etc. Basic foods like breads, fruits, vegetables, meats, fish are becoming beyond our reach.

Local farmers come up with a big range of produce. How come we can not afford to eat them?

The reason being we wither buy from one big supermarket, and they charge prices we cannot afford to pay. Heaps of times fruits and vegetables on 'SPECIAL' are not edible, either because they are picked before maturity or they are too old and coarse.

Saturday and Sunday flea markets are good but countless of elderly people and non-drivers do not have the transport to get there.

What happened to the fruit trucks and small shops we used to have?

Other countries have price control to protect the Public. What about us?

Such hardships repel people from staying in the Northern Territory for good.

(Mr & Mrs) Sing Eng and Willy Pedersen

SUBMISSION 42

Mr Paul Venturin

30 April 1999

Dr Richard Lim
The Secretary
Select Committee on Grocery Prices in the Northern Territory.
Parliament House
Darwin

Dear Dr Lim

Re: Chain Store Pricing Structures.

I am the owner of a small independent supermarket operation in Alice Springs.

I trade under the Foodland Banner, therefore my submission is based on my experience in the grocery trade.

As an operator of 3 medium sized supermarkets, I have an idea of what the Major Supermarkets pricing structure's and philosophies are:

The Chain Stores (Coles, Woolworths and Bi-Lo) are slowly realising their major goal of dominating the food retail sector. The reason the Chain Stores are dearer in the Northern Territory than their southern counterparts is they have crushed their opposition and "can" charge what they like.

This was entirely due to the Chains introducing (approx 6-7 years ago) 24 hrs Shopping.....this effectively reduced turnover in the "Mum and Dad" stores by some 22 m 33 % and in some of the worst case scenarios 50% reductions were seen, Stores with some capital base could initially keep their heads above water.

Then common sense was thrown-out and the chains went about "bastardising" grocery products, meat, fruit, vegetables and liquor products, Selling products that the "small business" could not even pay for at wholesale. In a common practice amount the chains is to sell goods at below cost to drag customers in and force their competitors out.

To prevent this submission from being totally emotive in my behalf, I have included the following tables and comments for your committee to look at:

Table 1:

The break up of the Australian food retail sales from 1975 to 1998 is as follows:

Year	1975	1985	1998
Independent Share	60%	40%	20%
Chain Share	40%	60%	80%

Table 2:

Market Share

	Dec 1995	Dec 1996	Sept 1997	Sept 1998
South Australia				
Independents	32.6%	30.5%	28.1%	25.1%
Coles / Bi-Lo	33.6%	34.7%	36.0%	38.0%
Woolworths	27.3%	27.9%	28.5%	29.9%
Franklins	6.4%	6.8%	7.4%	7.0%
Victoria				
Independents	29.6%	27.7%	24.1%	20.9%
Coles / Bi-Lo	26.4%	28.4%	31.2%	33.8%
Woolworths	34.5%	34.4%	35.3%	36.6%
Franklins	9.5%	9.5%	9.4%	8.7%
New South Wales				
Independents	21.0%	19.4%	18.0%	16.0%
Coles / Bi-Lo	20.3%	20.9%	21.6%	23.4%
Woolworths	32.7%	33.7%	34.8%	36.4%
Franklins	26.0%	26.0%	25.6%	24.2%
Queensland				
Independents	17.1%	15.4%	13.9%	12.8%
Coles / Bi-Lo	29.2%	30.7%	32%	33%
Woolworths	37.0%	37.6%	38.1%	38.6%
Franklins	17.4%	17.0%	16.8%	16.4%

(Source: "Retail World" 14 December 1998)

Industry sources predict that by 2000, the major chains will have 85% of the food market. The major chains hold on the retail grocery sector is anti-competitive, contrary to the public interest and is leading to the destruction of jobs, families, small business and regional communities.

The, weaker the independents are, the more the public pay for their goods, the price surveys from the Bureau of Statistics continually demonstrate this.

The chain stores dominate the supermarket industry throughout the Eastern Seaboard of Australia. However, retail price surveys by the Australian Bureau of Statistics clearly indicates that South Australians pay less for their every day food requirements.

Table 3:
Retail Price Survey

	Grocery Only	Including Fresh Food	% above SA
South Australia	\$64.49		
		\$164.85	
Queensland	\$69.64		7.95%
		\$168.05	1.94%
Victoria	\$69.44		7.67%
		\$166.84	1.21%
New South Wales	\$70.29		8.99%
		172.95	4.91%

One of the major reasons for the cheaper Prices in SA is the Strength of the independent competition.

Market Share for growth can only As the total mark-et growth in Australia is negligible, the chain stores' hunger be sated by the elimination of their competitors. As can be seen in Table 2, the chain stores rarely lose mark-et share to each other to any large degree, This leaves the Independents! The method used by the chains to achieve this market share swing is either of the following:

- a) They will use the vast profits generated in regions where they have market dominance to offset the temporary losses incurred in attacking an Independent, using price as the primary driver.

or/

- b) The chain store will simply offer the Independent retailer an amount of money for his business which is well above the 'market price'. In short, they make an offer which cannot be refused or matched by another Independent operator.

Employment

For every small retail business that closes because of the Chains market growth, unemployment increases substantially. According to recent government information, every 1.7 jobs in a small retailer is replaced by 1 job in the event of a change of ownership to a large chain store. Chain stores operate with less staff at store level and a team of supervisors to oversee several stores. Many new stores can be added to this structure without the need to add to the supervision team.

Many small businesses operate only on family. husbands wife, one or two children and are only just scratching out a living. If that business were to fold. the husband and wife will not be employed with the chain stores. Our employment problems will most certainly grow, increasing the cost to the tax payer.

As Table 1 shows the major chains control over 80% of the retail grocery market in Australia with the independents just under 20%. If nothing is done to stem the growing stranglehold of the major Chains, by the year 2000 the Chains will hold 85% and with the Independents at 15%. The market dominance of the major Chains is almost unprecedented in the Western World, is anti-competitive and against the public interest. In the United Kingdom the three largest Chains have less than 45% of the market, in the USA the big three Chains have less than 21 % and in Japan 17.5%. The big Chains are assisted in their drive for total market control by weak and/or misinformed governments. We have laws combating the media barons and Government has a 'Four Pillars' banking policy to stop the major banks totally dominating, but the big Chains are allowed open slather in our retail markets.

If the major Chains get total dominance and control, it will lead to the destruction of Small Business.

This stranglehold on the retail grocery market in Australia is:

Anti Jobs

Remember, every one new job in a major Chain is 1,7 less jobs in a small retailer.

Anti Small Business

Reducing market share of the Independent grocers means less jobs in small business, the silent engine of our economy. Don't forget the major Chains insatiable appetite for market share is now adversely affecting butchers, bakers, florists, pharmacists, petrol station operators. newsagents and also banking services, and liquor outlets.

Anti Rural and Regional Communities

The dogged incursion of the big Chains (in pursuit of increase market share). An Independent Supermarket retailer spends his profits in his town. Woolworth's profits go back to Sydney, Coles/Bi-Lo's profits go back to Melbourne and Franklin's profits go back to Hong Kong.

Anti Families

Most small business grocers are family owned and operated, and the only source of income for the family.

If in 1985, the chains had made an official approach to 'take over' 20 % of the retail grocery market they would certainly have been precluded from doing so by the TPC (now ACCC). Instead they have achieved the same result - not by superior retailing skills. but through "checkbook acquisition" and predatory pricing tactics. The small retailer in Australia must be protected.
(source: Foodland House, SA)

The Chain stores in the Northern Territory have carried out their assault in the Northern Territory with precision and the Northern Territory government has sat by and done nothing. It is only now that the voters out there have realised they are being "ripped off" and the government is willing to have a look at it.

I believe the government has really let down small business in this matter and they should apologise to every corner deli and independent supermarket owner that has gone broke because "of the Chain Stores dominance".

Yours sincerely,

Paul Venturin
Foodland Alice Springs

SUBMISSION 43

Cailler Distributors
PO Box 7974
Alice Springs
NT 0871

12 May 1999

Dear Richard,

Inquiry into food prices

Thank you for your invitation to participate in the review of Food Prices in the Territory. Unfortunately due to business commitments I will be unable to attend the public hearings however I would like to submit the following views regarding these issues.

As a established Food Distributor for the last two years in the Alice Springs region, high food prices are without a doubt due to two main issues.

- 1) High Costs of Freight / Transportation.
- 2) Lack of Agriculture, Manufacturing ,and processing in the Territory.

These facts are supported by the following example 1 x 10kg box of Tomato's brought Interstate.

Cost of 1 x 10kg Tomato's	\$ 18.00
Transportation	\$ 4.00
Distributor fees 20%	\$ 3.60
Wastage 5%	<u>\$ 0.90</u>
Price to the Consumer	<u>\$ 26.50</u>

As shown by this example, Transportation accounts for a large percentage of the finished price before going to the consumer.

In the event that the above example could be brought locally, it is obvious that two aspects of the above example could be removed.

- 1) Transportation
- 2) Wastage - wastage occurs at a much higher level for products that are bought interstate as the product has already spent at least two days travelling.

Removing these two aspects we are left with the following Example:

Cost of 1 x 10kg Tomato's	\$ 18.00
Distributors Fee 20%	<u>\$ 3.60</u>
Price to the Consumer	<u>\$ 21.60</u>

The example given is not only for products purchased travelling refrigerated from Interstate but also applies to dry goods. In many instances wastage for dry goods is higher as consignments are often damaged or lost due to the high percentage of goods transported from Interstate.

To conclude it is my view that unless Agriculture, Manufacturing and processing in the Territory is taken as serious opportunities to provide the Territory with local resources these prices we are suffering are not going to go away, and freight will always be an issue for the Territory.

Territory Government must decide if they are prepared to support these industries in their bid to improve growth and Economic Development, only when this happens can we reduce the cost of living in the Territory.

If you have any queries regarding my comments please do not hesitate to contact me.

Regards

J.Cailler
Manager / Proprietor

SUBMISSION 44

Mr Tim McClelland
Department of the Chief Minister
GPO Box 4396
DARWIN NT 0801

Mr Rick Gray
Secretary
Legislative Assembly of the Northern Territory
Select Committee on Territory Food Prices
GPO Box 3721
DARWIN NT 0801

Dear Rick

Attached is a contribution received from the Department of the Chief Minister's Office in Alice Springs.

Good luck with the inquiry.

Yours sincerely

H. A. S. McClelland

MEMORANDUM

TO: John Baskerville

31 March 1999

FROM: Bob Corby

SUBJECT: Select Committee on Food Prices

I have noted Jo's comments concerning facilitation of greater use of local fresh produce and that idea has considerable merit if Government programs can be developed to encourage investment in Horticultural pursuits.

Meantime, the current regional producers are unable to keep up with local demand and I propose that is also the case in Darwin. This means consumers of fresh produce in the Territory do not have the range of produce outlets enjoyed by big city consumers and, of course, where supply exceeds demand, prices are lower. Big city consumers are also prepared to make a special trip even direct to the producer in order to realise cost savings or quality in their choice of produce and they also have any number of choices in relation to retail outlets. Unfortunately in the Territory we do not have these options.

This postulation is also true of the processed food markets to some extent in that the total consumer market in the Territory has a limited choice of supply outlets and is being driven to Coles and Woolworths (the Big 2) for the sheer sake of one stop shop convenience. Smaller speciality product outlets are prepared to undercut the Big 2, but in order to maximise their product, they only do so marginally and who could blame them?

Consequently the Big 2 remain the price makers and the smaller outlets sell marginally below in order to attract and maintain their own individual market segments.

I propose the smaller outlets could sell significantly below the Big 2, but why would they when their customers are satisfied with the price they demand compared to the Big 2. Millner Road meats in Alice Springs is a good example of an outlet in this category.

However, such outlets can not offer the range and convenience of a one stop shop and the market in the Territory is reasonably affluent and willing to pay the asking price for convenience.

The bottom line is that the Big 2 are the price makers for the Territory and unless the Select Committee can accurately determine their margins, benchmark them in line with other States and regulate their mark up, it will be very difficult to entice other distribution channels to reduce food prices.

RJ CORBY

M E M O R A N D U M

TO: John Baskerville
FROM: Jo-anne Harkin
SUBJECT: Select Committee on Food Prices
DATE: 25/3/99

I wonder if there is a role we (Government) can play to help facilitate greater local use of local produce if appropriate. There is of course a balance between the small but growing industry bringing in export dollars to the community and the effect they could have on local prices if they supplied locally.

Jo-anne Harkin

SUBMISSION 45

Coles Supermarkets Pty Ltd
PO Box 480
GLEN IRIS VIC 3146

25 May 1999

The Secretary
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Mr Gray,

COLES' SUBMISSION

Please find enclosed seven copies of Coles Myer Supermarkets submission to the *Select Committee on Territory Food Prices*. We have also e-mailed you **Part A** of the submission.

Please note that **Part C** contains two sections (**C4 & C5**) which are provided **Commercial in Confidence**. The information contained in these documents is enclosed in a separate envelope and provided for the exclusive use of the Committee

Coles Managing Director, **Mr Alan Williams**, looks forward to presenting Coles' case and providing answers to Committee questions on the 24th June. Should there be any changes to the hearing times or you have any queries please call either myself (03 98295391) or Chris Mara (03 98294141).

Sincerely

Ted Moore
General Manager
Food Safety & Quality Control

TABLE OF CONTENTS

Coles Myer Supermarkets' submission is in three parts.

Part A. The ' Coles Case ' document with four attachments. Coles Case explains the cost differences and hence grocery shelf price differences across the Northern Territory, compared with South Australia and comparable areas of the far north of Western Australia.	Grey Pages
Price Waterhouse Coopers statement on earnings by Coles' holdings in the Territory	Appendix A1
Coles National Acceptance Chart and Shelf Life Summary: Issued January 1999.	Appendix A2
Access Economics review paper on CMRCO research for Life Be In It/Apple & Pear Corp.	Appendix A3
Colin Benjamin correspondence with Business Review Weekly .	Appendix A4
Part B. A paper prepared by Access Economics (Access) describing the dynamics of grocery retailing including distribution, prices, expenses and return on capital in the grocery sector. This paper addresses dot point one in the Committee's letter of 27 April.	Yellow Pages
Part C. Specific information and data requested by the Committee in the letter of 27 April. Specifically, these are:	Pink Pages
1. The period of time the goods are purchased to the time they are sold to the customer, including costs associated with freight	Part C 1
2. The average shelf life of food and groceries, particularly fruit and vegetables	Part C 2
3. Practices adopted to maintain or increase market share and viability and what impact these have on small business.	Part C 3
4. Information on comparable stores in the Northern Territory and other States, such as financial reports and employment figures (Commercial in Confidence)	Part C 4
5. A breakdown of operating costs over the last twelve months on Coles Myer Supermarkets holdings in the Northern Territory (Commercial in Confidence)	Part C 5
6. Historical data of prices in the Northern Territory, for the past 12 months, and the top 200 fastest moving items in terms of volume so as to compare Darwin, Alice Springs and Adelaide.	Part C 6

Part A - The Coles Case

1.0 Overview

In this submission to the *Select Committee on Territory Food Prices*, Coles Myer Supermarkets demonstrates that its food prices in the Northern Territory are a direct reflection of:

- The Territory's geographic isolation from major food supply and distribution sources and the resultant additional transport costs
- Higher business costs in the Territory
- The relatively small market compared with other capital cities which limits the opportunity for greater economies of scale.

It demonstrates that Coles food prices in the Territory are fair and reasonable by comparing them with South Australia and a similar remote area - the far north of Western Australia.

Coles Myer Supermarkets has two businesses, Coles and Bi-Lo with over 7000 suppliers. Australia wide Coles and Bi-Lo have some 65,000 staff in more than 560 locations. In the Territory, Coles has four stores and Bi-Lo has three. Collectively these stores employ over 900 people. Directly and indirectly Coles Myer Supermarkets employ many other Territorians. For example, in the provision of services such as cleaning and maintenance of stores, along with local suppliers who provide or distribute goods to Coles and Bi-Lo stores.

Coles' aim is to be an innovative retailer, which provides customers with good value, convenience and superior service. Coles focuses on three key stakeholders customers, staff and suppliers.

2.0 Financial performance

At previous meetings with the Chief Minister and Leader of the Opposition, Coles has informally presented the Earnings before Interest & Tax (EBIT) comparisons for its NT supermarkets along with an independent audit statement dated 2 February 1999 from *PriceWaterhouseCoopers* (PWC).

Appendix A1

PWC state - *"In our opinion, the trading performance of country stores is lower than the trading performance of the metro stores on a state and national basis for the period from 28 July 1997 to 26 July 199~".*

The figures presented at that time showed that the Coles Northern Territory supermarkets for the financial year 1998 were presently just above the break-even stage due to recent capital investments.

As requested by the Select Committee we have provided the sales, EBIT and employment data for all Coles Myer supermarkets in the Territory. This data is then compared with the South Australian stores and a comparable group of stores in the far north of Western Australia in our confidential submission.

Part C4

The EBIT results show conclusively that Coles Myer supermarkets earns smaller margins from its Territory stores than it does from South Australia. Nevertheless, Coles Myer Supermarkets has a long standing commitment to Territorians and is continuing to invest with the long term view that it will gain a fair and reasonable return over the life of these investments.

While food prices in the Territory are amongst the highest in Australia especially compared with metropolitan areas such as Adelaide, the Coles EBIT margins provided show that it is excessively misleading to allege that prices are a "rip off" or that excessive profits are being made.

The margin in the higher prices of the Territory is not sufficient to totally recover the additional costs of doing business, which in margin terms at store level are approximately 9 per cent above costs in South Australia (SA).

The majority of the goods sold by Coles in the Territory are dispatched from centralised Distribution Centres in Adelaide, Freight costs alone are very significant due to the large distance for these goods to be transported, on an infrastructure that is only part rail and with virtually no back-loading.

The Coles Myer Supermarket freight cost to bring food into the Territory is almost \$9 million per annum. The freight rate as a percentage of sales in the Territory is almost 10 times higher than the rate for SA stores.

Other major store costs to be recovered are light and power and the rates as a percentage of sales are 2.4 times that of SA. Similarly, store occupancy costs are 50% higher as a percentage sales.

Territory store costs as requested by the Committee are detailed in our confidential paper. **Part C5**

3.0 Retail Dynamics

Food and grocery prices in the Territory (or anywhere else in Australia), are determined by the cost of supply and competition between retailers. In the absence of any demonstrable impediments to competition, food prices are a reflection of the cost of provision, which includes a fair return to retailers. **Part B p 1**

3.1 Competition

The Territory is a highly competitive market servicing a small population relative to the number of retail stores. For example, the 10 major supermarkets in Darwin each serve an average of 8500 people.

This supermarket to population ratio is similar in Townsville (7,500), Toowoomba (10,900), Launceston (7,100) and Ballarat (8,100) which have comparable population bases to Darwin.

Growth in Darwin's retail market over the 1990's suggest that competition and the number of competitors is increasing. Between 1992 and 1997 the number of Darwin supermarkets and grocery stores increased by 38 percent. In addition, the

number of specially food retailers increased by 10 percent.

For a typical supermarket, the purchase and delivery cost of food and groceries to the store makes up 73-78 per cent of the final selling price. With operating expenses (wages etc), occupancy and administration costs of around 20-27 percent, the profit margins in supermarkets range between 1 to 5 cents in the dollar. **Part B p 4**

The cost of delivering food to stores in Darwin is greater than other Australian capital cities (as explained on the previous page). When higher costs are combined with the small market size, economies of scale are limited resulting in higher food prices. **Part B p 4 3.1**

4.0 Stock holding and Shelf Life

While product expiry dates (either use-by or best before) are established by producers or manufacturers, Coles has developed a standard for shelf life for its range of groceries which is shown at Appendix A2. These are based on nationally accepted environmental, transport and holding conditions. **Appendix A2**

Coles has established store clearance and markdown practices which require, at predetermined intervals, the review of use-by dates and product shelf life to ensure goods received by the consumer are in optimal condition and shelf life. This is particularly critical for fresh produce transported to remote areas where the time taken to reach the store reduces the shelf life of many fresh foods.

5.0 Marketing & Pricing

5.1 Marketing

Coles' marketing activity is designed to achieve customer satisfaction with the value offered. It follows two main thrusts; a national promotional program and store specific activity. The former is based on advertising (TV and catalogue specials) and operates on a weekly basis and is supported by value for money, everyday shelf pricing, in store.

Store specific activity is based on protecting our existing business from competitors. At a local level Coles promotes the value, quality and range of our local retail offer and matches competitors' prices on key lines.

Coles' pricing and marketing activities compete primarily with the offer of our major chain competitors in each market as they have a broadly similar offer and target the same customer. **Part C 3**

Customer traffic generated by Coles also brings customers to neighboring retailers, most of which are smaller retailers. The structure of modern retailing suggests that this clustering of retailers, in locations such as shopping centres, presents a dynamic and diverse retail environment to the benefit of all retailers and customers. **Part C 3**

5.2 Pricing

Coles has a standard pricing structure in each State and Territory designed to provide good value to our customers and a satisfactory return to the business. This pricing structure varies in each location according to structural costs, local competition and the scale economies achieved.

Store managers have the discretion to lower prices on key lines, in order to meet local competition, but **not to undercut** local competition. Store managers do not have the authority to raise prices above Coles standard structure. **Part C 3**

Coles is acutely aware of the need to offer consumers value for money through competitive pricing. Past experience shows us that when Coles' prices have not been competitive consumers shop elsewhere. **Part C 3**

5.3 The Price Dilemma

In the Territory recent media headlines read "*Darwin food price rip-off*" and yet, at the same time, we have been accused of pricing so low that it is difficult for others to compete.

As previously stated, our pricing policy is designed to provide good value to customers and a satisfactory return for the business. Coles' past experience shows that when our prices are not competitive, then customers shop elsewhere.

5.4 Price Surveys

The price survey in BRW magazine which sparked the media attention in Darwin has been largely discredited by a report prepared by Access Economics (Appendix A3). **Appendix A 3**

For example the survey had less than **50** items which were selected on the basis of a low fat diet. Subsequent to its publication the survey author, Colin Benjamin of *Life Be In It*, conceded that the survey, as reported in BRW, made erroneous conclusions. **Appendix A 4**

To test claims made in the BRW article, relating to Coles' prices and those of independent competitors, Coles commissioned AC Nielsen to undertake a pricing survey of the best selling items, selected by AC Nielsen and **undisclosed to Coles**, in each grocery category.

The data was collected from both an independent and a Coles store in a metropolitan, regional and rural area in all States in Australia. Prices at independent stores were found to be higher overall than Coles stores. They were, 4.3% more expensive in the metro areas, 2.4% in regional areas and 5% higher in rural areas.

Coles has provided the Committee with the top selling 500 volume lines, excluding Coles Private "Farmland" brand, along with a comprehensive category listing to enable the committee to select a representative basket for their own pricing survey and analysis.

A 1998 survey on a **weighted** basket of groceries conducted by the *Australian*

Consumers Association, publishers of **Choice** magazine, showed that Darwin food prices are up to 9 **percent** dearer than Adelaide. Adelaide, according to Choice, is Australia's cheapest capital city for food and is where Darwin's food is primarily sourced.

In February 1999, Coles compared prices, **unweighted**, of its top selling **2000 lines**. This showed that Darwin prices were **6 per cent** more expensive than Adelaide for these 2000 lines.

The price variations in the Choice survey and Coles own comparison reflect the additional cost of doing business in the Territory.

6.0 Prices and trading hours

A critic of extended shop trading hours in Darwin and elsewhere is Dr Robert Baker, a Geographer from the University of New England, Armidale. Much is made by small grocer lobby groups of Dr Baker's claims that extended retail trading hours lead to a shift in retail turnover from small to large retail stores and to higher prices for food and grocery items.

Access Economics have critically assessed a paper written by Dr Baker and a colleague D C Marshall that summarises these claims. Access concludes that: Baker and Marshall's arguments are not supported by the economic models on which they base their analysis and in some cases their conclusions are contradicted by the very models they cite.

According to Access Economics when Dr Baker compares Sydney and Adelaide prices he uses inappropriate data. There is no obvious link between changes in trading hours and prices when more appropriate price series are compared. Even if the inappropriate data are used, Dr Baker's conclusions about hours and prices are contradicted by the patterns observed in other capital cities. **See Figure 1**

Figure 1: Aggregate Price for Selected Retail Food and Grocery Items, March quarter, All State Capitals

There is no consistent pattern of higher or lower prices according to the extent of trading hours deregulation in other States. For example, Tasmania is more regulated than South Australia, and prices appear higher in Tasmania than South Australia, although the gap closes marginally between 1988 and 1998.

Following Victoria's full deregulation of retail trading hours in November 1996, nominal prices (as indicated above) have remained virtually unchanged and the gap between these and Adelaide prices actually closed completely contradicting Dr Baker's claim.

Canberra is another example of a deregulated market (where the changes roughly matched the extent and timing of those in Sydney) which shows relatively low food prices by Dr Baker's measure, and for which the difference compared with Adelaide has disappeared in recent years.

Thus, when using Dr Baker's inappropriate data series, *the conclusion that prices*

have risen in line with extended trading hours is not supported by the experiences of other States.

6.1 Community Support for extended trading hours

Strong community support for Sunday trade is evidenced by customer patronage of Coles and Bi-Lo stores in the Territory outside of traditional 9-5 weekday shopping hours.

When the community of Bendigo in regional Victoria had the opportunity to remove Sunday trade last year through an official referendum (conducted by the Electoral Commission) the community overwhelmingly voted to keep Sunday trade.

In that referendum 73% of those eligible voted (compared to 45% of eligible Australians voting in the Constitutional Convention). Of those, 77% voted to retain Sunday trade. An overwhelming endorsement of public support for Sunday trading.

7.0 Coles Staff

Coles considers that a high quality relationship with its staff is critical to its success.

Coles has worked closely with its staff to improve customer service and satisfaction by providing high quality jobs and investing heavily in training. Working in a supermarket is increasingly demanding. Whereas in 1975 there were about 12,000 different products available, the larger stores now sell over 40,000. Higher standards in food safety and hygiene now require special skills.

At Coles the proportion of **permanent jobs** has been greatly increased and the role of casuals reduced. This is against the employment trend of other businesses, particularly other retailers.

Significantly, the proportion of casual employees has fallen from nearly 60% in 1994 to **34%** today. There have been corresponding increases in full time and permanent part time employment at Coles.

Greater permanency provides benefits to Coles, its employees, customers and the community. (Permanent part time and full time employees enjoy the same general benefits including holiday pay, sick pay and security of tenure).

For **employees** the benefits include enhanced job security, participation in training and development programs, career opportunities, job satisfaction, improved morale, opportunities to work across a wider spread of hours and in different areas of the business.

The company enhances the **communities** in which it operates by providing quality jobs, which have real career opportunities.

In order to advance its commitment to **permanency** significantly, Coles opened a new store in August 1998 at Langwarrin in Melbourne's outer suburbs. Its full

time employees account for 67% of the staff. Four years ago at a similar store, they would have made up only 23% of the stores head count.

In terms of the store's total weekly hours:

- 75.5% of the total are covered by full time employees
- 23.5% are covered by permanent part time employees
- Casuals work only 1 % of the total hours.

Each State & Territory around Australia now has a store like Langwarrin where the advanced permanency program is being piloted. The Territory's advanced permanency store is located at Palmerston.

7.1 *Training*

Every member of staff receives training and has the opportunity, with company support, to progress educationally as far as he or she chooses up to MBA level.

8.0 Conclusion

Factors which could make food cheaper for Territorians in the future include:

Access p 16

- Reduced transport costs which may be achieved via an Alice Springs-Darwin **rail link or reduced fuel costs**
- a Reduced **electricity costs**
- a Reductions in **Payroll Tax**

While these measures would help reduce food costs, Territorians will continue to face significant cost disadvantages due to limited economies of scale. These can only be alleviated by a greater population density or closer proximity to the sources of food production and distribution.

Coles Supermarkets is proud of its record and long association with its customers, staff and suppliers in the Territory. Coles endeavours, through its staff and suppliers, to provide Territorians with the same choice of modern facilities and range of goods it makes available to other communities all around Australia.

Coles takes particular care in all its activities associated with supporting its Territory operations in order to minimise the huge cost impacts it faces in providing Territorians with equivalent facilities provided in other capital cities.

Coles continues to take a long term view of its investments in the Northern Territory and is willing to work with the government in identifying opportunities to reduce whatever cost burdens it can in order to bring an even fairer deal to Territorians.

Coles appreciates the opportunity to provide the committee and the Northern Territory Government with information on pricing and cost impacts.

ASPECTS OF SUPERMARKET PRICING IN
THE NORTHERN TERRITORY

prepared for

Coles Supermarkets Australia Pty Ltd

by

ACCESS ECONOMICS

Canberra
May 1999

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1. Introduction

1. The purpose of this paper is to explain some of the dynamics of grocery pricing and, in doing so, identify reasons why supermarket grocery prices in the Northern Territory are higher than in other parts of Australia.
2. An important principle in this analysis is that supermarkets in the Northern Territory, as elsewhere, must be allowed to operate profitably. Supermarket chains have an obligation to their owners, and under corporation law, to provide the best possible returns. Consequently, they will not operate stores indefinitely that do not contribute a reasonable rate of return, covering all of their direct costs, as well as a proportion of the shared costs of the chain.
3. This requirement puts a floor under the prices that supermarkets will charge. Conversely, competition, both between the major supermarket chains and with, smaller independent stores and other specially food and grocery outlets, means that a price ceiling operates to keep retail prices at a minimum. This competition ensures supermarket chains keep their costs and margins as low as possible, or risk losing money and/or customers.
4. Food and grocery prices in the Northern Territory are therefore determined by the bounds set by the costs of supply and competition between retailers. In the absence of any demonstrable impediments to competition, prices are a reflection of the costs of provision, including a fair return to retail operators.
5. Forcing supermarkets to set prices at a level that is not profitable would be counterproductive - stores would simply close rather than run at a loss (this is a commercial reality, not a threat). Supermarket closures would disadvantage consumers and the economy of the Northern Territory far more than allowing supermarkets to operate with prices at a fair and profitable (albeit high) level.
6. With these caveats in mind, this paper focuses on explaining the dynamics of grocery pricing, subject to supermarket operators achieving a fair rate of return.

2. Grocery prices: prior to leaving the warehouse (Retail Distribution Centre)

7. The Northern Territory market is characterised by a small and geographically dispersed population. This, and the consequently small number of stores, means it is not viable for Coles (or other major supermarket chains) to operate a separate Northern Territory grocery warehouse or distribution centre. Instead, Northern Territory groceries are warehoused in and distributed from Adelaide. Without their own Distribution Centres (DCs), Northern Territory stores do not achieve the same economies of scale in the supply chain as stores in other Australian cities.
8. Even if chains did operate a DC in Darwin, the economies of scale problem would still exist for manufacturers in supplying goods to such a centre. They would have to decide whether to supply the goods at the same or a premium price to other capital city DCs. It is very unlikely, given the volumes involved, that manufacturers would supply their goods at the same price.

2.1. Warehousing, hubs and spokes

9. The ability of a supermarket chain to operate a distribution system serving many stores is a significant factor driving low prices. Most products sold by individual stores come through the DC in bulk truck deliveries. Only a relatively few locally acquired and short shelf life products are delivered direct from producers to individual stores. Bulk deliveries from producers to the DCs and bulk

deliveries from the DC to the individual stores greatly reduce double handling, damage to stock and administration expenses.

10. A typical feature of an efficient transport system is the use of a "hub". Whether it is an airline, bus company or a supermarket supply chain, the use of a centralised hub (airport, bus terminal or DC) delivers significant transport efficiencies. These efficiencies greatly outweigh the additional transport distances travelled between adjacent locations. The hub promotes consolidation and concentration of activity. It increases the utilisation of transport vehicles (planes, buses or trucks) and provides significantly greater frequency of connection.

11. The improvement in frequency is very important - by using a hub it is possible to transport people/groceries from point A to point B at a much higher frequency, provided you connect through the hub - point C. On an airline, it is possible to fly from Hobart to Darwin on several services per day, provided you connect through Melbourne and/or Adelaide. However, if airlines were not able to offer connecting services through a hub (so all flights had to be direct point-to-point) there might only be sufficient demand to fly Hobart to Darwin once a week. Similarly, a supermarket can get a delivery of a case of cornflakes each day of the week via the DC, but if the delivery had to come direct from the cereal factory it might only be possible to get a delivery once a fortnight. That is, it would take a fortnight worth of sales to make up a full truckload of cornflakes.

12. The further a spoke is from the hub and the lower the volume on that spoke, the smaller are the benefits received from the ability to hub. The Northern Territory is an example of this – a "long thin route" in transport economics jargon. There is a paradox of long-thin routes - to travel the long distance requires larger transport equipment (only large trucks and aircraft can make the Adelaide-Darwin run) but the thin volume of cargo/passengers means that it takes longer to fill the larger vessel, hence frequency of service reduces. Long-thin routes have a lower frequency of services to the hub, and so do not achieve the same benefits of concentration and consolidation as major city stores. Stores that are closer to the warehouse can use smaller trucks delivering more frequently. This reduces the amount of inventory required and reduces the size of back dock storage area that has to be rented.

2.2. Buying power

13. A supermarket chain gains significant bulk buying power by consolidating purchases through the DC. Other significant benefits of the DC are timing aspects such as allowing stores to run just-in-time inventory, continuity of supply and high stock rotation (this ensures food is delivered to individual stores with more time left on *use-by dates*).

14. Stores in the Northern Territory still share some of the benefits of the operation of Coles' Adelaide DC, but other benefits are greatly reduced, such as the frequency and consolidation of distribution to the Northern Territory. Stores in the Northern Territory have to plan further ahead, so cannot order stock just in time. They must also operate with a higher level of inventory, because of the lower frequency of re-stocking, resulting in a higher proportion of wastage and produce reaching its use-by date.

15. The remoteness and small size of the Northern Territory market results in a loss of many of the economies of scale that are passed on in the low supermarket prices set by Coles in the major cities.

3. Grocery prices: after leaving the warehouse

16. The management of the warehouse and distribution system is a key factor in driving

lower prices. As discussed above, stores in the Northern Territory receive far fewer economies at this stage of the delivery chain. Moreover, once the groceries have left the DC there is still a significant range of costs to be recovered, some of which contribute to higher food prices in the Territory. These additional costs include:

- Transport from warehouse to individual store;
- Stock spoilage (particularly fresh produce);
- Administration;
- Wages, superannuation, payroll tax, workers compensation insurance;
- Advertising;
- Electricity (particularly refrigeration and air-conditioning);
- Rent;
- Depreciation;
- Stock holding costs (stock/turnover ratio);
- Trolley collection and cleaning contractors;
- Security, money transportation;
- Local government rates (for garbage collection and other services); and
- Insurance, public liability cover, other occupancy expenses.

17. The final price of groceries has to cover the above expenses for the store to break even, but stores have to do better than break even, they also have to provide a fair return on the capital invested in the store.

18. For a typical supermarket, the cost of the groceries delivered to the store makes up 73 to 78 per cent of the final selling price. Operating expenses represent around 12 to 15 per cent, store occupancy expenses represent 4 to 7 per cent, administration and overheads are around 4 to 5 per cent and earnings (profit) is around 1 to 5 per cent. Compared with other Australian cities, there are greater costs both in delivering stock to the store and in the operation of the store in the Northern Territory market.

19. Of the items listed above, some will contribute a similar amount to the final selling price in Northern Territory as they do in the rest of Australia. Others will clearly contribute a far greater proportion to the **final** selling price. These factors are considered below.

3.1. Transportation

20. The previous section on prices prior to leaving the warehouse already discussed some problems with reduced benefits of frequency, consolidation and concentration caused by the remoteness and

volume of the Northern Territory market. In addition to the loss of scale economies from reduced benefits of warehousing and frequency there is also the higher absolute cost incurred transporting goods to the Northern Territory.

21. Produce has to be transported long distances from the Adelaide warehouse to the stores in the Northern Territory. Fresh, frozen and refrigerated produce requires expensive airconditioned transport. This distance translates into a delay that means that, compared with other major cities, produce provided to the Northern Territory market also incurs a higher spoilage rate.

22. There is also a back-loading problem when freighting groceries to the Northern Territory. Most trucks (particularly those with refrigeration) have to return empty. further increasing freight costs.

23. Trucks going to suburban Adelaide stores from the Adelaide warehouse also usually return to the warehouse empty, however the back-loading in this case is nowhere near as costly. For example, a truck to an Adelaide store would spend roughly an hour being loaded at the warehouse, an hour being unloaded at the supermarket, and half an hour travelling in each direction (around 3 hours per round trip). The empty back load results in the truck being unproductive for only 1/2hour in every 3 hours (less than 20 per cent). In the Northern Territory, however. the hour loading and unloading at each end is insignificant compared with the two or more days travel in each direction. The time spent on an empty back-load is a far greater proportion of the total round trip time, approaching 50 per cent.

24. Not only do Northern Territory groceries have to be transported a far greater distance, but the cost of back loading is proportionally greater than for stores in Adelaide or other southern cities.

25. Unlike Adelaide, Darwin has far fewer food and grocery manufacturers. A greater proportion of food and grocery stock needs to be transported long distances as a consequence.

3.2. Stock spoilage

26. Fresh, refrigerated and frozen stock in the Northern Territory has a very high spoilage rate compared with other regions in Australia. Fresh produce for example has a 33 per cent higher wastage compared to Adelaide and dairy waste and markdowns are nearly 50 per cent higher than Adelaide.

27. The long transport times between the Adelaide DC and the Northern Territory market makes it more challenging and costly to get the timing right for delivering fresh produce. More produce is spoiled in transit due to the longer transportation times. Stores have to hold larger inventories of stock because there is a longer lead-time when ordering in stock - a higher stock to turnover ratio results in a higher proportion of stock reaching the use-by date before selling.

28. Margins are very tight in supermarket retailing, only a few percent of turnover. When an item spoils it costs a very high proportion of its final sale price (unlike higher-margin retailing like fashion clothing, where the cost of an item can be less than half the final price). The low margins compared with the high cost of spoilage imply that for every item spoiled, the store has to sell around 30 extra items just to recover the loss and breakeven. In order make a fair rate of return, the higher rate of spoilage ultimately has to result in higher average grocery prices.

3.3. Administration

29. Each store in the Northern Territory requires a similar management structure as other stores in Australia. One minor difference is that there may be more resources devoted to stock ordering, given

the much longer lead time required between ordering and receiving the stock, hence more careful planning is required.

3.4. Wages, superannuation, payroll tax, workers compensation insurance

30. The Northern Territory has the highest payroll tax rate in Australia. The rate for large employers (and Coles is a large employer in the Northern Territory) is 7 per cent. Most other States and Territories have a maximum payroll tax rate of around 5 to 6 per cent. The higher payroll tax in the Northern Territory adds to the costs that must be recovered from grocery prices. Some base wage rates are also higher. The Northern Territory has a district allowance of \$16 per week over and above the Federal Award rate that Coles pays in other States.

3.5. Advertising

31. A broadly similar amount of specials, advertising, sponsorships and so forth is conducted in the Northern Territory as in the rest of Australia. Nevertheless, print and electronic media advertising rates in Darwin and the rest of the Territory are higher compared with other Australian cities and regional centres. For example, the price of advertising is usually costed on the number of people the advertising reaches, such as the listening audience of a radio station or the circulation of a newspaper. In Darwin these prices,⁶⁷ while cheaper than Adelaide in actual dollars, are nearly three times as expensive as Adelaide in terms of audience reach for both radio and newspaper advertising.

3.6 Electricity (particularly refrigeration and air-conditioning)

32. Electricity contributes to a higher selling price in the Northern Territory for two reasons:

- The hot Northern Territory climate requires more electricity compared with the rest of Australia to keep refrigerated foods at the required temperature. Having fewer deliveries implies longer storage times and also increases refrigeration costs. Coles' electricity consumption, on a store comparison basis, is 2.4 times higher in Darwin than in comparable Adelaide stores.
- The unit price of commercial electricity in the Northern Territory is the highest in the country (equal highest with Western Australia) and is around 20 per cent higher than Adelaide.⁶⁸ Coles' electricity costs in its Darwin stores are 44 per cent higher per kilowatt hour than in Adelaide.

3.7 Rent

33. Construction costs are high in the Northern Territory, due to a small construction industry and the cost of transporting construction materials to the Northern Territory. This translates to high rental and fit-out costs of a supermarket. According to Rawlinsons' *Australian Construction Handbook*, construction costs in Darwin are more than 20 per cent higher than Adelaide, for a comparable structure.⁶⁹

34. Higher construction costs are inevitably reflected in higher rental costs. Higher costs of fit-out to national standards also adds to the amortised property costs of running a chain supermarket in the Northern Territory compared with a similar store in another Australian city.

⁶⁷ Media costs supplied to Coles Myer by the Adelaide Advertiser, the Northern Territory News, ADFM (Adelaide) and Hot 100 (Darwin).

⁶⁸ Fay Richwhite Securities Limited (1998), Table 3.10.

⁶⁹ See The Rawlinsons Group (1996), p. 26, and detailed building costs on p. 59 – 60 and p. 844

35. As noted above, stores in the Northern Territory have to carry a higher level of stock than major-city stores. Typically, the extra back-dock non selling areas are 60 percent larger in Darwin stores than Adelaide stores. This further increases the average rental costs of the Northern Territory stores.

3.8 Depreciation

36. The higher cost of construction in the Northern Territory results in a higher cost to fit-out a supermarket. The fit-out includes shelving, cash registers, refrigeration (twice the size of comparable Adelaide stores) and freezer cabinets, safe, lighting and air conditioning system. Depreciation of the fit out is a major expense and is directly related to the higher costs of construction in the Northern Territory.

3.9 Stock holding costs (stock/turnover ratio)

37. The discussion of spoilage costs above noted that increased lead-times in ordering required a higher level of stock. The Northern Territory market is small and (even in Darwin) the population is relatively low and dispersed. Both of these factors consequently tend to increase the stock/turnover ratio relative to major city stores.

38. A high stock/turnover ratio causes a higher than average amount of stock passing its use by date before selling. It also raises the financing cost of holding stock. When the product is sold, the sale price has to cover the interest accumulated while the stock was on the shelf and in transit. The benefits of just-in-time inventory and maintaining minimal stock levels are well known. Stock is capital and the owner of the capital (the store) must receive a rate of return on their capital at least as much as market interest rates. The interest cost increases the longer the item is on the shelf (which is higher in the Northern Territory due to the higher stock/turnover ratio) and the result is a higher final sale price.

39. The combined effects of increased interest costs and increased spoilage rates resulting from holding higher levels of stock relative to turnover contribute significantly to the price of groceries to the Northern Territory,

3.10. Sundry Expenses

40. Sundry expenses, such as maintenance, cleaning and the other items noted above, are also higher in Darwin than Adelaide. Overall sundry items are 54 percent higher relative to sales turnover than in South Australia. For example, maintenance costs are 15 percent higher and cleaning 24 percent higher.

4. A fair return on store capital

41. Stores in the Northern Territory have to provide a fair return on the investment in the store. Just like businesses everywhere, if a fair return cannot be attained, stores will close. It is also worth pointing out that if above-ordinary returns were being achieved, then it is likely that new stores would be attracted to the market. The absence of Franklins from the Northern Territory market speaks volumes. No-one is stopping them from entering, and it is likely that they judge that they could not make an adequate return on their investment in the Northern Territory market at prevailing prices. It is also possible that Franklins' high-volume discount style would not be successful in the small Northern Territory market.

42. Evaluating a "fair" return is a complex issue. First, the capital invested in a store has to return at least as much as market interest rates. If you can make more money by putting it into 10~-year bonds

then there is no point taking the risk operating a store. Given the Northern Territory market is small and volatile a fair rate of return is definitely well above the 10-year bond rate. In any case, investors in world markets ultimately determine the acceptable rate of return, including the margin for risk. This discipline of world financial markets is beyond the control of the Northern Territory, and the rest of Australia.

4.1. Population and store turnover

43. A small and dispersed population causes a lower turnover per square metre in the Northern Territory than achieved in major capital city stores. Darwin has a small population and is a dispersed city. Sydney has 60 Coles and Bi-Lo supermarkets servicing some 1.44 million households⁷⁰ or one Coles store for every 24,000 households. Darwin by contrast is sparsely populated and so there are fewer people served by each store location. Each of the seven Coles and Bi-Lo stores in the Northern Territory service some 9,000 households. Clearly, Supermarkets in the Northern Territory simply do not have the concentration of population needed to achieve the same economies of scale available to bigger metropolitan stores.

44. Note that Australian supermarkets usually draw 60 per cent of their turnover from people who live within a 3 km radius (under 30 square kilometres). Urban areas in the Northern Territory have far fewer people within any 3 km radius compared with most other urban areas in Australia. Sydney's population of 3.9 million⁷¹ people has one store for every 66,000 people. By comparison Darwin's 5 Coles and Bi-Lo supermarkets is supported by a population of 86,000 people - or one store for every 17,000 people.

4.2 Profit relative to capital

45. Profit as a proportion of turnover can be a misleading indicator of profitability, since it is really profit as a proportion of the capital investment that is important. The capital invested to run a supermarket includes all the fixed costs necessary before the doors can even be opened. These include rent, fit-out, advertising, management, average stock level, cash float, and refrigeration. Other costs associated with running the supermarket (such as wages, shrinkage, etc) tend to be variable - increasing with turnover and volumes. As variable costs tend to rise roughly in line with turnover, each extra unit sold covers the same amount of variable costs.

46. However, as turnover increases, each extra unit sold means that fixed costs are averaged over a higher number of items, causing fixed costs per unit to decrease, causing a lower selling price as turnover increases. There is no guarantee that a store operating with high turnover and low margins is more or less profitable than one with smaller turnover and higher margins. Comparisons of profitability should therefore concentrate on other conventional measures of returns, such as earnings before interest and tax (EBIT).

4.3 Fixed costs

47. Consider the following illustration of the relationship of fixed costs to volume. Two supermarkets, A and B both have fixed costs of \$250,000 per year. Supermarket A is located in a small market, (say) Darwin. The low volumes associated with a small market result in Supermarket A selling only 1 million items each year. Hence, the price of each item has to carry, on average, 25 cents of fixed cost. Supermarket B is located in a relatively densely populated area, (say) Newcastle. Supermarket

⁷⁰ ABS Cat. No. 3222.0, Series 4.1, July 1998

⁷¹ ABS projection at July 1998, op. Cit.

B sells 2.5 million items per year. Hence, the price of each item has to carry, on average, 10 cents of fixed cost, in order to provide the same return on capital.

48. Other than transport costs, a contributing factor to the costs of groceries in a location is the difference in the volume of trade in each location relative to overheads (economies of scale). The overheads (or "fixed costs") of a supermarket include:

- Rent;
- The warehouse and distribution system (shared among stores using the warehouse);
- Electricity for store air-conditioning, lighting and refrigerator/freezer cabinets;
- Trolley collection and cleaning contractors; and
- Depreciation of shop fit-out (shelving, shopping trolleys, cash registers).

49. The overhead load on each store and geographical basis is discussed on three levels below.

4.3.1. National overheads

50. This category includes the head office operations, buying, nationwide marketing, importing operations and other chain-wide expenses. Every store in the chain has to contribute a share of these overheads.

51. The Coles stores in the Northern Territory are part of a large chain, so national overheads are spread across a large number of stores. The benefits to an individual store of contributing to national overheads are the management experience, group buying power, brand recognition and market research that each store can tap into.

4.3.2. Regional Overheads

52. This category includes regional-specific overhead such as the DCs in each major city or region, regional management and regional marketing programs. Every chain in a region has to contribute a fair share to these overheads.

53. The regional marketing, warehousing and distribution systems are a significant overhead. In NSW, Victoria and Queensland the major chain warehouse and distribution systems each service in excess of 100 stores. Stores in the Northern Territory have to cover a higher proportion of the regional marketing budget, as well as some of the warehouse and distribution system overheads of the Adelaide warehouse through which stock is passed. Put another way, there are simply not the same economies of scale for chains in Northern Territory that there are on the East coast.

54. Because the Northern Territory market is small, regional overheads have to be shared by a relatively small number of stores. The benefits to an individual store of contributing to regional overheads are the cost savings from warehousing, regional marketing and promotion of sales and specials.

4.3.3. Store-specific overheads

55. This category covers the overheads of a particular store such as rent, depreciation, insurance, electricity, trolley collection. These overheads have to be recovered by the particular store.

56. These overheads are specific to, and necessary for, the operation of a store. Some of these overheads can be scaled up or down in the medium term depending on the level of activity at a store, however, they are reasonably fixed in the short term.

57. Even in central Darwin a small and dispersed population causes lower turnover per square metre than in the densely populated suburbs of major capital cities. Hence each item sold has to cover a greater share of overheads.

58. While this example is obviously a simplification of the many factors that can impact on supermarket pricing, it helps illustrate an important factor in supermarket pricing - the ratio of overheads to volume.

4.4. Discount chains

59. A discount supermarket chain relies heavily on high volume to drive economies of scale to ensure profitability. While there are no physical or legislative barriers to Franklins or any other chain operating in Darwin, the combination of low volume and high overheads may explain why they choose not to.

- High volume locations have lower supermarket prices because overheads are lower per item (classic economies of scale);
- Franklins tends to operate in high volume locations because their budget supermarket product relies heavily on economies of scale and is more successful in a high volume market.

60. High volume locations tend to have lower prices and (like any sensible business) Franklins tends to operate only markets where they can operate profitably - that is, in high volume markets.

61. Why is it that Discount supermarkets cannot be sustained outside major urban centres? The answer is quite simple - the volume to overhead relationship is simply not in the range that makes a discount operation viable. Just as major teaching hospitals, major department stores and major shopping malls only exist in major urban centres, so too with discount supermarkets.

62. A store with low turnover requires a higher rate of profit as a proportion of turnover to achieve the same rate of return on capital as a similar sized store with a higher turnover.

63. The previous section explained some of the relationships between stock and turnover, and there are similar concepts for other parts of the supermarket capital. Lower turnover therefore requires each item to carry a higher margin.

5. Price surveys

64. Substantial publicity was generated recently over supermarket pricing and competition by an untitled report produced in November 1998 by the Centre for Media Research and Community Opinion (CMRCO, 1998) located at Curtin University, in association with the Apple & Pear Industry and Life. Be In It. The report discusses many issues relating to supermarket competition, pricing and the GST. The report was subsequently featured in a Business Review Weekly article (James, 1999).

65. The study made some significant allegations relating to supermarket prices in the Northern Territory in particular.

66. The survey on which the report was based was originally designed to provide information on the price and availability of health food items for a potential Life. Be In It endorsement program. and, the price and availability of apples for Apple & Pear Industry research. However, it went beyond apples and health food programs to raise a number of controversial questions. The report included suggestions of anti-competitive pricing practices, cross subsidisation and issues relating to a GST.

67. Access Economics (1999) reviewed the methodology and conclusions of the CMRSCO survey. We found deficiencies in the selection of locations to survey, the methods used to aggregate the raw survey data and the conclusions drawn from this data.

68. The sample size was relatively small - only 51 stores surveyed nation wide, of which 24 were in Newcastle. The 27 stores outside Newcastle did not include any in Sydney or Brisbane. The survey covered only 10 fruit and vegetable items, 34 grocery items plus all available sizes and varieties of apples. Many large supermarkets around 40,000 product lines, so the number of items surveyed represented a narrow sample. Only three stores were surveyed in Darwin.

69. All of the grocery items surveyed were of a health food nature - low fat, low cholesterol or low salt product lines. The basket of items was not at all representative of the average household's consumption, so cannot be used for valid conclusions relating to a household's grocery bill.

70. It is surprising that so much credibility was given in the media to a report based on a price survey of around 30 low-fat grocery items in three Darwin stores. Given normal statistical variance and the small size of the survey sample, the true answer could be vastly different to the survey results.

71. The CMRSCO report refers at several points to the relationship between transport costs and grocery prices, for example: "How much your food shopping costs varies on the basis of where you live - with the difference not being reasonably explainable on the basis of transport costs".

72. Access Economics requested a copy of transport cost data used by CMRSCO in their analysis, but none were available. It is Access Economics understanding that no data was actually collected by the CMRSCO to analyse transport costs. The conclusions drawn about transport costs are not actually based on any hard data. Rather, they are based on the assumption by the CMRSCO that locations the same distance apart probably have the same transport costs. Access Economics has great difficulty with this. The CMRSCO assumes that Darwin, Hobart, Mackay, Townsville and Perth all have similar transport costs. This is unlikely to be the case:

- Unlike the other locations, Hobart is separated from the Australian mainland by a large body of water. Transport to Tasmania is expensive, contributed to by "back-loading" problems (ships having to return half full, thus increasing the cost of freight);
- Darwin does not currently have a rail link with Adelaide (only from Alice Springs to Adelaide) and road transport has significant back-loading problems;
- Mackay and Townsville have rail and road links and are located on the heavily populated Queensland coast;
- Perth, while remote, has a large population and major freight corridors that partly offset the distance; and

- The survey focused on fresh produce and also included frozen items. These items require refrigerated transport, which can add significantly to transport costs.

73. The CNRCO report concludes that transport costs are not the "driving factor" in price differentials between locations. But this conclusion was not based on any data on transport costs presented in the report and therefore remains a fundamental factor that the report has not addressed.

74. Access Economics collected data to examine transport cost differentials (and modes of transport) between various locations as paid by supermarket chains. The figures in Table 5-1 are based on the cost of transporting one pallet of dry groceries to various destinations from the nearest distribution centre, converted into an index with Mackay = 1 00 for ease of comparison. The figures suggest it costs more than double to transport groceries to Darwin or Hobart as it does to send them to Mackay.

Table 5-1: Transport cost relativities

Route	Mode of Transport	Relative transport costs
Melbourne to Hobart	Road, Sea, Road	212.1
Brisbane to Mackay	Rail	100.00
Adelaide to Darwin	Rail, Road	225.8

75. Two conclusions can be drawn from this relative transport cost data. First, carriage by rail appears to significantly reduce the costs of transporting groceries. Secondly, the CMRCO claims were based on populist impressions rather than actual data.

6. Cross subsidisation

76. There have been suggestions in the media arising from the CMRCO report and BRW article that Coles and Woolworths sustain lower prices in markets where Franklins is present (like Newcastle) by recouping extra from regions elsewhere (like the Northern Territory and Tasmania). This practice is known as cross-subsidisation. Governments occasionally engage in cross-subsidisation through uniform pricing for equity reasons. For example, the same 45 cent stamp can send a letter from Canberra to Sydney or from Darwin to Sydney (although the Darwin-Sydney letter costs more to deliver). People sending letters short distances are cross-subsidising those sending letters longer distances.

77. While a government might undertake cross subsidisation to achieve an equity goal, it is far less common for it to occur in a very competitive business like retailing. If a store in a particular location were continually making losses, it would be closed (or its activities refocused) rather than cross-subsidising it from other stores in the chain. Stores only remain open if they can generate positive returns in their own right.

78. Just because prices are lower in a certain area does not mean stores operating in that area are necessarily making a loss requiring cross-subsidisation. There is not a one-to-one relationship between price and profit. Given a selling price, there are many accounting calculations to make to derive profit. One thing is clear from Australian Bureau of Statistics data is that retailing is a very competitive business in Australia and profit margins are among the lowest of all industry groups.

79. Some other inconsistencies with the idea of cross-subsidisation are:

- The entire Northern Territory is less than 1.3 per cent of the Australian food and grocery market.⁷² It is simply not feasible that Coles and Woolworths would barely breakeven in NSW, Victoria and Queensland and then cross-subsidise these operations by making huge profits in the Northern Territory. The Newcastle region alone is nearly double the population of the Northern Territory;
- If the supermarket majors were charging prices in Newcastle that required cross-subsidy financed by charging a premium in other locations, then the more sensible option would be to simply close the Newcastle stores. No one is forcing them to keep loss-making stores open (unlike Australia Post, which is required to deliver mail to every corner of Australia). The reason the stores remain open must be because they generate a positive return (not because they are being cross-subsidised from Northern Territory stores); and
- There are no restrictions on other supermarket chains opening stores in the Northern Territory. If Coles were really making enormous profit in the Northern Territory then other stores would open in competition and take the higher returns as pure profit. The fact that other chains choose not to open in the Northern Territory contradicts the arguments about cross subsidising.

80. It is the lack of cross-subsidisation in retail pricing, together with higher costs, that makes prices in the Northern Territory higher. Many consumer products in the Northern Territory are subsidised by the rest of Australia through government subsidies and transfers (mail, telephone, infrastructure, health and education). However, in retailing people in the Northern Territory actually pay a price that fully reflects the cost of the item they consume. The food and grocery market in the Northern Territory is simply too small to generate profits large enough to support any subsidy for the rest of Australia.

7. Summary

81. Some key points:

- A major reason for pricing differentials between locations is the economies of scale available. Smaller markets like Tasmania and the Northern Territory have to support a greater proportion of fixed costs for each item sold;
- High stock/turnover rates, driven by less frequent restocking and the size of the market, increases spoilage and back-dock rent;
- Transport costs are far greater to the Northern Territory, due to isolation, refrigeration and the back loading problem;
- Other major costs, such as electricity and rents, are all higher for supermarkets in the Northern Territory, compared with the major capital cities;
- Discount chains only tend to operate in markets where there is sufficient volume to drive economies of scale. Rather than discount operators necessarily forcing prices down, it is more likely that discount operators only open stores in high volume markets (where prices would have been low anyway);
- It is hard to believe that lower price regions like NSW, Victoria and Queensland are being cross-subsidised by higher price regions like Tasmania and the Northern Territory. Firstly, higher prices

⁷² ABS Cat. No. 8501.0, March 1999.

do not necessarily, correspond to higher profits (costs need to be accounted for). Secondly, any store making losses would be closed or restructured rather than sucking profits from other stores in the chain;

- Low turnover results in items having to carry a higher proportion of fixed costs (overheads); and
- Recent claims in the media about prices in Darwin were based on research that was very flimsy, lacking in hard data and credibility.

82. Some factors that could make Northern Territory groceries cheaper in the future:

- A reduction in transport costs, such as the Alice-Darwin rail link and improving back loading;
- Reduced fuel cost with the diesel fuel rebate increases in the "A New Tax System" proposals (another example of the rest of Australia cross-subsidising the Northern Territory);
- A reduction in the payroll tax rate to a level more comparable with the rest of Australia; and
- Reduced electricity costs.

83. While these measures would help reduce grocery prices, the Northern Territory will still have cost disadvantages that will give it higher grocery prices than the rest of Australia.

References

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Part C 1

The period from the time the goods are purchased to the time they are sold to the customer, including costs associated with freight.

Time

It is difficult to give an average time for each category of goods because they may be purchased by the Adelaide Distribution Centres from all areas of Australia. The stores in the Northern Territory then purchase these goods from the Adelaide Distribution Centre on average four (4) times per week and it can take up to four (4) days for the goods to be delivered. The best guide for overall product life is explained under Part C2, with the attached "Age of Acceptance - Shelf Life" summary chart. (Appendix A2)

Inventory

With the lower frequency of service and long lead-time compared with Adelaide stores, which can be serviced six (6) days a week, with a 12-hour lead-time, an extremely large inventory is held. In the Northern Territory each store holds an average \$1.4 million or approximately 21 days cover, which is \$637K or 80% higher than the average for Adelaide stores.

There is considerable impact on the handling and holding capabilities for this amount of stock, with the Northern Territory stores requiring additional space and cool room facilities, e.g. non selling area averages 1,660 sq. metres in the Northern Territory, which is some 675 sq. metres or 68% higher than our Adelaide stores.

Costs

Apart from the additional financing and store rental costs for the unproductive space, there are significant costs in terms of shrinkage through loss of quality due to the time delays and extra handling.

There are incremental costs for selecting and packing product for the Northern Territory in our Adelaide Distribution Centres. A particularly good example is the expansion of the St. George Fresh Produce facility, with new cool rooms and a temperature controlled loading area at a capital cost of \$650K. The additional power used for pre-cooling costs is \$18K per annum and the labour \$30K per annum.

Using Coles sell by policy, our markdowns and waste are considerably higher and for the departments where this has the greatest impact, Fresh Produce and Dairy, our losses are in excess of \$600K per annum.

Freight

The cost of transporting goods to the Northern Territory is now approaching \$9.0M per annum. Whilst this is not quite as expensive as the cost of transporting goods to our far north Western Australian stores, the rate, as a percentage to sales, is almost 10 times the rate for our South Australian stores and is not totally recovered in our pricing structures.

Part C 2

The average shelf life of food and groceries, particularly fruit and vegetables

Product Age of Acceptance/Sell By/Use By Dates

The effective life of food products varies depending on the nature of the product and its storage and handling throughout the entire supply chain. To manage the product life and ensure the customer receives and consumes it within required food safety and quality specifications, Coles Supermarkets has developed "Acceptance and Shelf Life" standards. These are listed by store trading department and category on Appendix A2.

Product expiry dates, (either use by or best before), are established by the producer/manufacturer and are based on accepted environmental, transport and holding conditions.

Product life is divided into four major components, Manufacture, Warehouse & Distribution, Acceptance & Store Shelf Life and Consumer Life. In general terms these elements are divided into four equal segments ensuring customers receive a minimum 25% of the product life to handle and consume.

To supply its retail stores in remote areas Coles and its suppliers take particular actions to ensure stock will arrive in store with the Maximum product life and in optimum condition. For example, this involves careful selection in terms of the maturity of fresh produce and in the dairy distribution centre picking the stock with the longest shelf life.

Coles have established store clearance and markdown routines which require, at predetermined intervals, the regular review of use by dates and shelf life to ensure products are sold by a date which will provide customers with the best possible product. The maintenance of these standards in remote areas results in Coles experiencing a higher than normal level of product wastage.

For example in Fresh Produce our Darwin stores experience Waste & Markdowns of 14.5% to sales which is nearly 1/3 higher than the level experienced in our South Australian stores. The impact of this in dollar terms is approaching \$500,000 pa.

The Dairy department also contains a significant number of short shelf life products and the Waste and Markdowns are 3.1% to sales which is approximately 50% higher than the SA stores. The impact of this in dollar terms is approximately \$100,000 pa in the Darwin stores.

There are also impacts in the other perishable departments of Bakery and Fresh Meat but at the moment Coles does not have the technology infrastructure to isolate these values.

Part C 3

Practices adopted to maintain or increase market share and viability and what impact these have on small business in the local market.

Background

Coles submission describes how we go to market in a holistic sense. "We are innovative industry leaders who provide customers with value, convenience and superior service".

To achieve our mission we have to focus on our relationships with our three key stakeholders - customers, staff and suppliers. This enables us to operate our stores with highly skilled and trained staff and present the best merchandise range that we can find on a National and local basis from suppliers with competitive pricing and superior service.

Pricing Structure

Coles has a standard pricing structure in each State and Territory designed to give a satisfactory return while providing good value to customers.

This standard structure may vary upwards or downwards according to the different structural costs in each location.

Coles may, because of local competition, be obliged to accept lower prices than its standard structure.

All store managers have the discretion to lower prices on key lines to meet (but not undercut) local competition. They do not have the authority to raise them.

Pricing Policy

Coles is acutely aware of the need to offer its customers value through competitive pricing.

it is accused in some quarters of being too expensive, (rip off) and in others as being too cheap (predatory pricing). We are puzzled by this.

Past experience has shown that when 'Coles prices have not been competitive customers have simply shopped elsewhere. In the case of certain high 'image' items e.g. bananas, failure to be competitive can not only lose this sale but at best the consumer has an incorrect perception of higher prices across the department or store and at worst they may take their entire custom to a competing retailer. We therefore endeavour not to be undersold on key lines.

Marketing

1. Coles marketing strategy has two main thrusts - a national promotional program and store specific tactical activities. The former (and mainstay) component is based on an advertising plan devised in conjunction with the Merchandise groups (and suppliers) and executed each week to entice consumers to shop at Coles. An appropriate mix of market competitive specials is communicated to consumers via catalogue and TV and is supported by value for money everyday shelf pricing in store. We also leverage our loyalty program Fly Buys to enhance our value equation by deploying bonus offers. In addition, the shareholder discount scheme provides tangible financial benefits to CML shareholders whenever they shop at Coles.
2. In terms of store specific activity, we either adopt a proactive or reactive marketing stance as the situation demands. When launching either a new or refurbished store, we actively promote the store's features, benefits, services and merchandise range to the local community to make constituents aware of the new or improved shopping choice now available to them.
3. When confronted with increased competition in a market place, we endeavour to protect our existing business by gearing our advertising to remind customers of the value, quality and breadth of our local retail offer.

Small Business Impact

Our pricing and marketing activities are primarily focussed on the offer of the main chain competitors in each market as they have a broadly similar offer and are targeting the same customer.

Small business depends very heavily on the traffic flow generated by the major chain supermarkets whether they are competing in different locations in the same shopping centre or, in nearby locations, as evidenced by regional shopping centres.

It is our experience that when the Coles offer is delivered well, Coles is successful and that small retailers even those competing in the same categories outside our door do extremely well.

These small retailers can be single store, multiple store or even franchisees who have in common with Coles a professional background and approach to business management. They are very tough, innovative competitors with a sound business positioning and marketing niche.

The ABS statistics for both specialised food retailing and the classification of supermarket and grocery stores continues to show growth in numbers above the chain store growth in Darwin (Note: Darwin has 10 chain stores).

		91/92 Census	Sept '97 Business Register		
Supermarket & Grocery Stores		49	68	+19	+38.8%
Specialised Food Retailing		174	193	+19	10.9%

This growth would seem to suggest that the innovative, well managed small food businesses are expanding and finding success in the market place in Darwin.

Part C 6

**Historical data of prices in the Northern Territory for the past 12 months;
and**

**the top 200 fastest moving consumable items in terms of volume so as to compare Darwin,
Alice Springs and Adelaide.**

We have provided the Committee under separate cover, the top 500 list of fastest moving consumable items, excluding our Private "Farmland" Label brand, along with a category listing to permit selection of a representative basket for the Committee's separate analysis.

The data graphed below is based on the top 200 fastest moving consumable items, including Private Label brands but excluding cigarettes over the past 6 quarters for *Alice Springs, Darwin, Karratha, South Hedland, Broome, Kununurra* and our *Adelaide* Coles stores. The sell value being graphed is unweighted and purely a sum of the 200 items but does allow for a precise comparison between the locations and over the time series. Note: Coles *Broome* and *Kununurra* opened in May 1998.

The graph shows over the past eighteen months that prices have increased by 2.4 per cent in *Adelaide* and 3.7 per cent in *South Hedland* and *Karratha*. *Alice Springs* and *Darwin* prices decreased over the same period by 0.4 and 0.3 per cent respectively.

Using *Adelaide* as a base price, *Alice Springs* prices are 5.8 per cent more expensive than *Adelaide* on this 200 item food basket. *Darwin* prices for the same basket are 8.2 per cent more expensive.

SUBMISSION 45A

Coles Supermarkets Pty Ltd

Dear Dr Lim,

We write in response to the Committee's requests for **further information** on comparable food prices in Territory centres and similar regional centres. In addition we respond to **several items** raised at the Darwin hearings. The supplementary submission, enclosed, is in five parts.

Part A deals with regional financial comparisons and should be read in conjunction with confidential attachments to this submission.

Part B deals with arguments relating to **industry concentration and market share** put to the Committee in Darwin and the number of food retailers particular markets can sustain.

Part C deals with **extended trading hours** in the retail sector,

Part D deals with **suppliers** to Coles, and

Part E addresses **price surveys** as canvassed by the Committee.

Should you require any clarification on any of the issues raised or seek further information please do not hesitate to call me directly on (03) 9829-5391 or Chris Mara on (03) 98294141.

Yours sincerely

Ted Moore
General Manager
Regulatory Affairs

Part A Regional Comparisons

A request from the Committee seeking comments on comparable centres as per the Committee letter of 19th and 30th June 1999.

Coles response

Comparing Northern Territory regional centres with parts of northern Queensland and Western Australia has merit, but in doing a comparison, caution needs to be used in drawing conclusions.

In Cairns for example, while the population and latitude are broadly similar to Darwin one needs to recognise the significant differences to Darwin.

- Cairns and its near hinterland contains a significantly larger population (218,000 in 1996) than Darwin. Also Townsville (with a population of 110,000) is about the same proximity to Cairns as Katherine is to Darwin.
- Cairns is also connected by a direct rail link to Brisbane which has substantial population centres and industry located along its 1400 kilometre length. These factors enable the Cairns-Brisbane transport corridor to be serviced more regularly by air, land and sea than Darwin.
- The distance between Cairns and Brisbane is substantially less than the nearly 3000 kilometre distance between Darwin and Adelaide. The Territory has the added disadvantage of fewer back loading opportunities to offset the freight costs of supplying Darwin from Adelaide.
- Brisbane retailer Distribution Centres (DC's) receive the same capital city free into warehouse (FIW) terms and costs as other eastern seaboard capitals. The Brisbane DC also enjoys scale economies of supplying all Queensland and Northern Rivers section of NSW - a population base approaching 4 million people.
- The fruit and vegetable growing areas in this North Queensland region are among the largest and best in Australia
- The meat and livestock supply is abundant in the region
- The cost of conducting business in Cairns is significantly lower. For example, as a percentage of sales:
 - freight is 146 per cent higher in Darwin
 - light and power is 99 per cent higher in Darwin
 - overhead costs are 53 per cent higher in Darwin
 - store operating costs are 4 per cent higher in Darwin

In Attachment **A-1**, Coles has provided the Committee prices of the items requested on the six periods in question. Please also note our comments in **Part E** of this submission in relation to Price Surveys. Financial requested in June 30 correspondence will be provided to the Committee, **commercially-in-confidence**, at the hearing

Part B Industry Concentration

Industry concentration and market share issues were raised during the hearing in Darwin. The following points are in response to claims made.

Coles response

Coles believes that the issue is not "*concentration*" as such, but whether the Australian retail grocery market remains **competitive** and open to new entrants. Our submission to the Federal Inquiry demonstrates that the market is highly competitive. Consumers enjoy food prices that are amongst the lowest in the OECD; they have access to a wider range of products than ever before and the choice of shopping between the major chains and many smaller specialised food retailers. We demonstrate that the market share of the major chains is **not detrimental to the consumer**, nor has it led to an abuse of market power.

Retail chains including supermarket chains in all developed countries are increasing their share of the market in which they operate. This is evident in recent takeover activity in Europe (where **Wal-Mart** has taken over the UK's third largest food retailer **ASDA**) and the USA, which continues to rapidly consolidate (refer **Table 1-2**).

ABS data specially prepared for the Federal *Joint Select Committee on the Retail Sector* show that in the supermarket and grocery industry the market share of the three major chains rose from 68.8 per cent (1994-95) to 75.4 per cent (1997-98) of the *narrowest* definition of the food market. **Interestingly, the market share of the majors for the Northern Territory in 1997-98 was 60.7 per cent.**⁷³

On a *broader* definition of the market prepared by the ABS, which includes specially food retailers and take away food, the major chains market share was 49.1 per cent in 1994-95 and **53.9 per cent** in 1997-98. These statistics exclude most non-employing food retailers (of which there are many) and therefore overstates the market share of the chains.

Despite concentration, small-specialised food businesses continue to **thrive** in the Australian retail market. For example specially food retailers such as bakeries, chicken shops and gourmet delicatessens have increased significantly. The number of such stores grew by a net 3,198 new stores nationally, between 1986 and 1992. This trend continues and is evident in Darwin, where the number of specially food retailers increased by **10 per cent** between 1992 and 1997.

Fluctuations in market share

A large market share does not mean dominance. Nor does it prevent competitors from succeeding or new operators from entering the market.

The graph below illustrates the market share fluctuations that have occurred in Australia since 1984 according to the narrow dry grocery definition of supermarket sales.

Woolworths overtook Coles' market share last decade. The Independents' market share has fallen over the same period.

Figure 1-1: Branded dry packaged goods market shares, Dec. 1984 to Dec. 1998

⁷³ ABS market share data provided to the Joint Select Committee on the Retailing Sector

International comparisons

Market concentration is determined by a variety of factors including size and dispersion of population. The level of concentration is generally higher where the population or its degree of dispersion is lowest.

Australia has about the number of major food retailers that might be expected to serve a market of 18 million people distributed over a large landmass in a small number of metropolitan areas.

Table 1-1
Major retail food chains and population

Country	Population	Major Chains	Millions of people/chain
Australia	18	3	6
Canada	27	3	9
England	59	9	6.5
United States	255	46	5.5

Table 1-2 below illustrates that concentration of Australian supermarket chains, though high, is not out of line with that in comparable countries.

Table 1-2: Grocery retailers share of packaged food market

Country ¹	Population (millions)	Market Size \$A b ²	Top 3
Switzerland	8	25	90.3%
Sweden	9	26	84.4%
Holland	16	27	49.0%
Australia	18	37	80.4%
Canada	27	58	60.0%
England	59	120	49.1%
France	60	121	*35.5%
Germany	80	175	56.0%
USA	255	415	*23.2%

* Recent merger activity in France & the US will significantly increase these figures. The top five French retailers now control almost 80% of *total* retail sales

Notes: Data is derived from AC Nielsen

1. Canada, United States & Australia are based on 1998 market shares and Germany, France, Netherlands, Sweden, Switzerland and England are based on 1997 market shares. Canada and the United States are unpublished AC Nielsen data.
2. Exchange rate based on A\$ exchange rate as at and of February 1999 using sales data from M&M.

Table 1-3 below also shows the market share of the top three retailers in a number of US cities, which is relevant given the major chains share of sales nationally at 75.4% and their share in the Territory at 60.7% in 1997/98.

Table 1-3: International comparison of grocery retailers' market share of packaged goods

City	Population (millions)	Top 3 Market Share
Miami	2.1	85.9%
Tampa	2.2	78.2%
Los Angeles	9.1	72.7%
Chicago	7.7	68.1%
San Francisco	1.7	67.9%
Seattle	2.2	66.3%
Houston	3.8	60.1%

source: Morrill Lynch (1998)

This international comparison clearly indicates that regulators are more concerned as to whether the market remains open and competitive and not with market share per se. **Coles submits that "concentration" is not the relevant point. The issue is whether the market remains "competitive".**

Evidence of competitiveness

The Australian retail market clearly remains competitive as is shown by the following points:

- The number of food retailers continues to grow. Between 1994 and 1998 the number of shop fronts increased by 24 per cent.
- Supermarket and grocery stores increased from 7,184 to 7,835 premises over this period. A 9 per cent increase.
- There were no declines in any food retailing class tracked by the ABS⁷⁴
- The competitiveness of the Australian industry is clearly illustrated by the slim EBIT margins of the major chains such as Coles (3.4% compared with up to 4% in the US and 5 to 6% in the UK.)
- Retail outlets are bought and sold at twice the rate of other industries - a key indicator that competitive entry is occurring.

The Territory is a highly competitive market and this is well illustrated by the number of stores relative to the population. Coles & Bi-Lo's five Darwin stores serve an average of 9,000 households per store. Each of Darwin's ten supermarkets serve approximately 8,500 people. This supermarket to population ratio is similar to Townsville (7,500), Toowoomba (10,900), Launceston (7,100), and Ballarat (8,100), each of which have similar populations to Darwin.

Growth in Darwin's retail market over the 1990's suggests that competition and the number of competitors is increasing. Between 1992 and 1997 the number of Darwin supermarkets and grocery stores increased by 38 per cent.

While market share gains of retail chains is an international trend it is interesting to note that the number of retail businesses per head of population has been stable in Australia for 25 years at approximately 10 stores per 1 000 people.⁷⁵

⁷⁴ ABS Business Register 1994-1998

⁷⁵ Access Economics

Part C Trading hours

The reintroduction of regulations governing shop trading hours was raised at the Darwin hearings as a possible solution to the predicament of small grocery stores.

Coles response

Restricting trading hours would only serve a small number of retailers who, for lifestyle or anti-competitive reasons, prefer to have certain trading hours to themselves. Such restrictions would be a major inconvenience for Darwin workers, particularly service industry employees, along with the multitude of interstate and international visitors. Trading hour restrictions would also reduce employment opportunities, restrict consumers' choice and their access to competitive prices.

In Coles' experience, it is more expensive to close and re-open stores each day than keeping them open. Costs associated with rent and outgoings, refrigeration, power and lighting, do not stop because the store is closed. By remaining open Coles can offset these costs with sales to customers who choose to shop at times convenient for them.

Coles submits that placing new restrictions on trading hours would be a backward step for consumers, employment and tourism.

Interstate Experience

Governments of all persuasions have freed up shop trading hours right across Australia over the last twenty years. Conservative governments in Victoria, NSW and the ACT have effectively removed all restrictions on extended trading hours.

In States where there are restrictions on Sunday trading, these restrictions are generally not applied to tourist precincts and CBD areas, which are allowed to trade. Naturally, those retailers outside these areas feel discriminated against. Reviews in these jurisdictions point to the gradual elimination of discriminatory regulations.

Where deregulation has been publicly challenged (in Victoria and the ACT) these governments have experienced a community backlash.

ACT Experience

The ACT government introduced restricted trading hours in an effort to force consumers to shop at small neighbourhood centres. They rescinded the restrictions when consumers demonstrated their displeasure and maintained their habits of buying their grocery needs at supermarkets and "topping up" for food at convenience or small grocery stores.

The ACT Minister said at the time⁷⁶:

"The government has exhaustively studied the effects of trading hours restrictions in recent months. There is some evidence to suggest that it has had a limited positive effect on local traders, but that effect has been considerably outweighed by the views of the wider community, which has signalled their displeasure to the measure.

"The government has made every effort to try to help local businesses. But our detailed, independent assessment of that measure shows it is without broad community support and has not contributed to significant improvements for small shops.

⁷⁶ Garry Humphries MLA – Minister for Consumer Affairs – May 1997

"Local shops must now turn their attention to being competitive, by offering services which perhaps are not available in, or attractive to, larger supermarkets."

The ACT Chief Minister stated this week that Canberra's "local shops" had made a strong comeback over the last two years, growing by some 26 per cent. See **Attachment C-1**.

Victorian Experience

Shop trading hours were deregulated in Victoria at the end of October 1996. This effectively allowed shops to trade on Sundays.

The **Victorian Minister**⁷⁷ announcing deregulation of shop trading hours pointed out that the limit's on shop opening times **did not comply** with the principles of the National Competition Policy Agreement, stating:

"it is clear that shop trading regulation in Victoria is no longer working in the best interests of the community as a whole because it has not kept pace with changing community attitudes and needs."

"Our current trading rules impose net costs on the community and infringe upon people's rights to live and work as they wish without unnecessary government interference."

When these changes were challenged (allowed for under the legislation) in the regional Victorian **City of Bendigo** (population 85,000), an *Electoral Commission* referendum was conducted. Following vigorous debate **72 per cent** of eligible voters voted in the **referendum** (compared with 45 per cent who voted in the Constitutional Convention) **77 per cent** of those voted to **retain** Sunday trading.

The Chief Executive Officer of the City of Bendigo⁷⁸ said:

"The success of Sunday trading in Greater Bendigo, and the strong public endorsement it received in the poll, are seen as important factors in the growing confidence of residents and business in the city about its economic future."

The message to government and parliamentarians is pretty clear, the broader community has become accustomed to greater access and convenience provided by unrestricted shopping hours and will react adversely, as witnessed in the ACT, at attempts to restrict them.

Customer Benefits at Risk

Restrictions on shop trading hours limits consumer choice and access to cheaper prices and a wider range of retail goods. Trading hour regulations which discriminate between retailers on the basis of their size or because they sell or do not sell a particular range of goods are not in the consumers' interest. It also penalises the retail sector compared with other sectors, such as entertainment and hospitality, which are vying for the consumers' dollar.

Research carried out for Coles by **Delbato & Young**⁷⁹ surveying consumers' response to extended trading hours in Victoria demonstrated strong community support. Key findings in the survey, state:

⁷⁷ Mark Birrell MLC - Minister for Industry - September 1996

⁷⁸ Hadley Sides CEO City of Bendigo - October 1998

'There was strong evidence in groups surveyed in support of extended trading hours. Even shoppers who did not use the extended hours were overwhelming supporters of the change. There were many benefits, towards which shoppers would point..

- *Flexibility,*
- *Avoid high charges - cheaper convenience shopping;*
- *Choice;*
- *Less pressure, more time to shop;*
- *Time for other things - work, family, self "*

Extended trading hours also benefit those in more remote communities who wish to shop in larger centres, such as Darwin or Alice Springs, for the range and cheaper prices on offer. These consumers would be negatively affected by a reduction in trading hours, as would tourists who spend considerable amounts of their time and money shopping. If shops were closed these dollars may go unspent. There would also be an impact on employment and business viability.

Retail sales growth

Changes in retail turnover in the years before and after deregulation of trading hours in Victoria demonstrate that Victoria outperformed all other states in total food and non-food retail sales.

In Victoria when shopping hours were deregulated, all Victorians shared in the benefits. Deregulation has been associated with:

- A faster growing retail sector able to compete on equal terms with other unrestricted industries for the consumer's disposable dollar
- More retail employment opportunities including an additional 2,000 jobs at Coles in the 12 months following deregulation
- Improvement in the State's economic growth, as retail sales moved from below the national growth rate before deregulation to above
- A positive flow on to manufacturing
- Competitive prices all the time
- Freedom to choose where and when to shop.

Shopping hours & Employment

There is little doubt that if shopping hours were cut back it would translate into reduced hours for retail employees and fewer quality retail jobs. Fewer hours of employment equals less income for retail employees, reduced employment opportunities and less disposable income to spend. Such restrictions would also undermine the move away from casual towards more permanent retail employment, and reduce the flexibility for employers and employees on the hours they work.

⁷⁹ Delbato & Young - Supermarket Trading Hours - Shoppers response to extended trading hours

Part D Suppliers

At the Darwin hearings there was some concern expressed about major supermarkets dealings with suppliers.

Coles response

Coles' relationship with suppliers starts from the premise that we need to ensure an ongoing supply of quality products to meet customers' demands and accommodate their changing expectations.

Therefore Coles relationship with its suppliers needs to be open, fair and ensure a reasonable return for all parties.

Coles' relationship with suppliers has not always been positive. It was criticised in Federal Parliament in the early 1990s and this was detrimental to Coles' business performance.

Since that time Coles has undertaken a program of improvement, which includes strict guidelines and standards for buyers in their day-to-day dealings with suppliers.

Commercial Conduct

In 1994, Coles Myer introduced a **Code of Conduct** which applies equally to all employees and mandates a "Compulsory Declaration of Conflict of Interest".

Coles' buyers are trained in the Company's ethical expectations towards suppliers, and in the legal requirements for dealing with them. The Company also takes great care to explain legislative requirements with which suppliers need to be familiar, in order to run their own businesses well. An example is the critical area of food safety.

As a consequence Coles policies, buyers:

- Adhere to a number of guidelines and standards in their day-to-day dealings with suppliers
- Are issued with *Trade Practices Compliance Guidelines*
- Are issued with a '*Fair Trading Amendments*' update, which is aimed at dealing with small suppliers. These detail the legislative requirements for working with all parties, including competitors and customers as well as suppliers.

Terms and conditions are clearly set out and available to Coles buyers and suppliers.

Coles' Supplier Relationship Policy rests on placing a high valuation on its relationship with all its suppliers, both large and small. The company continues to co-operate with and encourage suppliers to attain mutually achievable goals. To ensure Coles standards are complied with, there is a process in place for resolving complaints.

Assessment

Primary producer forums are held regularly to improve communication. In addition, annual supplier surveys are conducted to monitor Coles' progress in improving its supplier relationships. These surveys have shown steady improvement over the past five years.

Supplier terms

Coles believes that the price it pays for goods into its distribution centres is the same as those that are offered to other supermarkets or wholesalers.

This also applies to volume discounts and rebates, although these are treated confidentially. Discounts are provided for prompt payment, volume purchases and conducting promotions including advertising.

Whether or not wholesalers pass the benefits of the discounts and rebates on to their customers, including independent grocers, is a matter for them.

Primary producers

Primary producers have undergone substantial rationalisation to compete in international markets. For example, 60% to 65% of beef produced in Australia is exported⁸⁰.

Coles has developed strategies with our primary produce partners to meet customer needs and improve sourcing, processing, food safety, quality, logistics and retailing of fresh products. This is essential to guarantee quality and safety.

In Meat, relationships have and are being developed with livestock producers. Livestock producer groups permit greater two-way understanding of Coles' customers' expectations, as well as producer issues.

In Fruit and Vegetables, Coles has a mix of sources of supply:

- Localised purchases
- Market purchases
- Via direct contracts with growers
- Imports (less than 3% of sales) when local supply is unavailable

Coles accepts there is a need for greater communication and transparency with primary producers about all factors associated with getting their product to the supermarket shelf, ie, marketing, shrinkage, operating costs, development costs, quality assurance and safety.

For example, only around one third of the live weight of a beast ends up on the supermarket shelf, but this is not widely appreciated.

Coles is establishing processes to ensure this communication takes place.

⁸⁰ Cattle Council

Part E Price Surveys

The Committee during the Darwin hearing canvassed the use of price surveys to monitor food prices in Territory grocery stores.

Coles response

We appreciate the need for the Committee and Parliament to assure the public about Territory food prices, however, we are concerned about a small price survey the Committee is considering as a means of reassuring the public.

There are some very significant problems with the survey approach being considered.

- Firstly size. A small basket of goods sampled from supermarkets runs the risk of being manipulated by the retailers being surveyed. In similar surveys conducted by the *Australian Consumers Association* (publishers of Choice), some retailers knew when the survey takes place and dropped their prices on key items to appear the "*cheapest*" supermarket in the survey. Other retailers followed the lower market prices down. Despite Coles pleas to Choice to undertake the survey unannounced, the annual practice (and published results) continues. (see Attachment E-1)
- A similar survey in the Territory would be manipulated in the same way and potentially misled Territorians about the true nature of food prices. This is why we supplied the Committee with a 2000 item grocery basket. The risks of distortions and manipulation in small sample size surveys are largely overcome by increasing the sample size. Unfortunately the cost of undertaking a regular survey of this size is expensive.
- Secondly quality. Even if the pricing side of the survey was structured so as to avoid deliberate manipulation there remains the problem of comparing the quality of goods, particularly fresh produce. Comparing the quality on a range of fresh produce, be it fruit, vegetables or meat, goes beyond the objective brief of price surveys.
- Lastly consumers. Consumers are not as ill informed on price as many believe. Coles' customers would quickly vote with their feet if we did not offer them the value they have come to expect on a wide range of supermarket items. If Coles is too expensive relative to the market, we lose market share to our competitors. Coles' has no intention of letting that happen.

Coles is happy to work with the Committee in finding solutions to assure the public that they are not being disadvantaged. Evidence put to the Committee acknowledges that Territory food prices are higher than in most areas of Australia, particularly in remote communities. The reason for this is that the cost of conducting business in the Territory is significantly higher. The confidential material Coles provided the Committee confirms this.

SUBMISSION 46

Independent Grocers - Alice Springs
PO Box 1344
ALICE SPRINGS NT 0871

SELECT COMMITTEE ON THE TERRITORY FOOD PRICES

INQUIRY INTO TERRITORY FOOD PRICES

Submission from Chris Lillicrap of Independent Grocers Alice Springs a division of Davids S.A. L.T.D.
3 Coulthard Crt
Alice Springs NT
Phone: 89522766
Fax: 89529539

I am making an oral submission and I formally request this be done "in camera" for reasons of "commercial-in-confidence".

I wish to make the following points:-

- 1) Our Wholesale operation on average operates on a gross profit margin of less than 10%, out of that expenses of running an operation covering costs of plant, equipment, vehicles, wages on costs, electricity, water, sewerage, council rates, repairs and maintenance, rubbish collection etc, etc, bring the profit before income tax to .5 % to 2.5 %.
- 2) the market in the Central Australian area is extremely competitive having, to compete with suppliers and distributors from Adelaide, Darwin and elsewhere e.g. Brisbane.
- 3) One of the disadvantages of wholesaling which affects consumers eventually is the fact that sales tax is paid on freight when goods are purchased by a wholesaler and brought from interstate, When goods are brought by a retailer and brought from interstate freight is paid after the sale of the goods thereby avoiding sales tax on freight.
This is perfectly legal and for wholesalers to do it the same way is illegal and has been confirmed by the ATO.

I realise these issues are a Federal matter but I want the Committee to be aware of it.
An example of the above highlight the difference:-

Product A =

Cost to Wholesaler	\$ 20.00
Freight say	<u>\$ 2.00</u>
Land cost	\$ 22.00
Wholesaler margin	<u>\$ 2.20</u>
Sell price to retailer	\$ 24.20
Sales Tax @ 22%	<u>\$ 5.32</u>
Cost to Retailer	<u>\$ 29.52</u>

If freight put on after S/Tax:

Cost to wholesaler	\$ 20.00	
Margin		<u>\$ 2.00</u>
Sell to retailer @	\$ 22.00	
S/Tax @ 22%		<u>\$ 4.84</u>
	\$ 26.84	
Freight		<u>\$ 2.00</u>
	\$ 28.84	

A difference of 0.68 cents or 2.36% more expensive.

SUBMISSION 47

Mr Ross Smith
7/59 Kalymnos Drive
KARAMA NT 0812

Clare Martin, MLA
PO Box 11
PARAP 0804

18th May 1999

**Brief summary, weekending 8.5.99, price variations experienced between Brisbane....
Darwin.**

Dear Clare,

Recently I attended at Brisbane re a medical problem and with time to spare noted the attached Brisbane prices for your information. along with tearsheets from Brisbane South major local newspaper "The Southern Star".

I was totally "SHOCKED" at what I found, and I am forwarding same to you to assist in some small way any inquiry into exorbitant Darwin prices which may be current.

Overall, as per the attached. I identified in excess of a 62%, INCREASE in Darwin pricing. Clare, such difference has now financially compelled me to seek residence in Queensland, obviously a state providing a basic cost of living more in line with my disability pension.

Wishing you every success in your endeavours to establish the sources of what one may term a monetary ripoff of horrendous proportions.

Yours Faithfully

Ross Smith

	Brisbane	Darwin	% Increase or Decrease
Tomatoes (vine ripened) kg	\$ 4.99	\$ 9.99	98%
Advocado each	.79	\$ 1.99	
Petrol 1 litre	.598	.769	28%
Beer (10 oz)	\$ 1.30	\$ 2.20	69%
Lettuce	\$ 1.39	\$ 1.99	43%
Bananas (cavendish) kg	\$ 1.49	\$ 2.99	101%
Potatoes (washed) kg	\$ 1.29	\$ 1.99	55%
Bread loaf	\$ 1.68	\$ 2.40	40%
Milk (non-reconst) 2 litre	\$ 2.60	\$ 2.30	12%
Shoes (R.M Williams) pair	\$ 233.00	\$ 265.00	14%
Electricity Dom	11.1	12.2	11%
Comm	11.3	18.2	60%
Typewriter tape (electric)	\$ 8.00	\$ 19.00	140%
Capsicum kg	\$ 1.89	\$ 4.79 now \$ 6.99	154%
Eggs (extra large) 1 dzn	\$ 2.69	\$ 3.85	39%
Grapes 720 g	\$ 1.43	Not available	-
Peas (frozen) Birds eye	\$ 2.19	\$ 2.50	15%
Bananas (lady fingers) 2kg	\$ 2.00	1 kg \$ 5.99 now \$ 6.47	200%
Car Parts:			
Steering susp. Ball joint	\$ 56.00	\$ 204.00	265%
Gasket and Seal	\$ 58.00	\$ 111.00	92%
	\$ 462.00	\$ 749.28	62%

The above information was gained from Brisbane, Coles of Edward St. centre of City, and Upper Mt. Gravatt, Garden City, 14 kms south.

Darwin information was gained from Coles Palmerston, Coles Karama and Wooworthis of Casuarina Square.

As of the date, 15.5.99 Coles Karama are selling apples, (cricket ball size) at \$ 1.99 each.

SUBMISSION 48

Woolworths Supermarkets
PO Box 2339
REGENCY PARK SA 5942

Woolworths Supermarkets (SA) Submission to the
Select Committee on Territory Food Prices

1. INTRODUCTION

Woolworths Ltd is a national retailer represented in all states of Australia with approximately 1,450 retail outlets. The business is made up of Supermarkets, (selling a combination of fresh food, groceries, general merchandise and liquor), Big W's and Variety stores, (selling predominantly general merchandise and some consumable lines), specially retail outlets, which include Rockmans and Dick Smith Electronics and more recently Woolworths Plus Petrol.

This submission is made on behalf of Woolworths South Australian Supermarket Division which comprises 37 supermarkets within the state of South Australia, 8 supermarkets in the Northern Territory, two supermarkets in Mildura, and one in Broken Hill. Within Woolworths Supermarkets (South Australia) the decisions relating to pricing, ranging of stores, promotional activity etc. are made at a local level. Each state is responsible for its own operation with strategic and policy guidelines being provided from a national office in Sydney. Within the South Australian Division the company employs between 6,500 and 7,000 employees. Of these, 1,200 are employed in the Northern Territory with an annual payroll of approximately \$20 million and payroll tax of approximately \$1.5 million.

The range of products sold includes dry groceries, fresh foods (eg. Meat, bakery, fish and service deli products etc.) liquor, petrol and general merchandise. The main administration and distribution facilities are located at Gepps Cross in Adelaide, and the majority of products are distributed to the stores direct from the Company's warehouses in Adelaide. In some locations product is purchased direct from suppliers who may be located close to the store. The precise value and quantity of direct purchases, while small in total, varies but consists mainly of fruit and veg.

The logistics of the business is such that the stores place electronic orders for the various product lines through the warehouses in Adelaide. The orders are made up and delivered by truck or road train direct from Adelaide to the store concerned.

There are some variations with regard to the method of transport, most notably, in Nhulunbuy, where goods are transferred by barge from Darwin, and in the case of perishable lines, occasionally by air.

The environment in which the company operates in the Northern Territory is different in many respects to its operation in other states (with the exception of WA). Most notably the distance from the warehouse to the stores, the higher levels of staff turnover, significantly higher overhead costs, (particularly as it relates to power and rent), the need to transfer significant numbers of managerial staff from Adelaide to the Territory, and the extremes of weather and the impact of this on the transport and storage of perishable items.

2. INDUSTRY STRUCTURE

Woolworths operates in the fiercely competitive market for retail food. Consumer trends indicate that increasing two-income families and disposable incomes and time pressure have reduced the desire to prepare meals at home. Thus, grocery retailers now actively compete with takeaway food outlets and convenience stores for a share of "consumers' stomachs". This highly competitive and evolving market has seen the development of structures within the grocery retailing sector which maximise the competitiveness of the retail businesses. The development of banner groups, vertically integrated supply and distribution arrangements, and extended product ranges are all products of this competitive environment.

2.1 The food retail environment

The food retailing sector comprises three major retailers, Woolworths, Coles and Franklins, smaller chains of retailers, numerous independent grocery retailers and convenience stores. Competition in the sector is driven by the three major retailers in their efforts to remain relevant to consumers with changing preferences and needs. In recent years, the three major retailers have introduced new concepts in food retailing to better meet the needs of consumers. Extended product ranges, increased fresh food departments, and concept stores such as Woolworths Metro are all part of this move towards providing customers with the retailing experience they desire.

The independent food retailers have in the main, continued to provide consumers with an unchanged shopping experience. They have continued to offer mainly dry groceries and perishables, often with only a narrow range of products. Consumers have noticed this change and often use these stores to supplement their needs rather than for their full weekly shopping needs.

There has also been a substantial growth in convenience stores during the 1990s. Petrol stations have expanded their ranges to offer most of the products available at smaller outlets. This has been encouraged by tight margins in petrol sales, with many operators viewing convenience shoppers as a way of supplementing their income. A wider range of products, better lighting and an attractive store format has seen many convenience shoppers switch from the small grocery retailer to a petrol outlet / convenience store for their supplementary grocery needs.

2.2 The wholesale market

The competitive retail environment is supported by both distribution and wholesale arrangements. In the food retailing sector there are two distribution arrangements. The three major food retailers operate their own integrated warehousing and distribution facilities. This vertically integrated structure produces large economies of scale and bypasses the need for wholesalers, resulting in lower costs and more competitive prices.

The smaller chains, independents and convenience stores usually purchase their stocks through grocery wholesalers. There are currently two national wholesalers, Davids Holdings Ltd (Davids) and Australian Independent Wholesalers (AIW). AIW is a subsidiary of Woolworths operating independently to supply the needs of non-Woolworths supermarkets. There are also a number of smaller state based wholesalers such as Foodland Association Limited (FAL) in Western Australia.

Woolworths believes competitiveness at the retail level is dependent on the wholesalers' ability to provide an efficient channel for product distribution support for retailers. The highly competitive nature of grocery retailing places a high level of reliance on an efficient distribution network to ensure costs are contained. AIW's entry indicates a discontent with existing wholesale arrangements and a desire by independents to increase their competitiveness.

3. COMPETITION

3.1 Woolworths' responsiveness to changing consumer needs

The competitiveness of Woolworths can be seen in its constant responsiveness to everchanging consumer demands. Woolworths has been able to meet these changing consumer demands through its investment in continuous improvement. Consumers are now receiving the product range and quality they demand at the lowest possible prices, together with high levels of service, due to the intense competition for customers.

Consumers today are more sophisticated and demanding and expect more from food retailers than in the past. Convenience, quality, range and price are now the key determinants of consumer preference. However, most consumers are not prepared to pay any significant premium for these as they strive to maximise value.

As food retailers tend to source and sell similar or identical goods, consumers have the option of switching easily between retailers to obtain the best "offer", and customer research shows that they regularly do. Intense competition has therefore forced retailers to remain flexible and responsive to changing consumer expectations through providing a constantly competitive "offer". Woolworths has met these changing consumer expectations through:

- offering value for money. Consumers in Australia have access to some of the best quality and lowest priced food in the world. Competition has forced retailers such as Woolworths to aggressively attack costs and improve efficiency levels to enable the provision of low prices; and
- providing consumers with an "offer" which embraces their preference for a broad range of grocery, perishable and general merchandise together with an increasing range of fresh produce, by introducing and then expanding the dairy, fruit and vegetable, poultry and meat departments. The introduction of delicatessen, bakery and seafood departments, and more recently Plus Petrol and banking initiatives, were also in response to the changing tastes of consumers, and the desire for improved shopping convenience.

Woolworths has been able to position itself to successfully meet consumer demands because of its substantial and continuing investment in the business through:

- stores (both new and refurbishment's);
- staff training and development;
- high technology/efficiency based warehousing and logistics;
- comprehensive supply chain improvement;
- customer feedback; and
- new technologies.

Woolworths has produced an educational booklet for the Centre of Economic Education titled "Behind the Supermarket" to assist in gaining a general understanding of the retailing environment, in particular

supermarkets. It addresses areas such as customer service, store management, merchandise and marketing, technology and change, business systems, storage and distribution, people and change, structure and change and sharing in the Company's success. The booklet is attached as Attachment 1.

Woolworths substantial and continuing investments in the 'business are discussed in more detail below.

Continued investment in store

Woolworths' continued investment in new stores and the refurbishment of existing stores forms part of its strategy to provide store standards which deliver the highest quality food retailing experience for its customers. Woolworths re-invests a significant proportion of its cash flow into its businesses.

Continuous investment in new technologies

To provide consumers with the price/service mix they demand, and to be able to adapt quickly to their continually changing needs, it is essential to invest in new technologies. Particular retail areas where this is necessary include EFTPOS, Bar coding, e-commerce, supply chain, finance and administration, merchandising, warehousing, executive information systems and modern ECR solutions.

Woolworths has made a significant commitment to continuous investment in new technologies and has developed a modern retail technology network which is at the leading edge of 'world standards'.

3.2 *Woolworths' position in an intensely competitive retailing sector*

In addition to Woolworths' responsiveness to changing consumer demands, intense competition and rivalry (particularly between the major retailers of Woolworths, Coles and Franklins) is reflected in Woolworths' continuous investment in improving efficiency, its comparatively low level of profitability and the low prices offered to consumers. All these indicators of a competitive market, together with low barriers to entry, suggest that current concentration levels are delivering real benefits to consumers. These are discussed in more detail as follows

Competitive Pricing

Food retailers in Australia operate in demanding market with rapidly increasing consumer expectations of price and service levels, together with low population and demand growth. There has been significant new market entry by specialist food retailers that have been able to successfully develop niche markets. Woolworths constantly faces competition, not only from its traditional supermarket rivals, but from convenience stores, service stations and "fresh food" specialists such as bakeries, seafood and health food stores, delicatessens and fruit and vegetable retailers, as well as other specialist franchise chains.

In addition to this new competition, there is intense rivalry between the three major food retailers that is the driving force of increased service levels and low prices for both metropolitan and rural customers.

In July 1998, the Australian Consumers Association (ACA) conducted an independent survey of supermarket prices. The survey was conducted nationally and included supermarkets in capital cities, rural communities and regional towns. The survey found the large chain food retailers, such as Woolworths, consistently provided consumers with the cheapest prices for the sample basket of goods.

Of the 24 cities and towns in the sample, 4 of the 6 cheapest localities for groceries were regional areas.

To further demonstrate the competition benefits being received by consumers, Woolworths recently commissioned PricewaterhouseCoopers to undertake a comprehensive independent survey of supermarket food prices, product range and quality. The survey was nationally based and included 186 supermarkets and a basket of 66 products (see Attachment 11). The methodology is based on that used by the Australian Consumers Association (ACA) in its annual survey. The findings were as follows:

- the retail grocery market in Australia is price competitive;
- the major chain stores are cheaper overall in packaged consumer goods;
- the independent stores offer a significantly reduced product range - particularly in regional areas;
- that is was not appropriate to make price and quality comparisons for fresh food due to significant problems in determining quality and its impact on price; and
- there were only very slight differences between prices in metropolitan areas and regional areas for the chain stores, while the price variance for the independents was much greater.

The difficulties associated with assessing the quality of fresh food emphasise why conclusions reached on results from fresh food price surveys are suspect in terms of compatibility.

Internationally, Australian grocery prices are considered to be among the cheapest. A study conducted by the Sunday Mail (in which there was a comparison of prices for a basket of goods for 24 developed nations) concluded that Australia was the fourth cheapest. It found that northern Europeans pay up to 33% more for their food than Australians and New Zealanders.

While there are significant variables that may explain the differences in costs between countries and regions, the relatively low cost of food in Australia indicates that consumers have benefited from strong competition between food retailers. Australian consumers, including those in rural and regional areas, enjoy low prices by the standards of the developed world. The price advantage is greater still, if the consumer chooses to shop at a major chain such as Woolworths, whose prices are consistently lower than many other food outlets.

The above information demonstrates that Australia has relative low food prices and that the driving force behind this is the major retail food chains, not the independent food retailers.

Petrol Plus outlets

Woolworths further assists price and convenience competition through the provision of discount petrol with its recently introduced Plus Petrol outlets in conjunction with shopping at Woolworths.

In keeping with its emphasis on convenience and value for its customers, Woolworths has been developing its Plus Petrol outlets which are located near Woolworths' stores. These outlets offer customers competitive fuel prices as well as the opportunity to receive discounts on their petrol following their shopping at a Woolworths store. The concept further meets customers' needs in so far as it provides increased value for their shopping experience. Also, the location of the Plus Petrol stores adjacent to Woolworths Supermarkets provides customers with the additional facility of a 'one-stop shop' for both their food shopping and petrol needs.

The Plus Petrol stores have been extensively developed in rural and regional areas. In fact, there are currently more Plus Petrol outlets in rural and regional areas, with 53 out of a total 84 stores situated in rural and regional locations. Woolworths expects to open further outlets over the coming years, with a total of 200 outlets expected by the end of 2000. Rural and regional outlets are still expected to be more prevalent than metropolitan outlets by the year 2000.

4. PRICING

4.1 Pricing behaviour

From time to time there are suggestions that the size of supermarkets, both in range and number of stores, might lead to predatory pricing in particular areas. These suggestions are unfounded. Woolworths' pricing policy focuses on providing consumers with competitive prices, but within the constraints of the TPA. The following sections detail Woolworths' policy in more detail.

4.2 Woolworths' pricing policy

Woolworths' pricing policy in supermarkets is to sell competitively. That is, Woolworths' competitive prices ensure that customers see value form for their grocery dollar in addition to the other non price benefits that Woolworths offers.

Such benefits include a wide range, convenient locations and extended shopping hours. Research shows that choice, convenience and safe food are also important attributes in choosing where to shop, in addition to price.

Competitive price checking

To maintain a competitive pricing policy Woolworths has a monitoring programme of major competitor prices. This is used by each Woolworths State Office to ensure that they trade competitively. A similar monitoring exercise is no doubt maintained by Woolworths' competitors for the same purpose.

In addition to the monitoring of prices at State Office level, managers of individual stores monitor local competitors to ensure that they are competitive on key products.

Managers may seek authorisation to match prices in their local area on certain items.

The market

Woolworths Supermarkets recognises that it competes with the whole range of retail outlets, such as franchised food outlets, convenience stores, service stations, a range of 'fresh food' specialists, as well as other food stores and full line supermarkets.

Price comparisons

Woolworths' policy is to sell competitively, not to price under the market on specific products, or in particular areas. However, Woolworths will frequently be found to be cheaper than the product outlets for like or similar goods. This will be because they are being competitive with other supermarket or retail outlets in the area, all of whom, therefore, will also be cheaper than those other outlets for the products.

Often it may be that the operator of such an outlet chooses not to be price competitive. This can be due to the operator reasoning that customers are willing to provide extra margin in return for other non-cash benefits provided (these can include special trading hours, extra convenience, petrol availability, newspapers and lottery agencies etc.) Often these are amongst the most successful independent operators.

In-store promotions

In addition, most supermarkets regularly run programmes of in-store product promotions (specials). These weekly or monthly reduced prices are funded by manufacturers seeking to increase sales volumes on their products, and will often result in those products selling more cheaply than in other non-participating outlets during the period of the promotion.

Of course any reseller of like goods will have the opportunity to sell at similarly discounted prices at other times. Generally, supermarkets do not seek to match (at the same time) prices on other retailers 'specials', seeking only to do so at such time when it is their turn to have the item promoted.

Conclusion

It may be concluded, therefore, that in a dynamic and competitive market (although there is monitoring of major lines across the market place, and of all product between supermarket chains), there will still be considerable price fluctuations on individual items and baskets of items, in local areas and generally between supermarkets, and between supermarkets and other stores. In many instances it is the specialist retailer who may have the market advantage in setting prices on 'non-core' items they carry that are basic supermarket lines.

5. COMPANY POSITION

Although prices in the Northern Territory are generally higher than in other mainland states, it is as a result of significantly higher costs. The profitability in the NT is low compared to South Australia. Our submission will detail those areas where the company incurs significantly higher costs in terms of providing products to its customers, and we will also demonstrate that the Northern Territory operates on smaller profit margins.

Within this submission any references to cost or profitability are expressed as a percentage of sales, rather than a dollar value, so that, comparisons can be made between states. and between stores, irrespective of their size.

In many cost areas eg. freight, light & power and occupancy costs the South Australian Division (incorporating NT) has the highest cost structure of any state.

5.1 Comparative Costs

Freight

Given the very significant distances involved in transporting both dry groceries and perishables from Adelaide to the various locations in the Northern Territory it is understandable that freight will be a very significant cost component. South Australia incurs freight costs far in excess of any other Woolworths operation - 75% higher than the national average for the Company. A comparison of the freight costs for the NT stores and the SA stores further highlights the significant differential. The NT stores incur freight costs that are approximately five times those of comparable SA stores.

Light and Power

This cost too is significantly higher in South Australia than in other states - almost twice the national average.

As was the case with freight, a break-down between the NT and SA stores only further emphasises the significance of this particular cost element with light and power costs in the NT stores nearly 3 times that of light and power costs in SA stores.

Perhaps the best way to illustrate the cost differential between the NT and SA stores is to compare the cost of running an average store for a day. Using the best available tariffs in both locations, and assuming the same amount of power was consumed in each location (eg. 8,000 kWh/day), it would cost \$700 per day to run an SA store and \$1,200 per day to run an NT store.

Despite the recent reduction to the standard commercial tariff in the NT (eg 3% reduction on 1/4/99) the average NT tariff charge is still 22% more than the current average SA tariff charge.

Occupancy

This cost is a combination of rents, rates and taxes but again South Australia is approximately 18% higher than the national average, with the SA stores being approximately 40% higher than the Northern Territory stores. In part this is explained by the number of new modern large well equipped facilities which the company has established in the Northern Territory and is reflected by new stores at Nightcliff and Katherine and significant refurbishment's in recent times at Casuarina and Leanyer.

Personnel

Due to the large number of management and supervisory personnel who are transferred to the Northern Territory, the South Australian Division incurs costs which are extra ordinary in comparison to other states. The cost of relocating management, and in particular, the very high costs associated with providing accommodation for management personnel add to the NT cost structure. The company currently has approximately 40 people residing in various NT locations who are provided with subsidised accommodation, power subsidies, as well as return flights to Adelaide annually. This, combined with the high levels of turnover amongst employees in the NT generally, and the subsequent cost of recruiting and training replacement staff, places the NT in a somewhat unique position in terms of personnel costs.

Without exception every NT store has a higher staff turnover rate than any other SA store. Three (3) stores have turnover rates in excess of 1 00%.

While there are many other cost areas that impact on profit, the costs that have been highlighted above are those which unfortunately make up a very large percentage of the total cost.

5.2 Group/Store Profitability

The NT stores are, as a group, significantly below the SA Division overall, in profitability which in turn is lower than the national average. Casuarina, for example, is running at a loss. In the nine (9) months to the end of March the store has spent \$1,099,000 on freight, \$526,000 on light and power and \$1,521,000 on Occupancy costs. Other stores too are running on very low profit margins eg.

Palmerston and Nightcliff. Clearly others within the group are running on slightly better margins but the fact is that the total NT group is less profitable than any other state.

6 CONCLUSION

In summary Woolworths South Australian Supermarket Division currently provides a service to 8 stores in the Northern Territory. These 8 stores unfortunately attract a number of very significant costs, which do not necessarily apply to the same extent in other locations. In particular, freight, light and power, occupancy costs, and personnel costs add significantly to the cost of doing business. The fact that competition in all NT locations is also very keen, which in turn maintains prices at very competitive levels, results in individual store profitability and overall Northern Territory group profitability being less than all other states. Any suggestion that high prices in the Northern Territory lead to the company making excess profits and ripping off customers is totally unfounded.

While we can only talk with authority in relation to our own business it is our strong belief that prices generally in the Northern Territory are somewhat higher than other states (not just food products), and that this is due to a unique set of circumstances which applies to the NT eg. geographic location, market size, infrastructure etc.

Our position put quite simply is that prices generally in the Northern Territory are higher than in other locations, however this is justified on the basis that there is a need to ensure cost recovery which in a number of key areas, is significantly more than in other locations.

SUBMISSION 49

Mr John Habusta
PO Box 8899
ALICE SPRINGS NT 08

23 May 1999

Dear Dr Lim

Here I enclosed Northside Advertising price list on food, I also enclosed receipt to show you how Northside Foodland mis-leading on Vegetables in particular.

Last week alone 3 times happen that I was overcharged, apples, tomatoes, and other vegetables.

Q: How Northside Foodland operates?

---- prices on tables or vegetable boxes is price to vegetables for the shoppers supposed to be true price but in fact when one goes through check-out operator is different price by as much as 30%. The people that operating Northside Foodland believed to be cheats.

Why not have one price of vegetables Monday to Thursday and another price on Fridays which they claim that their specials, why using price list on Friday's, the one that used during week Monday to Thursday.

They do that deliberately for their own good purpose, I have noticed that you are the man that is heading T.F.P Select Committee just let you know I don't have time to seat with other housewives in Council Rooms.

Perhaps you might send a couple of housewives to see for themselves and try to purchase one of their misleading prices on vegetables.

I just let you know these exercises to your Committee, I do not expect any favourable outcome to my complains now, because I never got one before when I asked my Member of Parliament for Braitling.

Sorry that I have not collect more evidence from the past dealing with them.

Yours sincerely

John Habusta

SUBMISSION 50

Mrs Gail Martin
41 Macredie St
NAKARA NT 0812

Phone submission dated 3 June 1999 from:

Mrs Martin was very concerned about the price of 'eye of silverside'.

New local butcher at Coconut Grove sells silverside at \$3.99 per kg whilst Woolworths sells 'eye of silverside' as Virginia Roast at \$14.00 per kg and similarly Coles \$8.00 per kg. Mrs Martin is very concerned at the discrepancy between the stores and feels that she is being 'ripped off'.

Message received by the Secretary to the Committee.

SUBMISSION 51

Mr Ian Dyer

Dear Mr. Gray

Richard Lim states that "there should be no expectation of a reduction in Territory prices..."

Might I suggest to Mr. Lim that such statements do little to inspire confidence in the Committee and its inquiry. Further, one could also suggest that whilst commercial realities are something from which we can all benefit or suffer, he and his colleagues have the democratic mandate and accompanying responsibility to ensure that Territorian's interests are recognised, respected and, as far as is possible, acted upon. Appearing to prejudge the current debate or attempting to influence its outcome will not endear him or the committee to the voters.

Additionally, although it may be a grammatical error, a reduction in food prices does not imply price regulation.

By way of contributing further to the debate I would ask you to consider why, in Europe, I can buy fresh food from anywhere in the Community at reasonable prices even if it has been transported by road from Greece to England, from Italy to Holland etc. and still pay a lower price than what I would in the Territory for similar Interstate goods. When you also consider the costs created by Europe's widely discredited common agricultural policy, the 'tyranny of distance' argument is exposed as the empty excuse for profiteering that it is.

Territorians have a legitimate expectation that their political representatives will place their interests first and that this will be demonstrably evident by their actions.

I await the Select Committee's report with interest.

Sincerely yours

Ian Dyer

SUBMISSION 52

Top Bananas
PO Box 1121
HUMPTY DOO NT 0836

24 June 1999

Dear Dr Lim,

Thank you for giving us an opportunity to comment on the retail price of bananas in Darwin,

We have been producing bananas in the NT for the last 3 years. Until last year we were selling all our bananas interstate.

Woolworths approached us to supply their NT stores with bananas last year.

After several months of discussions we decided to go ahead with supplying them. It was not an easy decision as we had to invest in ripening rooms and a refrigerated delivery truck and the quantities that we would be delivering were marginal.. On the other hand we were not prepared to take short cuts. We negotiated a price that we could do a good job at and guarantee Woolworths the best possible quality. The margin that Woolworths added was also very fair if we compare it to other areas. The consumer has ended up with a banana costing \$2.99. We monitor quality in stores all round Australia and I can assure you that the quality of bananas (all though not perfect) is consistently better than anywhere else in Australia.

Anybody thinking that a retail price of 99 cents for 1 kg of bananas is realistic should also be happy to go and work for 99 cents an hour.

Any consumer that thinks \$1.99 for 1 kg is realistic should not complain if the quality is not satisfactory, as the margins do not justify quality management.

Any consumer that wants a quality banana and is being fair should realise that \$2.99 for a 1 kg of good quality bananas is very good value.

At the moment we are consistently getting nearly \$1.00 per kg more for the fruit we are sending interstate and it is retailing between \$3.99 and \$4.99 per kg. Our customers would gladly have all the bananas we are selling in the NT and we would be financially far better off

When it comes to bananas in Darwin consumers, retailers and growers all get a good deal. It is a win-win situation and I can assure you that we get a lot of compliments from all sorts of people. On the other hand we also got some bad, false and inaccurate publicity in the local papers. We try our best and hope that we can keep our consumers happy with the help of Woolworths. At the same time I can assure you that we are aware that our product and the handling of it is not always perfect.

Should you need any more information or clarification on the above please contact Peter Finlayson or me on the above numbers.

Yours sincerely,

Karl Henggeler

SUBMISSION 53

Carolyn Marriott & Stella Kirk

25 June 1999

COMMITTEE ON TERRITORY FOOD PRICES

Sirs,

When the representative of Coles Myer stated yesterday that he had not noticed many supermarkets having closed during the 18 or so years since he was last here, he omitted to mention that there have been greengrocers and butchers that have. To my knowledge the butcher in Westralia St. Stuart Park has closed, the one at Nightcliff seems to be on the way out. I believe that it was initially for family reasons, but no-one has taken it over. This was the only one still open in the area. He also omitted to remember those that were operating in Casuarina Square itself, two, three? There are no butchers in the complex now. Meat is available only from the large chains.

He also refrained from mentioning that the Woolworths complex in Dick Ward Drive swallowed up Price-Rite.

My concern is that however they endeavour to put it to my mind the smaller companies give SERVICE and try to keep costs down. Eventually if all we have are the large chains we shall be in trouble. The smaller operators will order in a particular product if you request it. Woollies and the like only carry the brands and stock that THEY choose. Price Rite may have been 'old fashioned' but it was manageable in size. The newer complexes are so big that the elderly and infirm are PHYSICALLY unable to shop there. It is just too far to walk to even buy the basics. You may note that milk, bread, meat are often placed at the back of the shop.

As for the garbage on how many 'specials' are on offer. I am SICK of the continually changing prices of the everyday items that I need. Many people are just too busy working to try to avail themselves of these so-called specials. Coke = now on 'special' 2 litres for \$1.95, and not \$3.04. Are they trying to tell me that out of the goodness of their hearts they are giving me a break and are selling Coke to me at a loss?

He also stated that the market share here wets only 1.2% of their turnover. 1.2% of 100 isn't much, but 1.2% of their turnover? Probably a very tidy sum.

A query on prices. This is just one item that I buy regularly and I have chosen it as an example. Pet Mince. 1 kg in a sealed plastic bag.

Woolworths

Pet mince, 1 kg = \$3.59

(Same price for ages, hence my purchasing it at Coles)

Coles

From August 1998 to 8th May, 1999

Pet mince (same brand as Woollies) 1 kg = \$2.89 Saving = .70c per kg

Coles

19th May, 1999

Pet mince (same brand) 1 kg = \$3.59

EXACTLY the same price now for the identical product at the two chains. Do NOT expect me to believe that suddenly Coles cost infrastructure for the pet mince has increased by exactly the difference as priced by the opposition. AMAZING!
(I have the docket should you wish to check.)

Bananas: Consistently \$1.99 at the corner store

Bananas: Consistently \$2.99 at Woollies

Tomatoes: \$1.59 at the corner store

Tomatoes: Never \$1.59 at either major chain

Carolyn Marriott and Stella Kirk

SUBMISSION 54

Ms Sue-Ellen McLean
PO Box 616
NHULUNBUY NT 0881

17th June 1999

Select Committee on Territory Food Prices
GPO Box 3721
DARWIN NT 0801

ATTENTION: SELECT COMMITTEE ON TERRITORY FOOD PRICES

Dear Sir/Madam

RE: INQUIRY INTO TERRITORY FOOD PRICES

Attached is a submission of notes I have made recently to find out why the people of Nhulunbuy are charged so much for a carton of Victoria Bitter.

I originally suspected the high cost was because the majority of Yolgnu consume V.B. and are an easy target for the liquor outlets to make a huge profit.

I have been given some intriguing reasons from the liquor outlets in town for the high prices. One was the use of profit margins for pricing, several outlets stated they don't sell enough V.B. to make a profit and one even stated that they were charging a high price in order to kurb the Aboriginal drinking problem.

I have a huge following of supporters in Nhulunbuy who wish for the price of all heavy beers to be sold at a fair price. Any person who purchases alcohol is interested in pricing.

I look forward to hearing your comments on my submission.

Yours faithfully,

Sue-Ellen McLean

INTRODUCTION

I have prepared this submission with the aim of having the price of take away heavy strength beer investigated. I believe that the people of Nhulunbuy are being charged far too much for heavy strength beer, in particular VB, and I am suspicious of the reasons for the high prices. Although it is not possible for me to obtain sales figures from the liquor outlets, it is common knowledge in Nhulunbuy that Yolgnu people purchase VB as their main choice of beer. I also have information that a large proportion of heavy beer supplied from the brewers is VB. This contradicts liquor outlets who claim that they cannot reduce the price of VB as sales are not high enough for them to make any profit on it.

PRICES CHARGED

Below is a list of the prices being charged for VB (per carton), and the price of Melbourne Bitter, for comparison. Also listed are comments from the applicable Manager/licencee for each outlet:-

1. WOOLWORTHS

- 1.1 VB \$36.99 (never discounted)
- Melbourne Bitter \$34.99 (regularly discounted)
- 1.2 Manager Christian Fowler could not understand why the price of VB would be more expensive than other heavy-beers. -He said he would talk to head office, but has since been unable to give me any information.

2. THE ARNHEM CLUB

- 2.1 VB \$37.45 (never discounted)
- Melbourne Bitter \$35.00 (regularly discounted)
- 2.2 Licensee Richard De-Waal originally said he would look at bringing the price of VB down to the Melbourne Bitter price. However, following the Arnhem Club Committee meeting he stated that the Arnhem club did not sell enough VB to bring the price down.

3. THE WALKABOUT HOTEL

- 3.1 Price of all heavy beers \$38.00 (never discounted)
- 3.2 Manager Michelle Miller stated that the Walkabout do not sell much VB by way of takeaway sales. She claimed the majority of VB is sold over the bar. Ms Miller admitted The Walkabout's takeaway prices are very high (the highest in town) and went on to say that if people continued to pay those prices they would continue to charge them.
- 3.3 Ms Miller said that The Walkabout Hotel takeaway prices are worked out on profit margins, and she used a 50% profit margin as an example, which I found interesting!!!

4. GOVE YACHT CLUB

- 4.1 VB \$38.00
- Melbourne Bitter \$38.00
- 4.2 Manager Kevin Hopkins would not return my calls.

5. GOVE COUNTRY GOLF CLUB

- 5.1 VB \$38.00
- Melbourne Bitter \$38.00

Ian Mackay said that there was no discounting of VB in Nhulunbuy because of the Aboriginal drinking problem.

6. GOVE PENINSULA SURF LIFE SAVING CLUB

- 6.1 I spoke to the caretaker at the Surf Club and he advised they do not sell takeaways, but they do sell the cheapest beer over the bar in town.

COMMENTS RECEIVED

Following are comments made by representatives of organisations and businesses I have spoken to regarding the high cost of VB in Nhulunbuy.

1. DHIMURRU

- 1.1 Mr Mununguritg stated that there was not an agreement made with the liquor outlets and Yolgnu on pricing for alcohol. He was concerned that the Yolgnu were also charged excessive amounts for Berry Riesling, the main choice of wine for Yolgnu people.

2. LIQUOR COMMISSION

- 2.1 I was unable to speak to anyone. I was told the Liquor Commission does not deal with pricing.

3. CONSUMER AFFAIRS

- 3.1 Inta Tumulas is discussing the high cost of VB in Nhulunbuy with her committee and stated that she would be interested in investigating the matter.

4. CARLTON UNITED BREWERIES LTD - (DARWIN)

- 4.1 Manager Andrew Blakey was concerned about the extreme price of VB. He spoke to his Melbourne office and later said he was sorry that he was powerless to do anything about the prices charged in Nhulunbuy.
- 4.2 Mr Blakey advised a very large quantity of VB is sent to Nhulunbuy, but he is unable to give specific details.

CONCLUSION

1. I believe all of the liquor outlets are selling heavy beers at an exorbitant amount for no apparent reason, other than profit.
2. I find it hard to believe that the reason VB is sold at a higher price has nothing to do with its popularity among Yolgnu people.
3. I am disappointed that The Arnhem Club did not put their VB price down to the same price as Melbourne Bitter. I can imagine other financial members would join in my views on the matter.
4. I am appalled at the apparent disregard for consumer's rights shown by all of the liquor outlets in Nhulunbuy.

SUBMISSION 55

Ms Vivienne Hobson
Territory Health Service
Food and Nutrition Unit
PO Box 40596
CASUARINA NT 0811

17 June 1999

Mr Rick Gray
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
Darwin NT 0801

Dear Mr Gray,

Please find enclosed a submission from Territory Health Services Nutrition section re Territory Food Prices.

Yours sincerely,

Vivienne Hobson
Manager

TERRITORY HEALTH SERVICES
SUBMISSION TO THE LEGISLATIVE ASSEMBLY OF THE NORTHERN
TERRITORY SELECT COMMITTEE ON TERRITORY FOOD PRICES

INQUIRY INTO TERRITORY FOOD PRICES

APRIL 1999

1. INTRODUCTION

Food supply in remote communities has been a major concern of the Territory Health Services Nutrition Program for several decades. It has been estimated that approximately 95% of food eaten in Aboriginal communities is food purchased in the store, with traditional foods now contributing only a small amount to peoples' dietary intake. Poor diet is a major risk factor for chronic diseases such as coronary heart disease, diabetes and renal disease, all of which are of higher prevalence in the Aboriginal population, along with low birth weight and undernutrition in early infancy.

Access to an adequate supply of affordable nutritious food is thus critical to good health of people in communities. High prices of foods may have a negative effect on peoples' buying patterns and may limit consumption of an adequate diet. Local food enterprises such as market gardens, fishing, and small killer "herds" which are starting to take off in some communities have the potential to reduce food costs and provide food of high quality and nutritional value. Such ventures needed to be encouraged and supported.

One of the major priority areas for action identified in the NT Food and Nutrition Policy 1995 is to *improve the quantity, quality and affordability of the food supply in remote Aboriginal communities*⁸¹

2. BACKGROUND

Over the past five years there have been extensive consultations with Aboriginal communities, Aboriginal organisations, other government and non government organisations and the food industry on food supply issues. Much of the information contained in this submission was obtained during these consultations.

For over fifteen years nutritionists have attempted to monitor the food sold through remote stores on an annual basis. As well as monitoring food costs, the availability of healthy foods and the quality of fresh foods have been other issues of equal concern. Historically comparisons have been made between remote stores and regional centres within geographical districts, but until recently it has not been possible to make comparisons between stores or regional centres in other districts because of different survey tools used.

The NT Food and Nutrition Policy recognised the need to be able to measure and monitor various aspects of the food and nutrition system in order to make appropriate interventions to improve food security and evaluate the performance of programs. A relatively simple tool for monitoring prices, availability and quality of food in remote areas was developed in 1998 and the first NT wide survey of

⁸¹ Northern Territory Food and Nutrition Policy 1995

stores was conducted using this standardised survey tool. Forty five remote stores were surveyed and comparisons were made with costs in regional centres and in Australian capital cities⁸²

In the early days before sealed roads and rail links, the cost of food was related to the distance it was transported. Transport links have improved, however consumers are still often given the standard answer that foods costs are high because of freight charges. Consultation for the NT Food and Nutrition Policy found that freight charges were commonly perceived and used as a reason for the increased food prices in both the urban and remote areas of the NT. A large proportion of the concerns during this consultation were about transport issues which had impact on the quantity, quality, cost and availability of foods. Many of these issues are common to urban and remote areas but tend to be more extreme in remote communities.⁸³

Subsequently a project officer was employed to investigate this claim related to food transport and propose strategies to minimise the impact of freight costs on food prices.⁸⁴ The findings from this investigation suggest reasons why food prices are high and are summarised in the body of this submission.

Much of what is contained in this submission is concerned with issues in remote areas as there are other agencies (e.g. Pricewatch, Consumer Affairs Council) that monitor prices in the urban areas.

3. TERMS OF REFERENCE 1

EVIDENCE OF HIGHER FOOD COSTS IN THE NORTHERN TERRITORY

3.1 Food prices in the Northern Territory

Public health nutritionists, Aboriginal nutrition workers, and environmental health officers carried out the first standardised survey of food prices, variety, quality and availability in remote communities in the Northern Territory. In addition information was collected on store ownership and management, date and method of last supply of food and Aboriginal employment in the store. Information collected was fed back to respective communities (including Councils and store managers) to increase their understanding of food supply issues.

This submission contains more detailed information about the relative costs of different groups of food such as breads and cereals, fruit, vegetables, meat, etc. The information has been derived from the 1998 THS market basket surveys⁸⁵, however the composition of the basket has been recalculated and the values are different to those reported in the survey report.

In 1997 the Queensland Department of Health also conducted a survey of the cost of a healthy food basket in a number of rural towns and communities in the northern half of the state (Queensland

⁸² Survey of NT Remote Community Stores 1998, Territory Health Services

⁸³ Northern Territory Food and Nutrition Policy 1995, Territory Health Services

⁸⁴ Hughes, R., 1996, *Report on factors which influence food transport to remote communities in the Northern Territory*, Territory Health Services

⁸⁵ Survey of NT Remote Community Stores 1998, Territory Health Services

Health 1997). The Western Australian Department of Health also monitors prices of foods regularly in rural towns and communities in the northern part of the state.

Method

The THS Community Market Basket survey form consists of a set list of foods which would, when aggregated and the relative proportions adjusted, meet 100% of the nutrient, and 95% of the energy requirements of a 'hypothetical' family of 6 people. The NH&MRC Core Food Groups 1995⁸⁶ were used as a guide for the development of the 'basket'. The foods listed on the survey form are ones which are commonly found in both rural and remote communities and in urban centres in the Northern Territory.

A copy of the survey form is attached as an Appendix.

The hypothetical family of six were chosen to represent a cross-section of people who had important nutrient requirements because of their age and sex and consists of:

- a 60 year old grandmother
- a man aged 35 years,
- a woman aged 33 years,
- a male aged 14 years,
- a girl aged 8 years, and
- a 4 year old boy.

In addition arrangements were made (through various state universities) for the same survey to be conducted in the capital cities of each state in Australia so that comparisons could be made between urban prices for the NT and the rest of Australia.

Results

A healthy basket of food for a family of 6 people in Northern Territory remote communities costs on average \$479, whereas it costs \$361 for people living in the main regional centres. The average cost of the same basket of food in the state capitals was \$309.

In other words families living in remote communities, most of them Aboriginal, would pay on average \$170 per fortnight more than an equivalent family in a state capital city for a basket of food that would meet their **basic** nutritional needs. Families who live in one of the Northern Territory main regional centres would pay an extra \$52 per fortnight more than their 'southern' counterparts.

Comparison of the proportional cost of different food groups relative to the average cost in the state capital cities in Table 1 shows that the average cost of fruit and vegetables is between 62% and 64% more in remote communities than in southern cities. Even in the main regional centres fruit and vegetables are between 23% and 24% more expensive than in the south. (Table 1)

The cost of meat, dairy products, and margarine and sugar are more than 58% higher on average in remote communities than in the capital cities, while these products are generally around 19% more expensive in the regional centres. Breads and cereal products appear to be about 5% more expensive on average in the regional centres than in the capital cities, while in remote communities these products cost 45% more on average than in the capital cities.

⁶ NHMRC 1995, *The Core Food Groups; The scientific basis for developing Nutrition Education Tools*

Table 1. Comparison of the average relative cost of food, by food group, for the main regional centres in the NT, and remote communities when compared to Capital City food prices

	Breads & Cereals	Fruit	Vegetables	Meat & Alternatives	Dairy	Margarine & Sugar
Capital city average	\$ 50	\$ 78	\$ 64	\$ 51	\$ 53	\$ 13
	%	%	%	%	%	%
Main regional centres	105	124	123	110	116	119
Remote Communities	145	162	164	146	153	158

Tables 2 and 3 provide a more detailed breakdown of the average relative costs of different foods for the main regional centres and remote communities when compared to the southern capital cities.

Overall the cost of the basket of food in the town of Alice Springs and Darwin appears to be 10-11% greater than that paid in the southern capital cities. Fruit is the most expensive food group being 28% and 23% higher on average in Alice and Darwin respectively than the southern cities. (Table 2)

In Katherine and Nhulunbuy the cost of fruit and vegetables are all much higher than in the southern cities. The cost of food in Nhulunbuy was generally higher than the other main regional towns.

Table 2. Comparison of the average relative cost of food, by food group, for the main regional centres in the NT, when compared to capital city food prices

	Breads & Cereals	Fruit	Vegetables	Meat & Alternatives	Dairy	Margarine & Sugar
Capital city average	\$ 50	\$ 78	\$ 64	\$ 51	\$ 53	\$ 13
	%	%	%	%	%	%
Darwin city	99	128	104	103	111	106
Alice Springs town	108	123	109	102	109	99
Tennant Creek	96	112	119	113	122	123
Katherine town	93	134	119	107	118	122
Nhulunbuy	130	124	166	127	119	146

A similar pattern emerges when the average relative prices of the basket of food are compared for remote communities in each regional district and the southern capital cities. Families in remote communities would have to consistently pay more in order to meet the family requirements for fruit and vegetables. This is dramatically illustrated by the cost of vegetables in Katherine and East Arnhem remote communities being at least 70% more on average than the cost of vegetables in the southern capital cities. In other remote communities the situation is only marginally better (Table 3).

Bread and cereal products are relatively less expensive. There does not appear to be much variation between districts in the relative cost of these foods, except for East Arnhem communities where the average cost of bread and cereal products are on a par with fruit.

Table 3. Comparison of the average relative cost of food, by food group, for remote communities when compared to capital city food prices

	Breads & Cereals	Fruit	Vegetables	Meat & Alternatives	Dairy	Margarine & Sugar
Capital city average	\$ 50	\$ 78	\$ 64	\$ 51	\$ 53	\$ 13
	%	%	%	%	%	%
Darwin remote	145	161	156	145	151	156
Alice Springs remote	131	129	162	140	155	152
Barkly remote	137	161	146	151	165	155
Katherine remote	147	173	172	142	145	159
East Arnhem remote	162	161	179	158	158	167

4. TERMS OF REFERENCE 2

REASONS FOR PRICE DIFFERENCES

Why are foods so much more expensive in remote communities than in the regional towns and capital cities? A number of factors are perceived to contribute to the large cost differential, though there is little specific quantitative evidence to support these perceptions. The Select Committee should endeavour to collect quantitative as well as qualitative evidence that either supports or refutes the perceptions.

An attempt is made in the remainder of this submission to present some of the reasons thought to contribute to the high food prices. These reasons are based on simple deductions, but also on the experience and observations of a number of public health community nutritionists, feedback from community members and store managers.

4.1 The Effects of Transport

The Territory relies heavily on an imported food supply. The vast majority (90%) of the foods Territorians eat are transported from interstate and overseas. 85% of the NT horticultural produce is exported interstate or overseas because of the shorter, earlier growing season, the small local market and the higher prices obtained for produce outside the NT.⁸⁷

Road transport is the most popular means of carrying food in the Territory. Rail reaches Alice Springs from South Australia but after that the majority of food is carted by road. Top-End coastal communities rely on barge transport, especially during the wet season whilst air freight plays a minor role used mainly for highly perishable produce and in emergencies. It is estimated that over 160,000

⁸⁷ Vegetable Production from Horticulture in the Northern Territory", Background Papers to the NT Food and Nutrition Policy, Vol 1: The Food Supply, Territory Health Services

tonnes of food is imported into the Territory by road with more than 50% food requiring freezing or chilling during transit. Approximately 1% of food still comes by sea freight.⁸⁸

From the store survey there is no clear correlation between distance from southern states and food price. However, Alice Springs is notable in that it has the lowest food costs overall, and has rail access, as well as being physically closer to the 'source' than all the other locations covered in the survey. Road access is severely restricted to some remote communities at certain times of the year which means that perishable items must be flown in to the communities.

There may be a lack of sufficient competition between transport companies in offering competitive freight rates.

Factors affecting food prices include:

- *High wastage.* Fruit and vegetable produce is delivered in the Territory early in the week.

This has presumably been purchased from markets late in the previous week and can be of a poorer quality. Many consumers returning from interstate report that they have compared the "superior" quality of fruit and vegetables in southern shops and markets to that offered in Territory stores. Consumers have also commented on the "short shelf life" of fruit and vegetables bought from local supermarkets. The main assumption they have made is that the produce was of a lower quality before it left the interstate markets. There have been reports of food products arriving in remote communities damaged, defrosted, adulterated, or decomposed. A number of reasons for this have been identified. These include:

- a) *Long time span between supplier and consumer.* This has been proven to happen elsewhere in Australia.⁸⁹ Although fresh produce can arrive in the Territory within one day of dispatch, foods are often warehoused in southern capitals. The time span can vary between one week to 3-4 months according to the type of food product. Add to this the transit time between warehouse and the Territory wholesaler, between 3-10 days, then the time between wholesaler and customer, 1-14 days
- b) *The condition of the roads.* Many remote communities are serviced by poorly maintained unsealed roads. Responsibility for most local roads on Aboriginal land rests with the communities concerned. Transport vehicles have to travel slowly, have shorter lifespans, are more expensive to maintain and more expensive to run.
- c) *Incorrect loading of the vehicle* Combination of bad roads, high temperatures and a lack of knowledge about loading transport vehicles can result in food products damaged so badly that they are inedible. This especially applies to delicate items such as tomatoes and some fresh fruit.
- d) *Temperature.* Due to the hot Territory conditions, the temperature of frozen and chilled foods is harder to maintain. Freezer/chiller units are designed to maintain a given temperature. Some transport operators do not have refrigerated vehicles. One of the major

⁸⁸ Hughes, R., 1996, Report on factors which influence food transport to remote communities in the Northern Territory, Territory Health Services

⁸⁹ Leonard, D., Geilin, R. & Moran, M., 1994, *Kakai bio uni, A report on the food supply to the people of the Torres Strait and Northern Peninsula area*, Tropical Public Health Unit, Peninsula and Torres Strait Region, Queensland Health, Cairns

causes of food deterioration is break down in the cold chain where the temperature of food rises. Territory Health Services Environmental Health Officers have recorded many cases of spoiled foods due to the failure to maintain correct temperatures during transit.

- e) *Poor handling of foods.* After delivery, if there are delays in refrigeration or general poor handling of perishable foods as often occurs, this can result in spoilage.

All of these above mentioned factors contribute to higher wastage which may result in higher prices to recoup losses.

- *Financial Risks.* Transport operators and wholesalers are affected if the store or council become insolvent. Consequently food suppliers and transporters will often not operate without a guarantee of payment. For some, supplying to communities is a high-risk business and gives reason to make higher charges.

4.2 Other Issues

- *Operating costs in the Territory are higher than elsewhere in Australia.* One report estimated the cost of living in Darwin at 3% higher than Sydney and 6% higher than Perth.⁹⁰ However, consultations have revealed that the costs of power, equipment/machinery, transport and spare parts, fuel and food range from 13-50% higher than Sydney.
- *Capital city pricing.* Capital city pricing describes price equality for the same product between state capitals in Australia. It is an unwritten price convention which manufacturers and suppliers adhere to in order to increase market share for their products. Lower prices convert to increased sales. Passing on lower costs for Territory buyers was not seen as an economic way of increasing market share because of the Territory's small population base.

5. OTHER ISSUES SPECIFIC TO REMOTE COMMUNITIES

5.1 Storage facilities

Flat-rate freight charges to remote communities can present barriers to the supply of food. Limited storage space in remote stores, in some cases, means a necessity to order supplies more regularly. Thus, the freight component of their order would be proportionately greater and is reflected in the food prices.

Foods like fruit and vegetables are highly perishable items, which if handled poorly or not stored adequately will not be fit for consumption. Consequently there are potentially high levels of wastage which must be compensated for and recovering costs may involve keeping prices of food high. Furthermore, the cost of storing these products on communities require special conditions such as chillers and cool stores, which can only be provided if communities have the resources to invest in this infrastructure. The cost of maintaining the infrastructure is high particularly when maintenance people must be flown in, as are the power bills to run the equipment.

Meat and dairy products require similar storage conditions, but are not so susceptible to poor handling. Consequently losses are not expected to be as high.

⁹⁰ Committee on Darwin 1995, The Report of the Committee on Darwin, AGPS, Darwin

Bread and cereals tend to have better storage properties, and are less likely to be damaged. There is a high turnover of items like bread which also means that storage is not such a major problem.

5.2 Stores management

A good store manager may have a powerful influence on prices, availability, quality and variety of foods sold. Aspects such as stock control, ordering strategies, management of store staff etc. are critical to keeping prices low. In a study of some Top End communities Lee concluded that store managers can also have an impact on the nutritional quality of food sold in the store.⁹¹ There are many communities that have good store managers, however, there are some who are poorly served by their store manager. There is a rampant folk-lore of embezzlement by unscrupulous managers. Unfortunately, a few spoil it for the majority of decent managers. When a poor manager takes control of the store it often means the store runs into debt and higher commodity prices are used to recover that debt later on. The same situation exists in remote areas in other states in Australia. A report to the Health Department of Western Australia⁹² concluded that there was a need for "greater scrutiny in regard to quality of management and accountability" and "that the supply of food must be treated as a major health responsibility" especially now with the rising cost of health care delivery for the management of chronic diseases such as diabetes and renal disease.

There appears to be a relatively small pool of experienced, qualified store managers. Communities sometimes have little choice in their selection of a store manager. Many government agencies have involvement with community stores. THS is able to give specialist advice on nutritional issues and food safety but lacks expertise in stores management practices.

The report prepared by THS⁹³ examines the association between food prices and store management committees and store policies. The evidence suggest that food prices tend to be lower and the quality of fresh food better in situations where the community has some involvement in the management of the store. To this end THS has attempted to assist communities to have more input into the operation of their local community store.

5.3 Book up

Book-up or bookdown is a system of consumer credit, usually not attracting any fixed interest, however some traders may deduct a fee. Many communities depend on this system because of the absence of an alternative such as banking facilities. Some members of communities may use the system to full advantage to ensure access to food for the family and to limit opportunities for family money to be spent on alcohol or gambling.

Book-up operates mainly in remote communities, however, it is also used in the urban community. There are many remote stores which operate book-up and a 'credit' provider can be any person or business.

⁹¹ Lee, A. 1994, "The effect of retail store managers on Aboriginal diet in remote communities", Background Papers to the NT Food and Nutrition Policy, Vol 4: Food and nutrients in remote Aboriginal communities.

⁹² George, K. Nanga Services Pty. Ltd. 1996, *Community Stores and the Promotion of Health - An assessment of community stores and their functions in the promotion of health in Aboriginal communities.*

⁹³ Survey of NT Remote Community Stores 1998, Territory Health Services

Although the theoretical application of the book-up system is both advantageous and necessary in most Aboriginal communities, concerns have been expressed about situations where families are locked into the 'system' resulting in the total dependency of the consumer and the credit provider. Many community stores run book-up without any restrictions on the credit limit given and without any documentation provided to the customer.

Book-up in stores means that the cash flow is reduced and managers must compensate for this reduction by increasing prices.

5.4 Community income

In many communities the community store is the only revenue -generating enterprise in the community. Improvements to the infrastructure in the community such as maintenance of roads in and out of the community and provision of community vehicles need to be funded through store generated income. Stores also often contribute directly to other community institutions and activities, including schools, sporting teams, clubs, resource centres etc. This is generally achieved by a percentage mark up on items sold in the store. While this is an internal community consideration and is beyond the scope of government to change, it is a factor that needs to be considered when assessing and comparing food items in remote areas.

Stores provide an important source of employment for Aboriginal people in their communities. At times the higher employment rates may cost a little more, but is probably considered of great benefit to the community.

5.5 Changes in consumer consumption patterns

Television advertising has contributed to changing food consumption patterns in both urban and remote areas. In remote areas this has had the effect of contributing to higher prices as consumer demand for foods sold through the take-away increase eg food items such as chickens and meat pies that require refrigerator/freezer units on transport. Transport using a freezer/chiller component increase freight charges by more than a third which has to be recouped with increased food prices.⁹⁴

In the past the main items transported were dry goods such as potatoes, tea, sugar, flour and onions that did not require refrigeration.

5.6 Brand loyalty

Because of low levels of literacy, people tend to buy products that are recognised by the appearance of their labels and are reluctant to change to alternate brands that may be cheaper and just as nutritious. This "brand loyalty" means that generic brand foods which are popular in urban areas do not sell well in remote areas and contributes to overall higher food prices.

5.7 Lack of free enterprise

Most communities run a monopoly situation with only one community store. The nearest point of alternate food supply could be as much as 450 kilometres away. This lack of competition maintains high prices for individual food items. It is not clear whether all communities are large enough to support more than one store.

⁹⁴ Hughes, R., 1996, *Report on factors which influence food transport to remote communities in the Northern Territory*, Territory Health Services

5.8 Competitive discounting

Competitive discounting of food items is a commercial practice in urban centres where special deals include discounting of selected high volume items. Remote community stores have limited opportunities to take advantage of promotions because of lack of competition, low volume sales and delay between ordering and receiving goods.⁹⁵ Also remote communities cannot enjoy the benefits of bulk buying of commodities which would serve to lower prices, as occurs for the supermarket chains.

5.9 Door-to-door trading and Hawkers

Other important issues such as unscrupulous door-to-door trading and hawkers who charge exorbitant prices for their wares also have an affect on the cost of goods for remote consumers. Door-to-door trading sales sometimes involves the provision of credit to consumers who are pressured into purchasing goods by highly polished and unconscionable salespeople. When debts are not repaid, simply because these families could not afford the goods in the first place, companies get debt collection agencies to 'follow-up'. Consumers are then faced with the prospect of becoming bankrupt or having a bad credit rating.

To help alleviate high prices on hawkers goods a possible solution would be to tighten and have stricter control on hawkers licenses and substantial penalties (currently a \$20 fine for breach of the Hawkers Act -Section 4). Anecdotal evidence suggests that these traders can sell their wares at whatever cost they feel like and being 'out-of-sight, out-of-mind' provides the opportunity for this to occur. It is not known how well policed this activity is.

On the one hand, remote consumers are probably happy to have a service of some type which can deliver household goods to their doorstep. On the other, they cannot afford to buy food to use the pot they bought.

5.10 Pilfering

Money lost through pilfering has to be re-couped and this may mean increasing prices in the store.

⁹⁵ McMillan, S., 1991, "Food and nutrition policy issues in remote Aboriginal communities: lessons from Arnhem Land", *Australian Journal of Public Health*, Volume 14, No. 4

Appendix 1

Foods and quantities of food in the hypothetical basket for a family of 6 for 14 days

Food Item	Amount
Flour	4 x 1 kg packets
Bread	14 loaves
Weetbix	1 kg packet
Rolled Oats	1 kg packet
Long Grain Rice	1 kg packet
Canned Spaghetti	7 x 425g cans
Apples	50 Apples
Oranges	55 Oranges
Bananas	55 Bananas
Orange Juice	7 litres
Canned Fruit	7 x 400g cans
Potatoes	8 kgs
Onions	3 kgs
Carrots	4 kgs
Cabbage	3 kgs (1large)
Pumpkin	3 kgs
Fresh Tomatoes	2 kgs
Canned Tomatoes	6 x 420g tomatoes
Canned Peas	6 x 420g peas
Canned Beans	7 x 440g beans
Baked Beans	7 x 425g baked beans
Corned Beef	7 x 340g cans
Meat and Vegetables	7 x 450g cans
Fresh/Frozen Meat	1.5 kgs
Fresh/Frozen Chicken	1 kg
Eggs, 55's	1 dozen
Powdered Milk	7 x 1kg tins
Cheese	3 x 250g packets
Margarine	4 x 500g packets
Sugar	4 x 1kg packets

SUBMISSION 56

Mr Ron Spencer
PO Box 809
NHULUNBUY NT 0881

Dear Dr Lim

I was unable to get to the hearing re food prices in Nhulunbuy but I can assure you it was not because of apathy.

When we can buy food from 'Marty's Food Mart' in Darwin at retail prices, fly them over to Gove at \$1.15 per kilo, have them delivered to our door at much cheaper prices than Nhulunbuy Woolworths there has to be something wrong. The quality of the Darwin Fruit and Vegetables is many times superior than our local store, and it lasts for days. Lots of times our local fruit and Vegetable is off before we even get it home.

Over the 21 years I have been in Gove I have seen cabbages as high as \$2.50 per quarter, Tomatoes as high as \$12.00 per kilo, Broccoli \$ 8.00 per kilo, a single bush lime at \$2.63 each, Milk \$4.40 for 2 litres (when the dairy farms do not even get 1/6 of that price for real full cream milk). Today I see a loaf of frozen Darwin White Bread was \$ 2.83. If we pay GST on Freight on these food stuffs then it will be dearer still.

Please forward this onto the Select Committee on Food Pricing.

Regards

Ron Spencer

SUBMISSION 57

Mr Michael Martin
General Manager
Territory Health Services
Royal Darwin Hospital
PO Box 41326
DARWIN NT 0810

24 June 1999

Dr Richard Lim MLA
Chairperson
Select Committee on Territory Food Prices
Legislative Assembly of the Northern Territory
GPO Box 3721
DARWIN NT 0801

Dear Dr Lim

Thank you for the opportunity to comment on behalf of the Royal Darwin Hospital (RDH) in regard to food prices in the Northern Territory.

Mr Geoffrey McKenzie, Head Chef/Manager of Food Services at the RDH did a comparison with one of his colleagues who manages a hospital kitchen that caters for a similar number of clients in Melbourne. I have attached the outcome of this comparison for the committee's information.

Tea, coffee, bread and fresh vegetables, or the basic commodities appear to be the most cost affected. Processed vegetables were also extremely expensive in comparison. Meat was not included as most of the hospitals contracted items are precooked. Mr McKenzie also believes that freightage is not the only factor influencing the increased prices, as some of the tinned products are the same weight in the same packaging, yet the price variance is extreme.

I trust that this information will be of some assistance to the committee. Should you require any further information please do not hesitate to contact me on 8922 8102.

Yours sincerely

MICHAEL MARTIN
GENERAL MANAGER

PROCESSED VEGETABLES:

	Darwin	Melbourne	Extra Cost
Peeled Pumpkin	\$ 2.96 kg	\$ 1.70 kg	\$ 1.26 kg
Peeled Onion	\$ 2.96 kg	\$ 1.50 kg	\$ 1.46 kg
Peeled Carrot	\$ 3.00 kg	\$ 1.80 kg	\$ 1.20 kg
Sliced Silverbeet	\$ 5.00 kg	\$ 2.50 kg	\$ 2.50 kg
Zucchini Rings	\$ 4.90 kg	\$ 2.20 kg	\$ 2.70 kg
Peeled Potato	\$ 2.96 kg	\$ 0.95 kg	\$ 2.00 kg
Shredded Cabbage	\$ 3.11 kg	\$ 1.50 kg	\$ 1.31 kg

The average yearly use is for these items are as follows:

		Darwin	Melbourne	Difference
Peeled Pumpkin	2536 kg	\$ 7506.56	\$ 4311.12	\$ 3195.44
Peeled Onion	1699 kg	\$ 5029.04	\$ 2548.50	\$ 2480.54
Peeled Carrot	1344 kg	\$ 4032.00	\$ 2419.20	\$ 1612.80
Sliced Silverbeet	595 kg	\$ 2975.00	\$ 1487.50	\$ 1487.50
Zucchini Rings	1048 kg	\$ 5135.20	\$ 2305.60	\$ 2829.60
Peeled Potato	13548 kg	\$ 40102.08	\$ 12870.60	\$ 27231.48
Shredded Cabbage	525 kg	\$ 632.75	\$ 787.50	\$ <u>845.25</u>
			TOTAL YEAR	\$ <u>39682.61</u>

FRESH PRODUCE:

	Darwin	Melbourne	Difference
Apple	11108 kg	\$ 15267.97	\$ 11663.40 \$ 3604.60
Orange	11169 kg	\$ 9414.52	\$ 12285.90 (\$ 2871.38)
Rock Melon	985 kg	\$ 1352.21	\$ 1477.50 (\$ 125.30)
Water Melon	2175 kg	\$ 1094.67	\$ 1641.00 (\$ 546.33)
Tomato	5933 kg	\$ 9277.95	\$ 8306.20 \$ 1241.75
Lettuce	4870 kg	\$ 5411.80	\$ 4174.30 \$ 1237.50
Celery	1805 kg	\$ 1823.05	\$ 1353.75 \$ 469.30
Mushroom	469 kg	\$ 2542.75	\$ 1219.40 \$ 1323.24
Squash	540 kg	\$ 1728.00	\$ 1350.00 \$ 378.00
Banana	5803 kg	\$ 10322.26	\$ 7543.90 \$ <u>2779.00</u>
			TOTAL YEAR \$ <u>7490.55</u>

FROZEN VEGETABLES:

		Darwin	Melbourne	Difference
Baby Beans	509 x 2 kg	\$ 3.58	\$ 2.33	\$ 1.25 \$ 636.25
Sliced Beans	654 x 2 kg	\$ 3.04	\$ 2.89	\$.15 \$ 98.10
Broccoli	1528 x 2 kg	\$ 5.20	\$ 5.46	(\$.26) (\$ 229.20)
Brussel Sprouts	280 x 2 kg	\$ 4.78	\$ 3.76	\$ 1.02 \$ 285.60
Baby Carrots	1385 x 2 kg	\$ 4.02	\$ 3.98	\$.04 \$ 55.40
Carrot Rings	606 x 2 kg	\$ 2.90	\$ 2.85	\$.05 \$ 30.30
Cauliflower	1287 x 2 kg	\$ 3.73	\$ 2.85	\$.88 \$ 1132.56
Chips	425 bag	\$ 7.63	\$ 7.50	\$.13 \$ 55.25
Corn Kernels	1076 x 2 kg	\$ 3.25	\$ 3.23	\$.02 \$ 21.52
Peas	1335 x 2 kg	\$ 3.02	\$ 2.75	\$.27 \$ 360.45
Mix Vegetables	940 x 2 kg	\$ 3.42	\$ 3.40	\$.02 \$ <u>18.80</u>

		Darwin	Melbourne	Difference	TOTAL \$ <u>2465.03</u>
MILK:					
Milk 1 litre	56541 Lt	\$.98	\$.92	\$.06	\$ 3392.46
Milk 1 litre Low	14354 Lt	\$ 1.07	\$.99	\$.08	\$ <u>1148.32</u>
					TOTAL \$ <u>4540.78</u>

		Darwin	Melbourne	Difference	
BREAD:					
Whit Slice	11069	\$ 1.39	\$.87	\$.52	\$ 5755.88
Wholemeal	7169	\$ 1.39	\$.87	\$.52	\$ 3727.88
Toasting	14987	\$ 1.39	\$.87	\$.52	\$ <u>7793.24</u>
					TOTAL \$ <u>17277.00</u>

		Darwin	Melbourne	Difference	
BEVERAGES:					
Tea PC	657 ctn	\$ 14.50	\$ 14.30	\$.20	\$ 131.40
Coffee PC	2330 ctn	\$ 13.65	\$ 13.13	\$.52	\$ 1212.06
Bulk Tea 5 kg	104 ctn	\$ 36.00	\$ 17.44	\$ 18.56	\$ 19.30
Bulk Coffee 1.5 kg	123 tin	\$ 32.30	\$ 31.81	\$.49	\$ <u>60.27</u>
					TOTAL \$ <u>3333.73</u>

		Darwin	Melbourne	Difference	
BOOSTERS:					
Beef	77 tin	\$ 13.50	\$ 9.57	\$ 3.93	\$ 302.61
Chicken	261 tin	\$ 13.50	\$ 9.57	\$ 3.93	\$ <u>1088.61</u>
					TOTAL \$ <u>1391.22</u>

		Darwin	Melbourne	Difference	
SAUCES:					
Tomato	600 ml x 12	\$ 21.00	\$ 16.90	\$ 4.10	\$ 54.45
Tomato	4 ltr x 3 111	\$ 13.66	\$ 14.85	(\$ 1.19)	(\$ 44.03)
Worcester	4 ltr 10	\$ 6.10	\$ 5.28	\$.82	\$ <u>8.20</u>
					TOTAL \$ <u>18.20</u>

		Darwin	Melbourne	Difference	
FLOURS:					
SR Flour	154 Dr	\$ 17.50	\$ 8.17	\$ 9.33	\$ 1258.00
Plain Flour	135 Dr	\$ 16.50	\$ 6.60	\$ 9.90	\$ <u>1336.50</u>
					TOTAL \$ <u>2594.50</u>

		Darwin	Melbourne	Difference	
TINNED PRODUCT:					
Tomatoes	A 10 x 3 513	\$ 11.40	\$ 9.80	\$ 1.60	\$ 273.60
Pine Juice	Db 850 x 24 156	\$ 13.00	\$ 11.48	\$ 1.52	\$ 42.25

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Pine Juice	A 10 x 3 232	\$ 9.84	\$ 7.95	\$ 1.89	\$ 146.16
Orange Juice	A 10 450	\$ 15.24	\$ 12.88	\$ 2.36	\$ 354.00
Beetroot	A 10 x 3 96	\$ 12.30	\$ 9.81	\$ 2.49	\$ 79.68
Instant Mash	x 3 96	\$ 43.50	\$ 36.30	\$ 7.20	\$ 156.00
Apple	A 10 x 3 279	\$ 13.95	\$ 11.37	\$ 2.58	\$ 239.94
Apricot	A 10 Diab 336	\$ 19.32	\$ 22.30	(\$ 2.98)	(\$ 333.00)
Fruit Salad	A 10 355	\$ 16.80	\$ 23.55	(\$ 6.75)	(\$ 753.74)
Peach Half	A 10 398	\$ 18.15	\$ 16.39	\$ 1.76	\$ 233.49
Pear Half	A 10 153	\$ 18.15	\$ 15.82	\$ 2.33	\$ 118.83
Pine Apple Rings	A 10 381	\$ 18.27	\$ 18.90	(\$ 0.63)	(\$ 80.01)
Prunes	A 10 147	\$ 18.00	\$ 14.75	\$ 3.25	\$ 159.25
Two Fruit	A 10 372	\$ 18.15	\$ 16.16	\$ 1.99	\$ 246.76
				Total	\$ 883.05
				Grand Total	\$ 79676.20

SUBMISSION 58

Mr John Janson
Pine Creek Mini Mart

Oral submission submitted to Mr Rick Gray on 17 June 1999 in the Committee offices, 3^d floor Parliament House Darwin.

Mr GRAY: This is a recording of a transcript of a submission from ...

Mr JANSON: John Janson, Pine Creek Service Station.

Mr JANSON: Just regarding the committee hearing and that, of freight. Like, a lot of problems we have in a place like Pine Creek as only a small operator, is the buying power, which is not very huge. And we have to deal with the smaller companies, and which doesn't give us a hug buying power. And then they say there's no freight, but there's always the built-in freight cost, because they get their stuff from Adelaide, they freight it to Darwin, and then they deliver it back to us in a place like Pine Creek.

Well, we do a lot of our groceries through Top End Wholesalers. We try to deal as much locally as we possibly can. But their stuff is obviously sourced from warehouses and that south, so they've got to get it up here and then they re-freight it back into our places. And buying power is one of the biggest thing that we have, as we haven't got the storage or the massive turnover to be able to buy huge amounts of ...

Mr GRAY: And maintain that in stock?

Mr JANSON: Yes. And it comes back to cash flows and everything else.

Mr JANSON: Oh, we've got groceries, we've got a mechanical workshop. We run the 24-hour towing business. We've got a small caravan park, small budget accommodation, fuel, fast food, everything else. The other thing we have troubles with too, down there, is staff turnover in places like that. And like, when you put new staff on for the first 3 to 4 weeks, with the training, you've got to double up on wages. A lot of them, they stay for 2, 3 months, or you get them trained up and they don't like it and they choof off so you've got to start again.

You know, it's the built-in cost that people like us have got to bear. And then you've got the downturn in the middle - early in the season, which makes it hard. You've sort of got to make your money in the 9 months of your busiest time, and then hopefully you've made enough to carry you through the 3 months.

Mr JANSON: The markups are quite good, but then when they compare them with Coles or Woolworths and that, they can turn over millions of dollars and source things. Like we buy a carton of something, and they'll buy a road train full of it. Like Coke for instance, they can retail it in their shops cheaper than what we can actually buy it directly off QUF. And that's the big killer for companies like us, that sort of thing.

And fuel, well, that's another cost, because it costs us 7¢ a litre to pump our fuel, with all your add-ons. And anyway, we're a big site for Pine Creek, but we're not a big site, like, in comparison to sites and that in the cities, and that sort of thing. We try to maintain it at a reasonable level, but then you've got costs like, you've got toilets to clean, you've got driveways, you've got water, you've got all that sort of stuff.

Mr JANSON: And then you've got staff, then you're using Eftpos machine, like on a credit card, you've got a fee of 1.9%. which is taken out of the sale. And then if you use Eftpos, the average I think, is about 30¢. Then the banks charge you rental of your machines, and then you've got to buy the stationery and things like that. So you know, it's all got to be built in to the cost of production. And it's all got to be passed onto the end user.

Mr JANSON: It would represent probably 2% to 3% of the price.

Mr JANSON: And like, you know, the fuel costs us about 6¢ a litre to be delivered. That's charged to us, and then you add on your bit, and you're making probably 5¢ or 6¢ a litre on the fuel.

Mr JANSON: We work out the freight costs and allocate it to so many items, and then - but we do the mark-up first and then we allocate the freight cost onto it.

Mr JANSON: Well, you know, then you've got other items that you need to have in there. The one-of items that might sit there for 6 months. So your mark-up on that must be higher because you've got to carry it for so long. And then, like, cigarettes and that sort of stuff, you lose one packet of cigarettes or something out of the carton, you've got to sell the whole carton to recoup your cost. And like, in places like that, we've got a big expense with trying to just maintain security and things like that. And it's very hard, because we haven't got the gross turnover to be able to put in all the checks and balances. You've got to be doing it physically instead of with your computers and that.

But in the short term that's got to change. With a GST, we've got to put them in. We haven't got much option. Unless we want to blow our cost of maintaining it out the window.

Mr JANSON: We've just done some costings just for your service station down there, to put the scanning system in. One lot have quoted us about \$15 000.

Mr JANSON: And that's without labour of putting all your stuff on computer. There's probably another fortnights work probably for 2 to 3 people.

Mr GRAY: So at the moment you're doing it purely manual?

Mr JANSON: Yes, manual.

Mr JANSON: We have to, to be able to maintain our cost levels. We'll have the initial up-front cost of - and we've already got a computer system in that do accounts and things like that. But now we've got to enlarge on that, and the next step is about \$15 000. And that's got to be installed, basically, by the end of this year, so we've got the bugs and that out of it.

And the other thing too, that we find, is we have salesmen coming through, showing us new products and that, and then when we got to order them, they say, 'Well, you can't have that for 6 months because the multinationals have bought us out for the next 6 months'. And when they do come on the market, their shelf price is cheaper than what we can buy them off our wholesalers. Which makes it very hard for the small business person to compete.

Mr JANSON: A lot of this is the new products, like - well, for one instance was the Berri natural fruits. That's obviously a new product that's been out in the last couple of years. But for the first 6 months of that product being on the market, we couldn't buy it from either Berri or our wholesalers,

for the simple reason that Woolworths and Coles and that, had bought the first 6 months of production. And whatever they can produce in that 6 months, they just walk in and buy it. And that's with their turnover and their across the continent stores and that, they can obviously turn those products over. Whereas we can buy probably 2 cartons a week, they're buying probably 2 semi-trailer loads a day, which makes it very hard for us to compete, even with our buying on that product line.

Mr JANSON: Smaller people it is, but then the next thing you've got, is you've got to go out and physically do that, and somebody's away for a couple of days while they're doing it. And Coke is another good one. Like, many a time Coke is advertised on their specials cheaper than what we're buying it for straight off QUF. Like, that's obviously another buying power that they've got over the smaller consortiums.

And like, we're dealing with a large company up here called Top End Wholesalers, which is probably quite large by Territory standards, and quite a good company and everything else, and they try to do their best. But their buying power is nowhere near as good as what Woolworths and Coles and that sort of thing is. These deals are done and they're obviously offered to the big ones first and then the smaller operators get it down the way.

Like, we get a lot of feedback from the tourists and that, and they complain about it and everything else. A lot of them don't realise that the cost factor of about 43¢ in the dollar of every litre is tax. They don't realise that our bit on the tail end is only very small, of what they pay. The rest of it is returned to the government.

Mr GRAY: So a lot of clientele would be just tourists, I gather?

Mr JANSON: Yes. Oh, we've got a population there of about 400 people with the mines and that sort of stuff. It's like the gold price now. We don't know how long it's going to stay at that, and the mines employ probably 85% of those people. It could be there for 6 months, it could be there for 5 years or 20 years. Nobody knows. It's a sort of a month-by-month, day-by-day, year-by-year exercise.

And as your turnovers fall, the less the wholesalers want to know you. So that means you're paying more for your product, as you haven't got the buying power to go in and negotiate sales.

Mr JANSON: And the other issue we've got in a place like Pine Creek, is that a lot of them have got the expire dates and everything else, and we've got to buy very carefully and very conservatively with a lot of products, because the life on the products is very short. And what we find in places like Pine Creek, is because it's delivered to you, and the other problem is too, is companies like QUF, your milk companies, won't give you a refund on your use-by milk like they do in the bigger centres, because they're not stocking your fridges. Whereas in the city, they stock your fridges and they'll take back 2 bottles of milk that are out-of-date today, and refund it. Whereas, they don't like doing it to us, and they won't do it, a lot of instance. They say it's our fault because we're ordering and ...

Mr JANSON: Well, the thing is they use the excuse there, that we're doing our own ordering, so we should know what we're going to sell each week. And they're not stocking our fridges. But the problem is, like, you could be busy, really busy this week, and they won't do it, a lot of instance. They say it's our fault because we're ordering and ...

Mr JANSON: Well, the thing is they use the excuse there, that we're doing our own ordering, so we should know what we're going to sell each week. And they're not stocking our fridges. But the problem is, like, you could be busy, really busy this week, and next week, you've allocated another

busy week, and it's only half a week, sort of thing. And then you're left with a short-life milk, and we have a big thing - we've sorted out a lot of it now with them, but they're giving us short-dated milks instead of as long as possible. Like, we might get a delivery on Thursday and they haven't had a delivery for a week, but we've only got 5 days to run on a bottle of milk, or what have you.

Mr JANSON: Short shelf life, and that makes it very hard for us. And like, they just wear the big stick. They just don't like giving you the credits and that sort of thing. But it makes it hard in that sense of where we are, because we're the local supermarket, I suppose you can say, is that then you've got your local people going crook because they haven't got fresh bread and they haven't got fresh milk, and everything else. And like, you have a front line, because you're obviously the person that's copping the stick. And fair enough, there's 3 outlets that sell milk in Pine Creek, but the problem is we've all got the same problems in buying shelf life and things like that.

Mr JANSON: We source those from a company called Trans Territory Foods. And that's another thing - we've got to buy them very conservatively as well. And we get them pre-packed so that they're presented quite well and that sort of thing. With a population of 400 people, and you're only 90 km from Katherine, you've got to be very careful of what you buy there too, because if you over-buy, they won't give you a credit on them. Unless they come out when you see them come in the boxes, and the quality of the stuff is not up to standard. You can get a credit there and then, but once you've signed for them and taken delivery, well, that's ...

Mr JANSON: That's the end of their responsibility. And like, they're all pre-packed, it looks good, and 2 days later, it can be off. And so, you know, that's all got to be built into the cost structure and the margins ...

Mr GRAY: Do you have much wastage?

Mr JANSON: Some times of the year you do. It just depends what time of the year, especially if you've got a lot of stuff that's been kept in cold storage, and then you get it up there, and then you find out that it's - well, you don't know just by the eye, it looks good, but then when you're changing fridges, it could have been sitting in the sun for 3 days somewhere down the track, or the truck could have broken down that nobody knows about, nobody's told anybody, and we get the product. It looks good when you get it, and then ...

Mr JANSON: It just depends where they're buying their products from, and who they're buying it off and what time of the year it is, and how long it's been in cold storage.

Mr GRAY: A lot of the food - do you get yours from Katherine, Trans Territory Foods in Katherine.

Mr JANSON: Trans Territory delivers there. Like, their products come up from south as well, and then they're redistributed to us. And that's another one that's free into shop, but it's obviously built into their costs, our wholesale price into the shop, so it's not free. It's just a hidden cost that's built in there. It just makes people feel better. They think they're getting something for free.

Mr JANSON: I think the government's just got to look at these multinational companies and try to get it, because they're just squeezing all your corner shops and your corner businesses out. Even though we're 90 km from Katherine, they make it very hard for us, because they go down there and they do the big buy-ups and somehow or other along the line, the retailing or the wholesaling has got to be a bit evened out somehow or other. How you do it, I've got no idea, but it's something that's got to be, probably, addressed. And like, our fuel costs and things like that, and delivery.

Like, everything you buy is inflated, no matter what you get up here, because a lot of it we blame it on freight, which probably is in a sense, but people don't realise it's probably on about 4 trucks before it's delivered to the outlets. You've got all that handling and double handling, which is, because of our distances, cannot be addressed really. Because those trucks take it to the warehouse in Darwin or Katherine, or wherever, and then it's distributed out to their shops and everything else. And by the time we've got it, it could have had 4 rides on a truck.

Mr JANSON: And I think most of them try to do right, but the problem is that everybody's got to make a dollar. And you've got to have a bit of meat on the bone for everybody. And if they go broke and fall over, well, we all suffer indirectly, because it's another competitor that's out of the game, and there's another lot of people that are unemployed, and it's a snowballing effect.

It's like when Mt Todd went broke. That was - Katherine probably was the initial one, because that was up-front job. But the whole of Australia would have felt that in some form or manner, due to the fact that, you know, a lot of that stuff comes from south and everything else, and that sort of thing. And that's like Pine Creek. They said what was the fall-off there. We probably - our turnover, gross turnover for that period probably fell 3% to 5%, indirectly, because you haven't got the women and the kids and that on the highway pulling in for their soft drink, and giving the kids a run around and their ice cream, or what have you. So you've cut out on the movement of people on the highway from Katherine to Darwin. Right up the highway we'd have all felt it, indirectly, on that sort of thing.

Mr GRAY: Right. If you've got nothing else more to say, we can leave it there.

Mr JANSON: I think that's - I think we covered everything.