

Supermarkets or super mark-ups?

Submission to Senate Select
Committee on Supermarket Prices

UPDATED SUBMISSION

Discussion paper

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This revised submission expands, updates, and corrects information contained in our original submission (filed on 4 February 2024). Key changes include expanded and corrected data on profit margins in Table 3, recently released profit margin data from the first half of fiscal year 2024, international comparisons of profit margins in supermarkets, and recently released ABS data on average weekly earnings for retail workers.

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Introduction

The Australia Institute welcomes the opportunity to make a submission to the Senate Select Committee on Supermarket Pricing. The Australian supermarket sector continues to be dominated by a duopoly of two firms: Coles and Woolworths. There is increasing evidence that this duopoly has used its market power to propagate and magnify recent inflationary shocks.

Supermarket profits have increased in recent years and there is now evidence that margins have also increased. Food retailers are an important and significant part of household's weekly expenses, with low-income households spending a bigger proportion of their income on food. This means that food inflation is a particularly important pain point for Australia's most vulnerable households.

The current cost of living crisis makes investigating the lack of competition and pricing behaviour of food retailers very relevant. We hope the following insights and policy recommendations will be useful to help reform this essential market.

Food prices and household budgets

Food is critically important in Australia. A most telling indicator of poverty in Australia is being forced to cut back on food by skipping meals and consuming poor-quality food. Overall food represents 8.3% of consumer spending. However, that ranges from 16.4% for the lowest household quintile by disposable income to just 5.1% for the top quintile. These and other figures are provided in Table 1.

Table 1: Distribution of income and spending on food, 2021-22.

	Equivalised Disposable Income Quintiles					
	Lowest	Second	Third	Fourth	Highest	All households
Gross disposable income (\$)	54,134	86,689	117,495	154,434	288,311	139,064
Food Consumption Expenditure (\$)	8,856	9,967	11,897	12,341	14,765	11,529
Food as % of income	16.4	11.5	10.1	8.0	5.1	8.3

Source: Author's calculations based on ABS Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2021-22

From these figures it is clear that food is disproportionately large in the budgets of lower income households. Hence households in the bottom quintile have an average disposable income of just \$54,134 per year and spend on average \$8,856 per year on food, representing 16.4% of the household's income. In weekly figures they are \$1,041 and \$170 respectively. We can also work out the share of food in the budgets of different household types as is reported in Table 2. Note those figures are only available for the year 2019-20.

Table 2: Household types and spending on food, 2019-20.

	Gross disposable income	Food	Food as a percentage of income
Lone person under 65	\$77,643	\$5,464	7.0%
Lone person 65 and over	\$50,932	\$4,981	9.8%
One parent with dependent children	\$92,714	\$10,759	11.6%
Couple only, reference person under 65	\$150,560	\$10,495	7.0%
Couple only, reference person 65 and over	\$108,121	\$9,970	9.2%
Two adults or more with dependent children	\$178,376	\$15,908	8.9%
Other households	\$155,890	\$12,188	7.8%
All households	\$128,077	\$10,757	8.4%

Source: Author's calculations based on ABS Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2021-22

Table 2 clearly shows that a sole parent with children has the highest proportionate spending on food at 11.6% of their income. They are followed by household types with a head of household 65 years or over. Then follows the couple household with children. Lowest of all at 7.0% are the household types with adults under 65 and no dependent children.

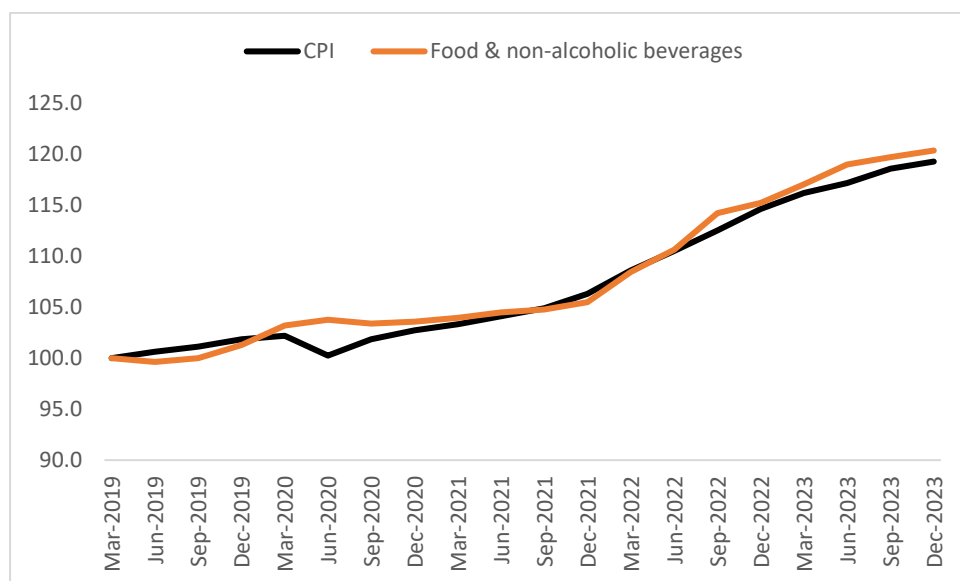
Within each of the household types in Table 2 there will be a range of incomes and we can expect that the lower income households within each group will have higher proportions spent on food than the averages reported in Table 2.

Since food expenditure is a larger proportion of low-income households spending, food price inflation, and the profits behind them, disproportionately impact low-income earners. This has a very regressive impact on income distribution.

FOOD PRICES

Coles and Woolworths are very prominent in the market for foodstuffs. If we examine the price of food items in the Consumer Price Index (CPI) and compare them with the overall CPI the data show the pattern illustrated in Figure 1.

Figure 1: All groups CPI compared with the food and non-alcoholic beverages component, Mar 2019 = 100

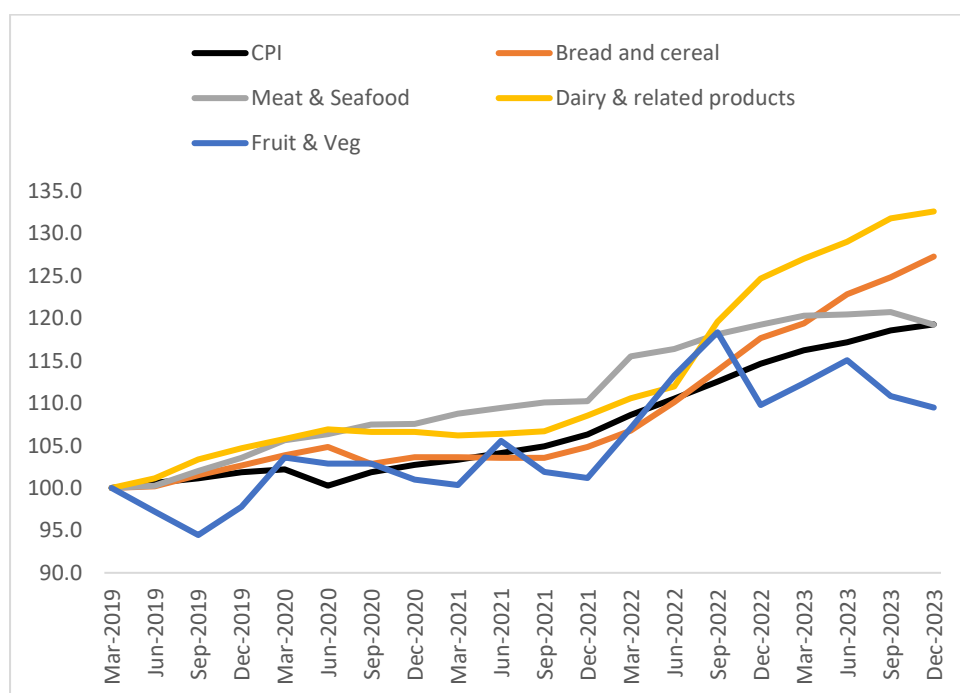


Source: ABS Consumer Price Index, Australia.

Over the last 5 years, despite a rapid increase in overall inflation, food and non-alcoholic beverages have increased slightly faster than the overall CPI. Over the period overall CPI increased by 19.3%, while food and non-alcoholic beverages increased by 20.4%

If we examine some of the major components of the food and beverage index the results are interesting and presented in Figure 2.

Figure 2: Food and beverage price index compared with significant components.

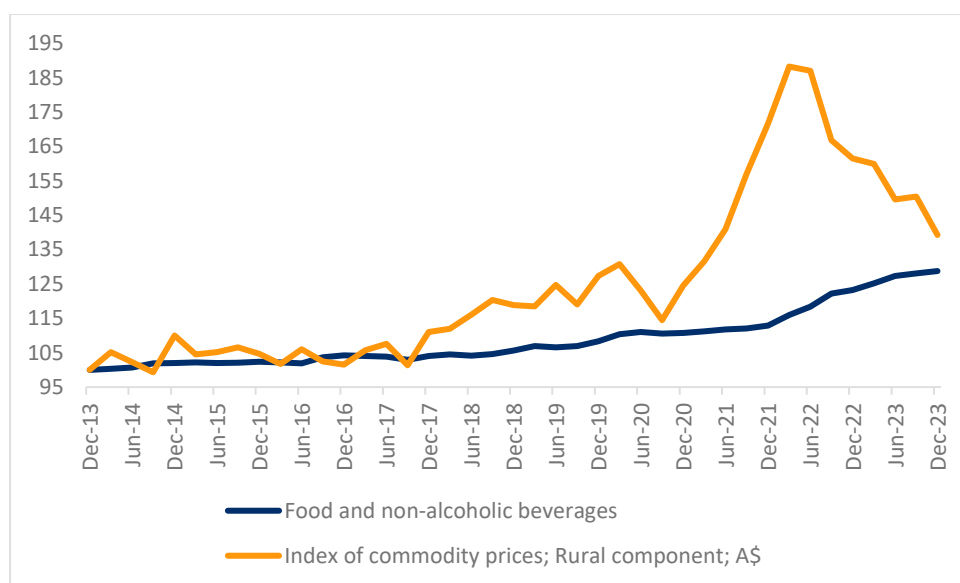


Source: ABS Consumer Price Index, Australia.

Figure 2 shows most of the subgroups outpaced CPI, except for fruit and veg which was much more volatile, but clearly follows an upward trend. Dairy, and bread and cereal rose the fastest.

Food manufacturers and retailers blame international prices for the increase in domestic prices. To test this Figure 3 compares the food and beverage index with the international rural commodity price index as published by the RBA.

Figure 3: Food and beverage price index compared with commodity price index Dec 2013 to Dec 2023



Source: ABS Consumer Price Index, Australia and RBA Index of Commodity Prices, December 2023 at <https://www.rba.gov.au/statistics/frequency/commodity-prices/2023/icp-1223.html>

We can see that after 2020 commodity prices increased dramatically but have then fallen back down. There is no visible pass-through to Australian consumers of the sharp decline in international agricultural commodity prices that has been experienced since mid-2022.

‘Low Margin’ Does Not Mean Low Profit

The oft-heard claim that the profit margin on grocery retail has not changed, and that higher profits have simply kept up with the overall rise in costs and prices, is not supported by industry-wide data. Measured as a proportion of total revenue in food retail, profit margins (variously measured¹) have increased measurably in the last five years (since prior to the COVID pandemic). This indicates that the increase in food prices paid by Australian consumers has been larger than required simply to cover increased input costs of the supermarkets.

Table 3: Profit Margins in Australian Food Retail (% of total revenue)

	Woolworths			Coles			IBIS World
	EBIT		Corporate After-Tax Net	EBIT		Corporate After-Tax Net	After-Tax Net
	Group	Aus. Food		Coles Group	Supermarket		
2018	4.5%	4.7%	2.9%	3.8%	not reported	1.7% ^a	2.9%
2023	4.8%	6.0%	2.5%	4.8%	4.8%	2.6%	3.7%
2023 Revenue (\$B)	\$64.3	\$48.0	\$64.3	\$41.5	\$36.7	\$41.5	\$136.1
Extra Profit (\$M)	\$248.8	\$620.7	-\$247.2	\$408.7	Approx. \$360 ^b	\$387.6	\$1,088.4

Source: Compilation from company financial reports and IBISWorld “Supermarkets and Grocery Stores in Australia” (August 2023 forecast). Company results include discontinued operations where reported.

a. 2018 after-tax return for Wesfarmers group.

b. Assuming 2018 margin equaled overall group, extra profit = \$366 million. Assuming increase in margin since 2018 equaled increase in overall group, extra profit = \$362 million.

This is shown in Table 3, which reports several different measures of profit margins for Woolworths, Coles, and the overall supermarket and grocery store sector, based on company financial reports and analysis from financial analysts IBISWorld. Across all but one of these measures, data indicates a significant increase in profit margins in the last five years. The only exception is the after-tax net income margin for the combined Woolworths group, which declined in 2023 despite rising profits in its core Australian food segment –

¹ There are many different concepts of profit margin, measured for various business segments, various stages of a business’s accounting structure, and with various deductions for interest, tax, and discontinued operations. Comparative data on profit margins must therefore be interpreted with caution. Table 3 reports a variety of these measures.

largely due to weaker results in other segments.² The increase in profit margins, applied to a revenue flow inflated by rising costs for purchased inputs, drives a two-fold increase in profits: they increase due both to rising higher revenues, and to stronger margins on those revenues. Table 3 reports the ‘extra’ profits captured in 2023 as a result of the increase in food margins over the pandemic years; they are worth hundreds of millions of dollars for each chain, and over \$1 billion across the whole sector.

As IBISWorld reported, “Supermarkets and grocery stores are poised to generate greater incomes and margins as result of higher prices.” These extra profits will continue until “the cost of doing business catches up with inflated consumer spending.”³ IBISWorld’s sector-wide analysis indicates an increase in the average profit margin of close to one percentage point of total revenues over the last five years. This is broadly consistent with the change in margins reported by the major companies in their own reports.

Both companies have recently released financial results for the first half of fiscal year 2024, confirming that profit margins continue at elevated post-pandemic levels: Coles’ EBIT margin on supermarkets reached 5.1% for the first half of the year (5.3% adjusted to exclude major project implementation costs), and Woolworth’s EBIT margin on Australian food operations reached 6.1% in the first half of the year.⁴

The increase in average profit margins since the pandemic might seem small in arithmetic terms but applied to the massive scale of revenues flowing through the two chains, it translated into substantial incremental profits. According to the sector-wide analysis compiled by IbisWorld, the increase in profit margin from pre-pandemic norms has translated into an additional profit of over \$1 billion per year across the industry – representing a one-quarter increase in profits compared to pre-pandemic margins. That additional profit cannot be ascribed to the increased cost of inputs; rather, it reflects the increased take of retailers, at a moment when consumers would have been paying more anyway as a result of inflationary pressures earlier in the food supply chain (such as international supply chain disruptions, climate disasters, and other disruptions in supply).

² Woolworths’ latest results were pulled down by declared losses and impairment charges on its investments in the Endeavour hospitality group and its New Zealand subsidiary. These losses are cold comfort to Australian shoppers whose more predictable revenue flows help to offset these losses on other ventures undertaken by the corporate group. See Eli Greenblat, “Woolworths hit by Endeavour shares loss, New Zealand supermarkets sales slide,” *The Australian*, 29 January 2024, <https://www.theaustralian.com.au/business/retail/woolworths-hit-by-endeavour-shares-loss-new-zealand-supermarkets-sales-slide/news-story/fe83830468ff681a808f3cae5194509e>.

³ IBISWorld Supermarkets and Grocery Stores in Australia (August 2023), p. 31.

⁴ See “Coles Group Limited – 2024 Half Year Results Presentation,” <https://www.colesgroup.com.au/DownloadFile.axd?file=/Report/ComNews/20240227/02777622.pdf>, and “Woolworths Group Half-Year Results Presentation,” <https://www.woolworthsgroup.com.au/content/dam/wwg/investors/asx-announcements/2024/Woolworths%20Group%20F24%20H1%20Analyst%20Presentation.pdf>.

Moreover, there is no sign that food retail margins are narrowing back to those historic norms, despite the downturn in global commodity prices (illustrated above), other input costs (like energy), and the partial slowdown in food inflation over the past year.

The fact that these net income margins seem like relatively low numbers (3-5%, lower than typical profit margins in most other industries) has been invoked to claim that food retail is not a very profitable business. This claim reflects a deliberate misportrayal of the nature of the food retail business. Food retailers generally do not process or manufacture the products they sell; they simply purchase products from suppliers, add a mark-up, and sell them to consumers. Their business expenses are limited to the facilities, logistics, inventory, labour, marketing, and other functions directly related to the stores they operate. It is thus not surprising that final profits relative to total costs (including the costs of the finished products purchased from suppliers) seem low. Profit margins for businesses that undertake more complex and vertically integrated functions (including product development and manufacturing) need to be higher as a proportion of sales.

While retail is thus an inherently “low margin” business activity, this hardly means it is not profitable. Businesses evaluate investment opportunities not according to sales margins, but rather according to the return they can expect on invested capital. Since grocery stores are not a capital- or technology-intensive undertaking, profits relative to the scale of capital invested in those stores (that is, the rate of profit) can be high. This is how investors compare returns on different investment opportunities – not on the basis of profits relative to total revenues.

To take an example, in its latest annual report for fiscal 2023 (covering the twelve months ending in June 2023), Coles Group reported net profit after-tax of \$1.1 billion (up 4.8% from fiscal 2022). That may seem “small” relative to the firm’s total revenues: which reached \$41.5 billion in the year. But the shareholders’ equity base of Coles Group was just \$3.4 billion at the close of fiscal 2023. As a return on average capital invested by the firm’s owners,⁵ therefore, that net income was substantial. Coles’ return on average equity in 2023 was 33.9%.

In the case of Woolworth’s, the stock of invested shareholder equity reached \$6.6 billion at the end of 2023. Relative to average equity over the fiscal year, the Woolworth group’s after-tax net income (\$1.6 billion) translated into a return on average equity of 25.7%. That is not as high as the profit rate for Coles shareholders, but nevertheless higher than would be expected in firms operating in normal competitive sectors.

These are very strong rates of profit for a sector that has a huge economic footprint, but requires a relatively modest base of invested capital to operate, and is relatively low risk. Clearly other companies would be attracted to such attractive rates of return; they are kept

⁵ Calculated as an average of opening and closing equity.

out by the structural barriers to new entrance and competition that reinforce the existing duopoly's dominance.

Compared to the paltry returns that most average savers earn on their savings accounts (even in the current high interest rate environment), 25-35% returns on shareholders' investments is unusual and infuriating. That anger is justified in light of the genuine hardships that supermarket customers are experiencing as a result of the cost of living crisis – a crisis which is enriching these powerful firms and their owners.

In this context, it is quite wrong to equate a “low margin” business with a “low profit” business. The former attests to the fundamental nature of the production process in an industry; the latter attests to a firm's success in extracting profit from that process. The combination of a modest profit margin, with a huge volume of business, low capital intensity of production, and low risk, equates to a massive return to investors. Calling food retail “low margin” is deliberate attempt to disguise how lucrative this concentrated, protected industry has become.

Moreover, the relatively modest capital requirements in a retail business help to explain the decision by major supermarket chains to allocate so much of their record post-COVID profits to dividend payouts and other rewards for shareholders. In Coles' case, the company paid \$844 million in dividends in fiscal 2023, up 6% from 2022.⁶ Woolworths paid over \$1 billion in dividends in fiscal 2023, up 2% from 2022. A business earning such high profits, from a relatively low-capital-intensive business, is literally earning more profits than it can efficiently reinvest in its own operations – hence the decision by managers to simply give those profits back to the firm's owners through dividend payments and other distributions. Meanwhile, neither firm's investment in new physical and intangible capital assets in the year was enough to offset depreciation and amortization on their existing capital stocks.⁷ Their strong profits are not being used to “invest in a growing business”: they are being used to enrich shareholders, at the expense of hard-pressed consumers who worry about being able to afford their weekly groceries.

Moreover, it is important to keep in mind that even without this increase in average profit margins through the pandemic, a case could still be made that the supermarkets have profited from the inflation and cost-of-living crisis that followed the pandemic. A supermarket could still profit from that inflation even if its profit margin did not change. If rising costs for input purchases (resulting from inflation experienced further up the supply chain) drive up the total nominal flow of revenue, then a constant profit margin still translates into higher profits and higher prices. Supermarkets would capture more profit

⁶ All data in this paragraph from company financial reports.

⁷ Woolworths deducted \$2.578 billion in depreciaton charges, and invested \$2.519 billion in new physical and intangible assets. Coles deducted \$1.558 billion in depreciation, and invested \$1.514 billion in new physical and intangible assets.

even though the real quantity of the retail service they provide does not change. And measured relative to the equity base that its owners have invested, the rate of profit would increase as well.

Indeed, it could be argued that a response to a supply shock (which makes input costs more expensive) should be a decline in average profit margins, if retailers (and others in the supply chain) bear some of the burden of adjustment. This is what would be expected in conventional economics from an upward shift in the supply function (so that it requires a higher price to elicit a given quantity of supply). Normally we would expect the burden of adjustment to that shock to be shared between consumers (paying higher prices) and suppliers (experiencing lower volumes of business and lower profits). In that regard, simply maintaining a constant profit margin through the disruptions of the pandemic is a sign of unusual market power for these firms. The fact that they were able to maintain and even expand those margins (now applied to a much larger nominal flow of revenues, inflated by rising input costs) attests to their extraordinary market power.

Finally, the role of corporate profit-taking in driving up food prices for Australian consumers is obviously not limited to the final retail stage of the food supply chain. The problem of companies with strategic power taking advantage of the disruptions and uncertainty that followed the COVID pandemic has been documented more generally throughout the Australian economy.⁸ Other industries which have recorded unusually high profits associated with accelerated inflation in the prices of their output, and which feed into the food supply chain prior to products being stocked in supermarket shelves, include energy companies; logistics, transportation, and wholesale businesses; and food manufacturers. Unusual profit margins at each of these stages of food production have also added measurably to high food prices – and in the case of the energy sector’s historic profits by more than can be ascribed to the profit margins of the supermarket chains. In this regard, the negative impact of profit-led inflation on food prices and food consumers is more severe, and more wide-ranging, than can be captured by analysis of the prices and profits of supermarkets alone.

An additional perspective on high profit margins in Australian food retail is provided by an international comparison of EBIT margins in food retail. Recent analysis in the Australian Financial Review⁹ cites research from the Institute of Grocery Distribution indicating that

⁸ See, for example, Jim Stanford et al., *Profit-Price Inflation: Theory, International Evidence, and Policy Implications* (Canberra: Centre for Future Work), September 2023, <https://futurework.org.au/report/profit-price-inflation-theory-international-evidence-and-policy-implications/>; and Allan Fels, *Inquiry Into Price Gouging and Unfair Pricing Practices* (Melbourne: Australian Council of Trade Unions), February 2024, https://pricegouginginquiry.actu.org.au/wp-content/uploads/2024/02/InquiryIntoPriceGouging_Report_web.pdf.

⁹ See Sue Mitchell, “Woolworths and Coles should act pre-emptively to avoid big stick,” *Australian Financial Review*, 18 January, 2024, <https://www.afr.com/companies/retail/woolworths-and-coles-should-act-pre-emptively-to-avoid-big-stick-20240116-p5expr>.

Australian supermarket margins (which this analysis confirms have grown markedly since 2019) are higher than those in other industrial countries – including the U.S., the U.K., and Europe. EBIT margins of 5-6% in Australian supermarkets compare favourably to typical EBIT margins of 2-4.5% in major chains in other countries. This reinforces concern that the uniquely concentrated nature of Australia's food retail sector is playing a role in elevated food prices and hence elevated profits.

Supermarkets' Monopsony Power and Workers' Rights

Unfortunately, the concentrated economic power embedded in Australia's supermarket duopoly imposes significant costs and consequences onto other stakeholders, not just consumers. Because they are such enormous suppliers of food retail services, the two giant chains are able to project their concentrated power back into the supply chain that feeds into food retailing. This includes exerting undue pressure on some food suppliers, especially smaller ones (pushing down supplier prices; making costly requirements on logistics, packaging, or other features; or adding extra charges to suppliers as a condition of accepting their products for sale). It also includes unfair and exploitative practices regarding the workers in Coles' and Woolworths' massive operations.

Coles and Woolworths are Australia's largest employers, employing over 300,000 Australians between them.¹⁰ That accounts for about three-quarters of all employment in Australia's food retail sector – which employed 402,000 workers in total at the end of 2023.¹¹ 62% of all food retail workers are employed on a part-time basis (or 250,000 part-time workers at end-2023), and most are paid according to the minimum 'safety net' terms of a Modern Award.

The economic power wielded by these twin large employers helps to suppress wages and working conditions, since they do not compete with others for scarce labour (just as they do not compete with each other to win food customers in such a concentrated market). This "monopsony" power is especially evident in certain segments or categories of the labour market which are particularly dependent on these two employers: such as young workers, or workers in smaller regional communities (where the local supermarket is often the largest single employer in town). In recent research in Australia and around the world, economists have documented the impact of concentrated monopsony power among very large employers on wages and working conditions.¹²

Australia's Modern Awards system and the influence of trade unions in the retail sector help to moderate the extent to which the two giant chains can suppress wages and working conditions. Nevertheless, the fact remains that food retail remains among the lowest-paid

¹⁰ Company web sites indicate that Woolworths employs "over 190,000 Australian and New Zealanders", and Coles (which only has major retail operations in Australia) employs "more than 120,000 team members."

¹¹ From ABS Detailed Labour Force data, Table 6.

¹² A useful survey of this recent research in the Australian context is Jonathan Hambur, "Did Labour Market Concentration Lower Wages Growth Pre-COVID?," Research Discussion Paper – RDP 2023-02, Reserve Bank of Australia, <https://www.rba.gov.au/publications/rdp/2023/2023-02/full.html>.

industries in Australia's labour market. Average earnings per week for employees in the overall retail sector equalled just \$841 as of May 2023 (latest data available¹³), reflecting both low hourly wages and the preponderance of part-time work. If anything average earnings in food retail are even lower, since it has the greatest reliance on part-time work of any retail sector.¹⁴ There is an urgent need to support higher wages, more stable jobs, and adequate rosters for supermarket workers – and this will require countervailing pressure to be applied against the concentrated monopsony power of the supermarket duopoly.

Figure 4: Food Prices versus Retail Wages, 2019-2023



Source: Calculations from ABS Consumer Price Index and Average Weekly Earnings.

The power imbalance between supermarkets and their staff is illustrated dramatically by the contrast between price inflation and wage growth in the period since COVID pandemic (see Figure 4). Food prices have increased dramatically since early 2021, by significantly more than average weekly earnings in the retail sector over that period. This results in a painful decline in real wages for supermarket workers. In the extreme, some employees of Coles and Woolworths literally cannot afford to buy their own groceries at the store where they

¹³ From ABS Average Weekly Earnings, Table 10i.

¹⁴ Across other retail sectors tracked by the ABS (including motor vehicles and parts, fuel, and other store-based retail), part-time employment accounted for 44% of total employment at end-2023, compared to 62% in food retail.

work – in desperate circumstances turning to family or charitable food relief agencies for help in their struggle to put food on the table.¹⁵

In addition to the general impact of supermarkets' monopsony power in suppressing wages and job quality across their huge workforces, there are numerous examples of egregious underpayment and other violations of labour obligations by these firms. Both Coles and Woolworths have acknowledged major instances of wage theft in their payroll operations, affecting thousands of their workers over many years. Among numerous other instances, in 2019 Woolworths acknowledged underpayment of at least 5700 staff over several years, with cumulative non-payments worth over \$300 million.¹⁶ More recently the firm has faced over 1000 criminal charges under Victoria's new wage theft legislation regarding underpayment of staff for overtime work.¹⁷ Coles has also acknowledged underpaying salaried staff over many years by at least \$25 million, and faces charges (along with Woolworths) in federal court regarding violation of basic labour laws regarding overtime work.¹⁸ Underpayment of staff has become a standard business practice for these firms – and their dominant position in food retail employment (which makes it difficult to pursue a career in the sector that avoids these two dominant employers) clearly facilitates that practice.

The exploitative labour practices of these two firms extends up into its own supply chain. For example, Coles has recently decided to shift its food delivery work to an Uber Eats platform, in which workers will not be guaranteed even a minimum hourly wage.¹⁹ And the companies are quick to exercise their economic might in disputes with workers in transport,

¹⁵ Foodbank usage has soared by 15 to 200 percent in Australia (depending on the community), and foodbanks have reported growing use by employed people whose wages have not kept up with the prices of groceries. See Miriah Davis, "'We've never seen a Christmas period like this': Foodbanks face unprecedented demand," *9 News*, 1 December 2023, <https://www.9news.com.au/national/australian-news-foodbanks-face-unprecedented-demand-ahead-of-christmas/f17f4180-6c63-45a9-8559-01ae9fc5d2>; and Cait Kelly et al., "'Without them I'd be starving': cost-of-living crisis forcing more Australians than ever to rely on food banks," *The Guardian*, 14 July 2023, <https://www.theguardian.com/australia-news/2023/jul/15/without-them-id-be-starving-cost-of-living-crisis-forcing-more-australians-than-ever-to-rely-on-food-banks>.

¹⁶ Ben Butler, "Woolworths underpaid thousands of workers by up to \$300m," *The Guardian*, 30 October 2019, <https://www.theguardian.com/business/2019/oct/30/woolworths-underpaid-thousands-of-staff-by-up-to-300m>.

¹⁷ David Marin-Guzman, "Woolworths faces criminal prosecution over leave underpayments," *Australian Financial Review*, 2 August 2023, <https://www.afr.com/work-and-careers/workplace/woolworths-faces-criminal-prosecution-over-leave-underpayments-20230802-p5dt99>.

¹⁸ Australian Associated Press, "'They have to pay': Coles and Woolworths in court accused of underpaying workers," *The Guardian*, 5 June 2023, <https://www.theguardian.com/business/2023/jun/05/coles-woolworths-court-accused-of-underpaying-workers>.

¹⁹ Nick Bonyhady, "Coles to put 500 plus stores on Uber Eats in major gig economy expansion," *Sydney Morning Herald*, 13 April 2023, <https://www.smh.com.au/technology/coles-to-put-500-plus-stores-on-uber-eats-in-major-gig-economy-expansion-20230413-p5d048.html>.

logistics, and even food growing – such as an aggressive 14-week lockout by Coles of 350 warehouse workers in Sydney in 2020-21.²⁰

For all of these reasons, it is vital that this Inquiry consider the monopsonistic dimension of the exercise of concentrated economic power by these two giant chains. Australia's Grocery Code of Conduct aims to moderate that monopsony power in regard to the supermarkets' dealings with their own suppliers. That Code should be strengthened, including by making its application mandatory to all food retailers. From workers' perspective, restraining the monopsonistic labour power of the firms will require active measures to ensure that supermarket workers have countervailing power – exercised through stronger minimum wages, Award standards, and collective bargaining – to prevent exploitation and ensure that they have access to decent, stable jobs and fair pay in return for their contribution to Australia's food supply chain. The investigatory and corrective powers of labour regulators (including the Fair Work Ombudsman) must also be strengthened, with an eye to better preventing and punishing all-too-common instances of wage theft and other exploitative labour practices at these firms.

²⁰ Mridula Amin, "Coles shuts major Sydney warehouse as hundreds of Smeaton Grange workers strike over redundancy conditions," ABC News, 19 November 2020, <https://www.abc.net.au/news/2020-11-19/coles-strike-at-smeaton-grange-distribution-centre/12901690>.

Policy options

There are clearly major problems with the food retailing market. The level of market concentration (with two chains accounting for about two-thirds of the total food retail market) is excessive and acts as a barrier to new entrants and stronger competition. This in turn hurts consumers (through higher-than-necessary prices), farmers and other smaller food suppliers (through repressed purchase prices and other costly practices), and food retail workers (through suppressed wages, insecure work, and frequent instances of wage theft and other employment abuses). There are a number of different tools the Government has to both correct and compensate for this level of market failure.

Power to stop mergers and acquisitions

Any kind of further consolidation in the retail food market should be looked on by regulators with great suspicion. Further concentration of ownership in the market will further reduce competition. The Government should further tighten merger and acquisition laws and increase the powers of the ACCC to enforce these laws.

Power to order break-up of existing chains in regions or market segments where their power is clearly harmful

While tightening merger and acquisitions will help slow the decline in competition, it does not help increase competition into a market that is already highly concentrated. The Government should pass laws that allow the dominant players in highly concentrated markets, like food retail, to be broken up into a number of smaller firms, when the power of these large firms is clearly harmful.

More power to investigate and transparently publish data on trends in prices and profits

The Government should also regularly publish more data on trends in pricing, profits, and other statistics that give a better understanding of the level of competition in markets. This could also include things like industry concentration ratios. Such publications could be regularly produced by the ACCC. A wider publication on competition statistics could be produced annually by the ABS. The major chains must be compelled to disclose detailed data on their supply purchases, prices, and margins to support this improved transparency.

Power to investigate specific practices

The Government should give regulators more powers to investigate specific behaviors including how the dominate players in food retailing carve up specific neighbourhoods for their stores. Current regulators, such as the ACCC have a narrow range of issues they can look into, or else they have to wait for directions from Government before investigating. The Government should broaden their powers and abilities to investigate.

Excess profit taxes, with the proceeds redistributed to consumers

It is not always possible for competition to be an effective control on forms market power. When this is the case excess, or super profit taxes can be an effective way of recapturing the benefit firms extract from their excessive market power, and at the same time compensating consumers. Consumers could be compensated via tax credits or other means. This compensation could also be targeted to the most vulnerable consumers. The Government should consider a super profits tax across the economy or at least in the food retail industry.

Stronger minimum wages to help supermarket workers

The Government should boost the minimum wage to compensate supermarket workers for the power imbalance that the large food retailers have in wage negotiations. Market power does not just disadvantage consumers it also disadvantages their workers. Higher minimum wages would not only benefit supermarket workers but would also help other low-wage workers afford to buy food. Stronger inspection powers for unions to investigate instances of underpayment and other forms of exploitation would help, as would more resources and powers provided to the Fair Work Ombudsman to track, expose, and redress such instances.

Conclusion

Food retailing in Australia is not a competitive well-functioning market. There is evidence that this market failure is hurting consumers and adding to inflation. Low-income households in particular are being harmed by this lack of competition and resulting higher food prices.

The duopoly's market power is not only bad for consumers but also for their workers and suppliers. The duopoly projects its concentrated power to achieve lower input costs, lower wages, and other harsh terms and conditions that favour these two firms at the expense of other stakeholders in the food supply chain.

When a market is not competitive, the worse outcome is simply to let incumbent businesses exploit consumers, workers, and suppliers. Where possible governments should encourage competition. If this is not possible there are policy tools that governments should use to protect Australians. For too long the default setting has been simply to allow powerful businesses to make excessive profits. This needs to stop.

Investigations into pricing behaviour are common in Australia. We hope that this inquiry will lead to government action to strengthen competition laws as well as a stronger focus on pricing and profits. We have recommended six such reforms that will strengthen competition, or where that is not possible, policies that will protect the Australian public.