

28th February 2011

Senator Alan Eggleston
Chair
Senate Economics Committees

Submission relating to the Senate Economics Committee into inquiry about impacts of Supermarket price decisions on the dairy industry

APCO Service Stations Pty. Ltd. welcomes the opportunity to make a submission in relation to the Supermarket price decisions on the dairy industry.

APCO Service Stations Pty. Ltd. operates a network of 21 franchised convenience stores throughout regional Victoria so this submission also represents the interest of our Franchise business owners and their 400 employees.

It is difficult to look at the milk price situation in isolation as APCO believes you must also consider the impact of Coles & Woolies increased petroleum market share and how they have used their fuel discount docket system to cross subsidise retail prices of goods (milk, bread, etc) and fuel.

The association between grocery prices (milk, bread, Olive Oil, etc...) and fuel cannot be separated any longer due to the marketing tactics of the two giant supermarket monopolies. Consider now that you can walk into any of the 620 Coles Express service stations and pick up an additional 2 cents per litre (over and above the 4 cent supermarket docket by spending \$2 or more in the shop) just by purchasing the Coles generic milk which is already below cost to all small businesses. An additional 2 cents per litre on an average purchase of 35 litres equates to a loss of \$1.30 for the 2 litre generic milk bottle. No competitor can survive this predatory behaviour; combining the Coles Supermarket chain with 620 Coles Express service station sites (or satellite Coles Supermarket stores) across Australia.

With the increased discounts now being offered @ 6cpl by Coles and @ 8cpl by Woolies, it is difficult to see how any independent competitor can survive long term. These discounts are driving loss of foot traffic to smaller retailers resulting in lower shop and convenience store sales.

The recent generic-brand milk price discounting (\$1 / litre) is yet another example of the anti-competitive behaviour of the two Supermarket giants. These tactics will not only have detrimental impact on the Australian dairy farmers but will also damage thousands of small business retailers that are already under terrific attack by various predatory price tactics of the Supermarket chains.

Consumer's might be winning on the price of generic milk in the short term but in the long term Suppliers & vendors to the two big giants will be savaged resulting in further gross profit gains to an already surging bottom-line of the big supermarket bullies.

Any drops in prices will be recouped elsewhere and most likely it's the farmers, vendors and thousands of small businesses that will be the biggest losers. There will be massive collateral damage as a result of these price tactics as the Supermarkets squeeze the supply chain, as they have been doing for years, to recover their margins.

Coles and Woolworths have both stated that they are funding the price cuts but we know in the future that this will not be the case. History has shown the duo monopolistic retailers only increase their sales, margins and company profits at the expense of Suppliers and their smaller competitors. If these unsustainable retail prices continue, supply chain margins will be squeezed ultimately 'effecting' the 'negotiated price contracts' with milk processors having serious flow-on effects forcing down prices at the farm gate.

Still counting the cost of natural disasters, dairy farmers have been dealt another serious blow if the two supermarket chains are allowed to continue slashing the price of their home-brand milk.

The dairy farmers state that the growth in supermarket brand milk has already cost processors hundreds of millions of dollars each year, which they will have to cut from farmers supplying the milk.

You've only got to consider the disturbing trend over the past decade cited by Dairy Farmers Cooperative Chairman, Ian Zandstra;

".....a decade-long trend of larger supermarkets forcing down the real price of a litre of milk, whilst wholesale milk prices had barely risen and Australian production had decreased (9 billion litres annually, down from 11 billion litres in 2004) with production costs continuing to rise"

The dairy farmers have been used and abused over many years by the Supermarket bullies and this is yet another example of the way Coles & Woolies are burning Suppliers.

The generic brand milk discounting is also just another tactic employed by the Giant chains pursuit to grab more market share at the expense of thousands of small businesses across Australia.

When will the ACCC and the Government wake up to the fact that deep discounting and other cross subsidy discount forms such as 8 cents per litre (10c, 12c, etc) fuel discount docket do not provide 'true' & fair price competition on the grocery shelves or at the fuel pump. What Coles & Woolies give in one hand they take back in 'bucket loads' with the other?

The Supermarket chains are cleverly choosing 'staple' items such as milk, bread, fuel & liquor and discounting these to unsustainable levels for long periods of time to drive customers into their stores. As a result there is a considerable volume shift towards the grocery channel away from small business retailers.

The giant discount chains are grabbing more of the shopper repertoire and total number of shopper visits at the expense of small business owners across Australia. The Supermarket powers have spread themselves across all industry sectors and continue to 'test' the boundaries of fair and reasonable competition. Small business cannot compete with the predatory discount practices of the giant supermarket chains and we believe the Government should consider some form of regulation to rein in the power and dominance of the major retailers.

Coles & Woolies will continue to do whatever is needed to kill off local competitors and certainly continue the demise of the local Australian dairy industry if steps are not made to curtail the detrimental impact of the duopoly.

We strongly urge a practical and sensible regulatory approach to preserve the core of long term fair and reasonable market competition.

Thank you for the opportunity to provide this submission and APCO would welcome the opportunity to be available to discuss our submission further.

Yours Sincerely,

(...)

Robert Anderson
Director