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Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Email: economics.sen@aph.gov.au

Dear Mr Hawkins,

Competition within the Australian Banking Sector

NARGA represents the independent retail grocery sector comprising over 5000 stores employing more than 225,000 people.

The independent grocery sector now comprises less than 20% of the national grocery market, yet provides essential supplies to thousands of regional and remote communities, particularly those considered too small to be of interest to the major supermarket chains, as well as providing competitive pressure to those chains through larger stores in metropolitan and regional centres.

The ongoing viability of the independent network is **dependent on the competition framework within which they must operate and within which they gain access to finance and financial services.**

The Australian banking sector has become more concentrated since the ACCC approved mergers between Westpac and St George banks and between the Commonwealth Bank and BankWest.

Small business relies on competition between banks to keep interest rates low and to keep the costs of services (e.g. EFTPOS services) down.¹

In the current competitive environment small business borrowers have difficulty in obtaining finance and obtaining finance at competitive rates. Small business borrowers find that they pay a premium on loans, even when they are secured by residential or other property. Typically there is a 100 basis points difference between the interest rate charged on a secured business loan and a secured home loan – but that differential can be much higher where discounts are applied to a home loan (up to 80 basis points) not available to business loan customers or where further premiums are applied to a loan taken out by a business borrower.

¹ Small retailers pay fees to use the EFTPOS system, whereas the major chains who have implemented their own switching system are paid a fee by the banks for each transaction.

We can see no reason why a fully secured business loan should attract a higher interest rate than a housing loan similarly secured. We suggest that one way of addressing this issue would be to add a properly drafted anti price discrimination clause to the Trade Practices Act which could, among other things, prohibit differential pricing of loans and other financial services unless it can be demonstrated that costs or risks attached to these are different.

Taking a broader view we should examine how we arrived a situation where we have a banking sector that appears to be less than optimally competitive. We note here that the Trade Practices Act 1974 has as its stated purpose:

'.....to enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection'.

Rather than *promoting* competition, as the Act intended, we find that under the mechanisms available in the current Act and the way these are administered, sectors of the economy are becoming more concentrated as competitors are eliminated. Some sectors have been allowed to become so concentrated that the welfare of Australians is negatively impacted. Clearly this is not the intent of the legislation.

Apart from the banking sector, key sectors of the economy such as groceries, petrol, liquor, retail leasing and airlines are now so concentrated that consumers are paying a 'concentration premium' – prices higher than they would be in a more competitive environment.

Dominant players in these sectors are able to achieve higher profit margins to the detriment of their customers.

By way of example, the latest available figures for the grocery sector are set out below:²

Fig 28. 2009 Turnover by supermarkets players (incl. Liquor sales)

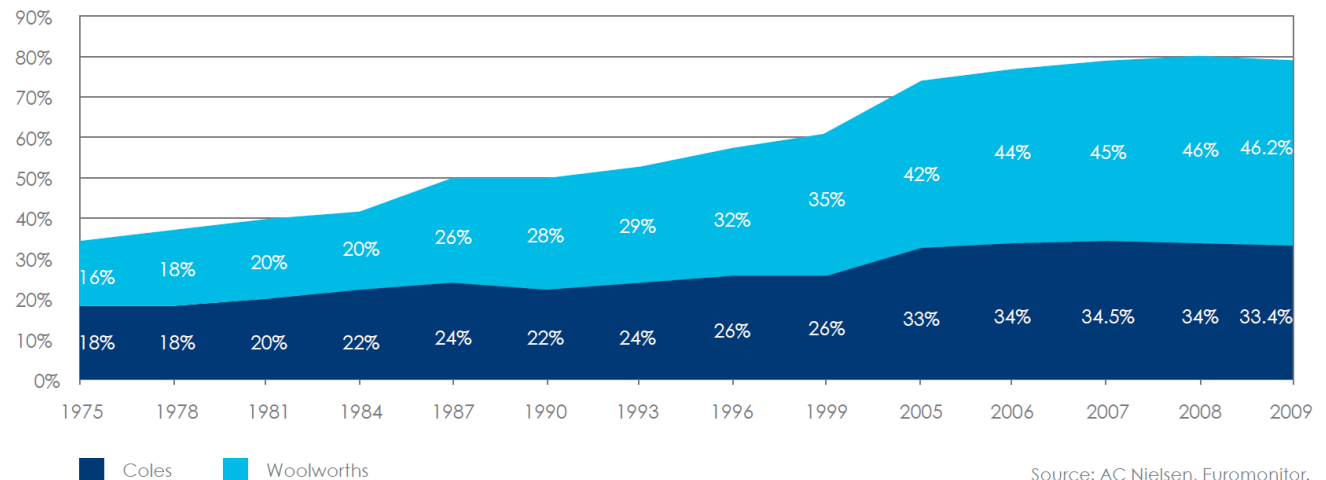
	Turnover (\$ billion)		Cumul		Market share	
	incl. Liquor sales	excl. Liquor sales	incl. Liquor sales	excl. Liquor sales	incl. Liquor sales	excl. Liquor sales
Woolworths	\$32.8	\$27.6	\$32.8	\$27.6	47.4 %	45.6 %
Coles	\$22.5	\$20.1	\$55.3	\$47.7	32.7 %	33.2 %
IGA retail	\$8.2	\$7.7	\$63.5	\$55.4	11.9 %	12.7 %
FoodWorks	\$1.7	\$1.6	\$65.2	\$57.0	2.5 %	2.6 %
Franklins	\$0.9	\$0.9	\$66.1	\$57.9	1.3 %	1.4 %
Aldi	\$2.3	\$2.3	\$68.4	\$60.2	3.3 %	3.8 %
Spar	\$0.4	\$0.4	\$68.8	\$60.6	0.6 %	0.7 %
Total	\$68.8	\$60.6				

Sources: Company reports 2009, Euromonitor and other publications.. Convenience & forecourts retailers and specialist grocery retailers are excluded.

² The challenge to feed a growing nation, Accenture Australia for NARGA, November 2010 P. 26

The lack of effectiveness of the current Act and the way it is administered is shown by the following graph demonstrating the increase in market concentration in the retail grocery market since the Act was introduced in the mid 1970s.³

Fig 30. Growth in Market Share of Woolworths & Coles (1975-2009)



The result for the retail grocery sector is a market that is no longer competitive. Symptoms of the lack competition in the market include:⁴

- The disparity between volume and value growth during the last decade (12 per cent versus 42 per cent) that suggests an increase in profit margins taken at the retail level; (see page 13)
- The margin shift from producer to retailer - in the dairy sector, retailers take 80 per cent of the available gross profit, processors 16 per cent and farmers four per cent; (page 43)
- The high degree of concentration of the retail grocery market with Woolworths and Coles identified as having a market share of around 80 per cent between them; (page 27)
- The fact that Australia has a more stable retail growth pattern, less affected by the type of fluctuations that would be expected as a result of greater price competition; (page 21)

³ Ibid P. 27

⁴ Ibid P. 5 and 6

- The evidence of a 'waterbed effect' in prices paid by independent retailers, of which the dairy industry is an example. This results in suppliers being forced to charge higher prices to some customers for some products in order to compensate for lower prices being paid by the major chains; private label milk prices offered by the major chains have been offset by significant price increases for cheese, yoghurt and ice cream in the past few years; (page 43)
- Growth in the lower quality private label market suggesting there is insufficient competitive pressure to maintain product quality (pages 16, 46).

We do not have trend data for the other sectors that have become more concentrated over that same period of time but it is clear that market concentration has become a problem in those sectors, including the banking sector that is the subject of the current inquiry, with a corresponding impact on competition and on consumer welfare.

Again, using data from the retail grocery sector, we see that other jurisdictions do not have as acute a problem of market concentration, as the table below demonstrates:⁵

Fig 29. Grocery retailing market shares – country comparison

Country	Market share			Major players
	Top 2	No 3,4,5	Top 5	
Australia	79.6 %	18 %	97 %	Woolworths, Coles, IGA, Foodworks, Franklins
UK	48 %	35.5 %	83.5 %	Tesco, Asda, Sainsbury, Morrisons, Co-op Group
USA	20 %	22 %	42 %	Wallmart, Kroger, Target, Walgreens, Costco

Source: Euromonitor and Planet Retail.

Clearly there are aspects of the regulatory frameworks in the UK and the USA that appear to be better able to prevent dangerous, anti-competitive, market concentration.

One of the problems with the Australian approach appears to be the use of market contestability theory, which appears to be being applied even though the markets concerned are not truly contestable. Under contestability theory, entry into and exit from a market is supposedly costless. This is not the case in the markets where currently concentration is a problem. It is extremely doubtful that a new entrant will venture into a market that is highly concentrated. This is because the costs and risks of entry are high. So for market contestability to work as a theory it appears that the market to which the theory is being applied cannot be a concentrated high entry cost market.

We have referenced a recent report on the grocery sector prepared for NARGA by Accenture Australia and attach it for completeness. What the report shows quite clearly is, that apart from the

⁵ Ibid P.26

fact that market concentration is a problem in the retail grocery sector, the level of concentration in the sector has adverse impacts all the way up the supply chain on food processors, farmers and others in the supply chain, to an extent where the capacity of our food production and processing sector to keep up with the growing demand of an expanding Australian population is in question.

The key outcome here is that market concentration is more than an interesting legal and economic concept – it has a wide range of negative and unintended consequences.

The key question then is:

'What do we need to do to the Trade Practices Act and other regulatory mechanisms that are available to government in order to address the broader issue of market concentration in Australia?

The alternative to answering this question is to do nothing and to let these markets continue to become more concentrated resulting in even less competition.

Please contact us should you require further details.

Yours sincerely

Ken Henrick
Chief Executive Officer