



COMMONWEALTH OF AUSTRALIA

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JOINT SELECT COMMITTEE ON THE RETAILING
SECTOR

Reference: Industry concentration in the retailing sector

MONDAY, 5 JULY 1999

LAUNCESTON

BY AUTHORITY OF THE PARLIAMENT

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JOINT SELECT COMMITTEE ON THE RETAILING SECTOR

Monday, 5 July 1999

Members: Mr Baird (*Chair*), Mr Jenkins (*Deputy Chair*), Senators Boswell, Ferris, Forshaw, Murray and Schacht and Mrs Elson, Mr Fitzgibbon and Mr Nairn

Senators and members in attendance: Senators Boswell, Forshaw and Murray and Mr Baird, Mrs Elson, Mr Jenkins and Mr Nairn

Terms of reference for the inquiry:

To inquire into:

- (a) the degree of industry concentration within the retailing sector in Australia, with particular reference to the impact of that industry concentration on the ability of small independent retailers to compete fairly in the retail sector;
- (b) overseas developments with respect to this issue, highlighting approaches adopted in OECD economies; and
- (c) possible revenue-neutral courses of action by the Federal Government (ie courses of action that do not involve taxation reform).

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Committee met at 9.00 a.m.

CHAIR—I declare open this public hearing of the Joint Select Committee on the Retailing Sector and I welcome all witnesses appearing before us today. Today's hearing in Launceston is part of the committee's inquiry into industry concentration in the retail sector and is the first of our public hearings in rural and regional Australia. Following Launceston the committee is travelling to Bendigo, Cooma, Dubbo, Bundaberg and Kingaroy—hence the very tight schedule. We have a good number of people here today so the people in Launceston are very fortunate. There has been much interest in the inquiry with over 300 submissions being received. The committee is very pleased to be here today in Launceston in Tasmania. I ask the committee members to approve the minutes of meeting No. 11 of Wednesday, 9 June 1999 in committee room 1S6 in Canberra.

Mrs ELSON—I move that.

CHAIR—We have received submissions Nos 296 to 310 and a revised submission No. 231A. Do I have approval for those to be received?

Mr NAIRN—Yes.

CHAIR—Authorisation of publication will be considered on a submission by submission basis with the exception of submissions Nos 213A, 297, 301 and 303 where the authors have requested confidentiality. Do I have approval for that?

Mr NAIRN—Yes.

CHAIR—Additional information has been received: submission No. 214B from the Shop Distributive and Allied Employers Association dated 9 June relating to submission No. 214; submission No. 215B from the Small Retailers Association of South Australia dated 10 June 1999; and submission No. 168B from Coles dated 17 June 1999 relating to submission No. 168. I ask that we approve the authorisation of publication of all additional information received by the committee with the exception of submission No. 229B where the author has requested confidentiality. Do I have approval for that?

Mr NAIRN—Yes.

CHAIR—I now call the first witnesses.

[9.02 a.m.]

WALDREN, Mr Reginald John, Co-Director, Bicheno General Store and Bicheno Community Development Association

WILKES, Mr David John, Managing Director, Festival IGA Supermarket Small Business

CHAIR—Welcome. The committee prefers that all evidence be given in public; however, you may at any time request that your evidence or part of your evidence be given in private and the committee will consider any such request. I point out, however, that evidence taken in camera may subsequently be made public by order of the Senate. I also remind witnesses that the giving of false or misleading information in evidence may constitute a contempt of parliament. The committee has before it submission No. 236 from Mr Waldren and submission No. 183 from Mr Wilkes. Are there any alterations or additions that you wish to make at this time?

Mr Waldren—No.

Mr Wilkes—No.

CHAIR—I now invite you to make an opening address and we will follow that with questions.

Mr Wilkes—Why are country stores important? The first thing is the quality of employment. We employ local people who spend their money in our area. We have set hours, which means we give them set incomes. Because they have set incomes they are able to set their budgets for mortgages and things like that. We also have, we believe, flexible employment. That means we are able to exchange staff in cases of, say, pregnancy. In the last three years I have had three people in my fruit and vegetable department become pregnant. I do not know what it is about the fruit and vegetable department, but anyway we have changed them over to lighter duties.

We have promotion. A lot of people believe that there is no promotion within small business. I have just promoted two people within my own store. My office girl went to India and I have taken another girl from the frozen section into the office. Another lady became the head of the deli department. She started with me as a 15-year-old girl; she is now 17. They are quite important areas and show that small business does have promotional activity within its organisation, which a lot of people do not believe they do. We also employ juniors, as I stated previously. We have three 15 to 17 year olds. We employ them because we recognise that there is greater employment in the north of Tasmania. Also, two of them are planning to go to university and it is a way for them to save up to go to university.

Small business supermarkets in country areas are important because of their commitment to the community. My commitment is at a town, regional and state level. For example, I am in the Retail Traders Association—I am the vice-president of the northern Tasmanian area. I was also involved with the Beaconsfield Primary School Gifted and Talented Program designed to promote children's talents within the primary school area in Beaconsfield. I have

also been involved in the Beaconsfield Neighbourhood House; I was a founding member and also a treasurer. I am a past patron of the Beaconsfield Cricket Club and I helped them financially for quite a few years. I am also on the Northern Crime Prevention Group. We had our first meeting here about six weeks ago. I am a representative of the Retail Traders Association, along with two other members of our body, on that.

I am also on the Tasmanian Independent Wholesalers Advertising Group, which represents IGA stores in Tasmania. I am also a past director of the Tamar Valley Enterprise Centre, which is a BEC funded by the state government on a dollar for dollar basis and also by the council. I was financial director of that, which promotes small business in our area. I am also a past board member of Parks Homes, which is a home for the elderly. I also hosted and supplied goods for two dinners for elderly citizens in the Senior Citizens Club. We had attendance of 70-odd people at those functions. I am also a sponsor of the Special Olympics through the IGA, and that happens Australia wide. Our local member is Emma Porter, who is again off to the US very soon.

I strongly believe that storekeepers are a part of the community in which we live. It is important for the committee to consider that, if we are crowded out of our existence by the major chains, the towns would lose not only a store but also an active and involved community member. We are more than the products we sell. We help the elderly. A visit to our store represents a social outing as much as a chore—catching up with friends and news is important. Consequently we never rush them. Our staff assist them with their purchases to the car or transport. We make free deliveries to elderly citizens in the Beaconsfield area.

We assist tourists. This is another example—we supply tourist information and directions. We take pride in our area. We talk up the area and find that the tourists have missed places such as the Batman Bridge or the wineries in the Tamar Valley. We assist local businesses such as caravan parks and accommodation venues. If a tourist comes and asks us where to find accommodation we advise them where to go. We respond to the community needs. We ensure that we listen to customers needs. As a consequence, over the years we have extended our trading hours from five to seven days and made two extensions to modernise our supermarket. We work with other businesses. In addition to working with our customers, we also support other businesses in the area and beyond. As mentioned, we promote at no cost local accommodation, restaurants and other attractions. We do business with local milkmen and service stations, and even swap goods with other TIW stores who run out.

In concluding, my store is not just a store selling goods. I understand that the major chains continue to expand so that many increase their profits for shareholders, but we cannot all be shareholders. Our needs and livelihoods are just as important as theirs. There is no such thing as a level playing field, especially when it comes to the Australian retail market, therefore we need anti-trust laws like those in the USA and other countries to act as a controlling presence.

At present, we have reached a point when we must decide what is important for Australia and our future actions. It is clear that we need a retail sector which is viable, with independent stores like mine, so that we can provide competition for the major chains, along with convenience, friendly service and a choice for customers and the community in which we live.

Also, I think we need to have councils to institute by-laws to protect small business against the projects that are not in the public interest, especially ones like those going on at present which are closing existing businesses. For example, I suggest that maybe social and economic studies be done for the project that has gone ahead at Legana.

CHAIR—Thank you, Mr Wilkes. With all of those commitments, I do not know how you have got time for the supermarket. It sounds as though you are a very busy guy.

Mr Wilkes—You have got to keep—

CHAIR—I think we would like to see some of the major managers involved in the community to the extent to which you are. It is well done. I also welcome Mr Harry Jenkins who is part of our committee—he will be joining us.

Mr Waldren—Firstly, I would like to state that I really appreciate the fact that we have been given the opportunity presented to us today. I would like to read my address if I may. At my age I tend to forget major points.

CHAIR—Is this the same as your written submission, Mr Waldren?

Mr Waldren—No, Mr Chairman.

CHAIR—How long is it?

Mr Waldren—Very short. I would like to start off with the point that I have read about many times: the levels of dominance that the major chains have in the marketplace in Australia. Eighty per cent and more has been quoted. This disturbs me for in my opinion it should not have gone beyond 75 per cent. In fact, 65 per cent would have given the consumer a healthier arena of competition which would have produced fairer competitiveness.

At my age, nearing 67, I have had some knowledge of the importance of large and small traders in the marketplace. For over 40 years I have done business with those that supply the consumer, large and small, in cities, country towns, in shopping malls and large retail complexes. I have represented supply lines from the first point of production—big names in their day—and, of course, small, young industries giving birth to their product in the marketplace. Sales and marketing were, and still are, my passion. I am proud to be part of the world's largest profession.

The most important ingredient in my opinion is to have a home market that sits comfortably with itself and nurtures wise development for competitiveness worldwide. I would suggest that a weak, small business policy will be detrimental to our country and in the long term push commodity prices even higher. In my opinion, competition, sensibly sited, is in itself, fairer to all. For low income families and most retirees, to take away their convenience stores will set a cost chain reaction as a hurdle they are unable to jump.

As a community worker I have real grassroots experiences with policies that are not thought through and looked at in depth, which have produced, and will continue to produce,

unexpected government costs which I prefer to call, 'biting their backside'. The community working in tomorrow's time, should not be relied on as a means of little to no cost to our government. I make that statement based on the fact that I do have a very large involvement in local community affairs and I see the problems that occur daily, weekly and throughout the year.

We seem to have far too much reliance on community props for long-term policy injury, when there should be short-term band-aid remedies. I would hope that our government will see the importance of producing a policy that will progressively reduce the dominance of major supermarket chains down to 75 per cent, and in doing so, ensure that communities wherever they are can exist with some comforts and services. We all deserve policies that are fair and I have yet to experience fair monopolies.

CHAIR—Thank you very much, Mr Waldren and Mr Wilkes. Thank you for coming today; we appreciate it.

Mrs ELSON—Can you see something in the future happening with the big chain stores coming into your area? I notice there are three independent grocers in Beaconsfield.

Mr Wilkes—Yes, there are.

Mrs ELSON—Is there something in the pipeline at the moment in that maybe one of the major chain stores is coming into Beaconsfield?

Mr Wilkes—No. Are you talking about the socioeconomic study in Legana?

Mrs ELSON—Yes.

Mr Wilkes—It is apparently being built at the moment. It is approximately 40 kilometres from where I am—about a half-hour drive.

Senator BOSWELL—Is this on the edge of Hobart?

Mr Wilkes—No, it is on the edge of Launceston. It is outside Riverside. Legana would be five or six kilometres out approximately. People are going to travel. We have already got another store at Riverside, so why do we really want another one five kilometres up the road?

Mr NAIRN—What is that going to be?

Mr Wilkes—It is going to be a Woolworths.

Mr NAIRN—Along with a lot of specialty—

Mr Wilkes—No. There will be a few small shops around it. There is already a small shop and service station there at the moment.

Mrs ELSON—Have there been more independent grocers closing down in Beaconsfield recently or have there always just been the three?

Mr Wilkes—There have always been three retail shops in our area. It is just that one closed down and another one got built and became quite big and that makes a very competitive environment. Also, we have other shops down at Beauty Point, which is about another five minutes away. There are two there, too. There is a Vos store at George Town for the population there.

Mrs ELSON—Do you have the one wholesaler that supplies all the independent stores or are there a few wholesalers?

Mr Wilkes—There is only one supplier. Our buying group is TIW, Tasmanian Independent Wholesalers. In turn, they have a share in Statewide Independent Wholesalers. Statewide Independent Wholesalers is a supplier of our banner stores, including mine. Davids from Melbourne supply stores like the Tigerbarn in my town.

Senator BOSWELL—Does Davids actually supply into Tasmania?

Mr Wilkes—Yes, they do.

Mr NAIRN—With your wholesalers, the three stores in Beaconsfield all buy from TIW?

Mr Wilkes—No, they do not. I said we had a Tigerbarn in our town.

Mr NAIRN—So there are two that buy from TIW—

Mr Wilkes—There is myself, a Festival IGA, which the highest part of our groups. In our group we have a Four Square in town, and the Four Square and myself are supplied by Statewide.

Mr NAIRN—Are you happy with the relationship you have with that wholesaler?

Mr Wilkes—Yes, I am. I have been dealing with them for years.

Mr NAIRN—How does the competition work between you and the wholesaler? Do you get exactly the same deal as your competitor or do you have some bargaining power that in certain circumstances can get you a better deal?

Mr Wilkes—It goes on your turnover. It is like any grouping. It is on a sliding scale. If you buy so much of dollars then that represents your service fee. But we do get deals done through our wholesalers which are the weekly and monthly specials. We call them TPRs, temporary price reductions, which also are ticketed on top of the normal weekly specials. Then you can do any negotiations with any of the manufacturers yourself at store level if they have any deals.

Mr NAIRN—When you have a wholesalers with, basically, dominance in their market, what is the difference between that circumstance and a dominance in the retail area?

Mr Wilkes—We are talking about a multiplicity of things here. I say I employ people within my own area that are employers. They are going to spend their money, in turn, in the town. If you employ people outside of town they are going to leave the town and spend somewhere else. It is like a community thing. What you are really saying is that there is no competition there—is that what you are saying?

Mr NAIRN—I am trying to get the comparison between the potential lack of competition at the wholesaling end and the lack of competition at the retail end. The wholesaler you are dealing with basically has a very large dominance in the market—

Mr Wilkes—There is competition because I have just said that supplies come from Melbourne.

Mr NAIRN—But, even so, the share is quite large. The argument has been put that at the retail end the three large retailers—Coles, Woolworths and Franklins—have a certain percentage of the market—

Mr Wilkes—But Coles warehouse themselves.

Mr NAIRN—I realise that, but at the retail end it has been argued that this is a problem. However, effectively, at the wholesaling end you have got a similar, if not worse, circumstance.

Mr Wilkes—But aren't we dealing with the retail market, not the wholesale market at my end? I am not a wholesaler, I am a retailer.

Mr NAIRN—You are, but what I am trying to determine is whether that dominance at the wholesaling end is—

Mr Wilkes—I do not think I am not qualified to speak on that, I speak as a retailer. I think that issue will be coming up this afternoon with somebody who knows more about it. I am a retailer. I feel that we have ownership in our warehouse. At this stage we are only dealing with retailing. That is the major problem, the chequebook mentality all around Australia. You have got those figures there. We are slowly getting wiped.

CHAIR—Mr Wilkes, on that chequebook mentality, just to have a small subsection in Mr Nairn's question—

Mr Wilkes—I think I brought that up in my submission. I am not going outside my submission.

CHAIR—It is, I have got it here. It says:

If the major chains are allowed to continue to buy their opposition or force them out of business through their dominance of the market, customers will lose that choice.

Have you got any evidence of where retailers are being forced out of business?

Mr Wilkes—On the mainland there are examples of different pricing, strategic pricing, and that currently came up in the—

CHAIR—Can you give me the names of individual retailers who have now gone out of business where you can directly attribute it to the majors coming into the area?

Mr Wilkes—Being pushed out?

CHAIR—Yes.

Mr Wilkes—I cannot give any examples. I can only say strategic pricing has been a form of pushing people out. It went through the federal parliament, or something come up about it in the trade practices body or the wording or something like that. I think it is currently being looked at or was going to be passed through parliament.

CHAIR—The problem is we are trying to get hard—

Mr Wilkes—I am not as technical as you are, sir. What I am saying is that it is true that retailers have been pushed. I cannot give any exact names. If you were not concerned about it, why would you be picking the matter up?

CHAIR—It is true. It is part of your submission. I am just asking for evidence.

Mr Wilkes—Yes, I am just saying—

CHAIR—You mentioned the chequebook mentality and buying the opposition. What if you were offered a very attractive price? You would not sell?

Mr Wilkes—I have an agreement. It is an open agreement that I give my first choice to an independent. That is part of my agreement.

CHAIR—Part of your agreement with what?

Mr Wilkes—With my buying group. I was not forced into that agreement. I wanted to go into the higher group and I have signed a franchise agreement through that. I give first choice to another independent.

CHAIR—What if you were offered a lot more than you were offered by an independent?

Mr Wilkes—I am sorry, I cannot do that.

CHAIR—Would you like to?

Mr Wilkes—I don't think so. I don't think anybody would want to look at me anyway, down where I am. We have not got the population. We have a highly competitive market down there anyway.

Mrs ELSON—What is your population?

Mr Wilkes—We are about 1,100.

Mrs ELSON—Eleven hundred with three groceries?

Mr Wilkes—Yes, but there are outlying areas too. Also, there is another populated area at Beauty Point, as I said, of about 1,100 or 1,200 people. And then you have got Greens Beach, Clarence Point and all back through those areas.

Senator FORSHAW—Can I put a couple of things to you, Mr Wilkes and Mr Waldren, and get your response. In doing so I think you should understand that part of this process is that we have to put to witnesses some of the evidence that has already been put to us—a contrary point of view—so we can test all of this out, such as the chair's question about allegations of smaller retailers being bought up. We need to get evidence of that.

One of the arguments that is put forward by the big three is that consumers, no matter where they are—whether they are in the cities or in major country towns—will demand lower prices, good service, and a greater range of products. For instance, Woolworths might have a big supermarket where they can sell everything—fruit and vegetables, grocery products, dry goods, bakery products, meat and so on.

Can you provide that same range of products? If not, what would you feel is the right way to go, vis-a-vis the consumers in your area, if a major store wanted to establish an operation there? We are being asked—and it has been put by Mr Waldren—that there should be a cap upon the level—

Mr Wilkes—No, I suggested a cap, and I suggested anti-trust laws too, like in other major trading countries.

Senator FORSHAW—A lot of people have suggested that and it means that majors are prevented from opening up new stores, or prevented from buying other stores, or else they might have to shut down some existing stores. But at the other end of the equation there is this strong argument that is put that at the end of the day, consumers will determine the outcome, and if independent retailers cannot compete with them across a range of areas then that is what the market will decide.

Mr Wilkes—I do not think the question is about price above everything else. It has got to the point where you have got so much domination, chequebook mentality as I mentioned, where our independents are being bought out. And whether we like it or not, if you are going to come along and wave a big cheque at somebody, I suppose they are going to take it up. In my case, I am not. We are dealing with a situation of dominance right at this particular point in time.

CHAIR—But I think the question is—

Mr Wilkes—No, the question is not a matter of price. Our stores have improved themselves over the years. We have expanded and put a lot of money into them.

Senator FORSHAW—Can you compete? It might be a bit difficult if you don't have—

Mr Wilkes—Yes, I can compete. Our prices—

Senator FORSHAW—Mr Wilkes, let me finish the question, please. I detect that you may think the members of the committee are not taking on board your points of view, we are, but understand that we have to pursue these issues.

It may not be the case in your town that there is another Coles or a Woolworths, but I am trying to get an idea of what happens in situations where you have an independent grocery store and you have a Woolworths. In such a situation, are those issues that I raised factors that should be taken into account? Are they issues that the consumer will ultimately want?

Mr Waldren—Mr Chairman, may I contribute?

CHAIR—Yes, you certainly can.

Senator FORSHAW—Either of you can respond.

Mr Waldren—Thank you very much. Just to hark back to the opening question, that you hear from the parties concerned with the domination that are on that particular side, the subject came up about consumers wanting the lowest price. Ladies and gentlemen, they will always want the lowest price, and it is a matter for each store, large or small, to be competitive. But not always is the lowest price the wisest choice, and that choice is also being exercised by the consumer.

There are a very large number of consumers who shop in small stores. They do it for a number of reasons and that is, in my opinion, the marketplace. It needs to be nurtured and cared for, for the simple reason that small stores do offer the wise choice for the consumer. I often experience shoppers with little children who demand, want, stamp up and down for, a particular product of their choice. They pick it up, play with it, break it and put it back. Sorry, the parent puts it back.

We understand this. The point I am making is that there are good parents and bad parents. When it comes to policies, there are good policies and bad policies. We do not, as policy makers, necessarily have to bend to—and I will hark back to the statement made earlier—consumers wanting the lowest price.

CHAIR—In Mr Wilkes's submission, in his last sentence he says:

And one thing is clear, what we need in the retail sector are viable independent stores like mine so that we can provide competition for the major chains, convenience, friendly service and choice for our customers and the communities in which we live.

Don't people finally vote with their feet? If they find that they are being offered something in one store that they do not get in another, don't they decide for themselves?

Mr Wilkes—They do decide for themselves, but also the banks have been taken out of our town; Westpac closed its doors. That has made people go to other towns. I am trying to

encourage the elderly to use EFTPOS facilities, but they say ‘No, I like to go to the bank, get my money and come back again.’ We are currently running some of them down that road of teaching them. They get a little bit embarrassed, but at the same time we try and work them through it. I have just gone through it with one of my customers who is 70 years of age. I suggested that she get a card and that would save her a trip to town, all that mileage and having to wait in line at the bank and maybe paying higher bank fees. What we are experiencing through EFTPOS is increased bank charges as a consequence of the encouragement to use credit cards. My credit card charges have gone up by about 300 per cent since December.

Senator BOSWELL—Mr Waldren, I have been to Bicheno and I think I have been into your store. It is a beautiful part of Australia.

Senator FORSHAW—Did you buy anything?

Senator BOSWELL—Yes, I did, as a matter of fact. I bought some milk, papers and so forth. I was one of the holiday makers helping to boost Bicheno’s population from 800 to 3,000. What a beautiful spot it is. What are you concerned about? You have got a store down there. It is obvious that Woolworths are not going to come in there. You are going to have that market. What is your main concern? Are you concerned that there will not be enough business to sustain and maintain a wholesale sector or are you concerned that Woolworths is going to open up on your front doorstep? What is your main concern?

Mr Waldren—No, I am not concerned that a Woolworths type business will come to Bicheno. I doubt very much whether they are contemplating it inside the next 10 years. Our population will control that decision.

The concern that I would have—and I would suggest that right across Australia people in similar positions to mine will be concerned about the supply source—is that there are numbers of suppliers outside our buying group and the lion’s share of our purchasing that are pretty important to our business. It provides variety; it ensures that the community does have a choice of product. The situation that was brought up by Mr Wilkes a moment ago involving another retail marketing complex that is about to be built in what I would consider still to be a very small area suggests that the retailers within the area will have difficulty sourcing supply in the medium and long term.

Senator BOSWELL—So your main concern is that, if Woolworths and Coles continue to grow, then there will not be enough critical mass for an independent wholesaler to sustain businesses like yours. Is that what you are saying?

Mr Waldren—Yes, I am. I am also saying that small areas of business supply will not find it profitable to call into small market areas. Therefore, that complexity of variation into the community will be reduced.

Senator BOSWELL—Are you saying that the KR Darling Downs trucks or their equivalent will not call in and deliver your goods through the guys that come and deliver off the back of a truck? They will not turn up like the van sales?

Mr Waldren—That would be right. The van sales are represented by a variety of produce, if you like, because there are numerous van sales.

Senator BOSWELL—What percentage of your business is van sales, like the milk, papers and so forth? What percentage would you buy from your wholesaler and what percentage would be delivered through the backdoor?

Mr Waldren—Backdoor is a nasty word. A third.

Senator BOSWELL—What you are saying is that, as the big companies grow, then there will not be any need for reps to call on your stores or van sales to go into your stores? You are concerned about whether your wholesaler can stay in business?

Mr Waldren—I would suggest to you that it could be dramatically reduced, very seriously, I would say.

Senator BOSWELL—Are you aware that there is another grocery store coming into Australia at the moment?

Mr Waldren—No, I am not.

Senator BOSWELL—There is one coming in called Aldi. It is a German grocery store. It certainly may not be in Tasmania for a while, but it is coming into New South Wales. I think it is one of the six biggest grocery stores in the world. So that will provide more competition, but it will not be down here for a while. I just pass that on to you.

Mr Waldren—I would suggest that if I were part of important decision making processes, I would be alarmed. My personal opinion is that I do not think that is ultimately good for the country. Yes, sure, it will change the price structure, create competition and bring to the consumer a lower price, although there is a question mark there. I have not seen that happen in the past.

CHAIR—Is it not possible that if we followed Mr Wilkes's line of putting a cap on the market size, that could assist overseas stores coming in and taking some of the market?

Mr Waldren—If there was a cap on it, it would be shared within that dominance of retail. I would suggest that the cap needs to be reduced.

Senator MURRAY—Mr Waldren, you have correctly picked up the real issue, which is the ability of people like yourselves to remain in business through being properly serviced. How do you do your ordering? Is it done mostly by phone, mostly by delivery people coming to take an order, or is it done electronically?

Mr Waldren—The largest percentage is through an electronic system. The day to day needs, such as milk and bread, are by phone. I have a very heavy STD phone cost.

Senator MURRAY—Could you distinguish for me by volume and value, because it will vary, how much of it is not electronic?

Mr Waldren—A third.

Senator MURRAY—A third in both volume and value?

Mr Waldren—I would put it to you this way: rather than those points, I would suggest to you that a third is important to our business. It is what I have learnt to describe over the years as being of bread and butter importance to our business.

Senator MURRAY—With respect to the third which is not electronic, does that tend to be more local than other things, such as, say, milk and bread and that sort of stuff, whereas the electronic would be canned goods, manufactured goods, processed goods?

Mr Waldren—Yes, you would be right in most respects there. In Tasmania, most of that type of supply source is a mainland based combination of Australian and imported.

Senator MURRAY—Most of the electronic is, I presume, through your wholesaler, whereas most of the telephone will be through other suppliers—is that right?

Mr Waldren—Yes, correct.

Senator BOSWELL—Do you get the bacon and the smallgoods from a van?

Mr Waldren—We would order that type of commodity three times a week.

Senator BOSWELL—Where does that come from?

Mr Waldren—That is delivered out of Hobart.

Mr Wilkes—I get my supply from a local person here in Launceston.

Mrs ELSON—I have a question for Mr Waldren. Where is the nearest major chain store to your town?

Mr Waldren—Launceston and Hobart, approximately two hours away.

Mrs ELSON—So you do not have competition of that concern with the majors?

Mr Waldren—Not of that stature, no. We have competition—very much so. We are competitive within our own system. If I can suggest to you the supply sources for the industry, there are three. Coles have their own warehousing system in the state, Woolworths have their own warehousing system in the state and the Tigerbarn retail store banner sources out of Davids of Melbourne, based in Melbourne.

Mrs ELSON—You are the only supermarket or independent grocery in town, are you?

Mr Waldren—No, there is a second one. I welcome that second option for the simple reason that it does create competitiveness within itself. It keeps us on our toes. Ethically, I would not for a number of reasons want to wipe that person out of business.

Mr Wilkes—I think the important point is that if you have got competition within your own area it keeps the dollars within that town, it keeps the wealth within that town, because that other business hypothetically, as an independent, would employ local people, and that is how a community grows. That was the point I was trying to make at the beginning. We have not got a bank—we have only got a credit union—and a lot of us need a national banking system. It takes two weeks in some cases for the local credit union to find out whether you have got a dud cheque, a bounced cheque. The other ones would only take a few days. That is just one example as to why I have gone the way I have.

Mrs ELSON—Are there two separate wholesale suppliers? Is the other one Tigerbarn? Is Tigerbarn in your town?

Mr Waldren—No, both source out of the same warehouse, but there is that very competitive edge, if you like, between the two.

Mrs ELSON—Do your wholesalers offer you bargains or specials?

Mr Waldren—Both have—

Mrs ELSON—Against each other?

Mr Waldren—Yes, both have bargains and advertise bargains, so when the advertisement appears in the paper I find out what my competition is doing. I then chase it, but I want him to chase mine. If he chooses to do so, that is his business.

Mrs ELSON—But you are sourcing out of the same wholesaler?

Mr Waldren—We are sourcing out of the same warehouse. I might add that there are no advantages to sourcing elsewhere. I have had the opportunity to source from another warehouse system—Davids. I would suggest to you that there are people in Mr Wilkes's area that have been offered the same and, in the case of his town, Beaconsfield, a store did take that up. I saw no advantage in doing so.

Mrs ELSON—I just want to get to this wholesaling thing and whether there is competition. If one of you did source a different one, wouldn't that create a bit more competition with your wholesaler to give you the best price?

Mr Waldren—I think we have it there now.

Mrs ELSON—So you can buy off Davids, if you want, and you can buy off IGW?

Mr Waldren—I daresay that they would supply us if I asked, yes.

Mrs ELSON—Okay, thanks.

Senator FORSHAW—You both could comment on this. What is the range of products that you sell? It is dry goods and groceries, I assume, but what about other things like fruit and vegetables? Do you sell them?

Mr Wilkes—Yes, we do.

Mr Waldren—Yes.

Mr Wilkes—There are certain standards in each group that you can have a certain range of things—for example, with Festival IGA you have to have a deli, you have to have car parking space, you have to sell meat, fruit and vegetables.

Senator FORSHAW—So you sell meat?

Mr Wilkes—Yes. I cannot speak for Mr Waldren.

Senator FORSHAW—What has been the situation in both towns with respect to what we might call the small businesses such as the greengrocer and the butcher shop? Do they exist and trade reasonably well? That is another aspect to this whole inquiry. A lot of our evidence is from the retail grocers such as yourselves and the Woolworths and the Coles, but there are also the individual little shops, the butchers and greengrocers—how are they faring?

Mr Wilkes—In our town we have a wholesaler, a person who does meat, and they sell to one of the supermarkets. That supermarket also has a butcher shop—it is a Tigerbarn. Then there is also a small butchery in between. Since the new butcher went in there two years ago he has increased business.

Senator FORSHAW—So it is working all right at the moment. Your trade is not affecting their trade, in other words.

Mr Wilkes—I cannot speak for the other fellow because he does not tell me what his meat trade is. All I can say is that the butcher is doing a lot better. I can see a lot more people going in there and his range of goods in the meat area is very positive, so he is drawing people into the town too. In the competition between the supermarket, Tigerbarn, myself and the other fellow, we are not squashing him out at all. He has actually increased business.

Mr Waldren—I would just like to add that I think small business basically has that competition within itself. Likewise, we in the town of Bicheno have a butcher, and there are two other sources where fresh meats can be purchased—my business and my competitor. We tend as a result of fairness to generate a situation where the majority of money spent on red meat or fresh meat stays in the town.

Mr NAIRN—Mr Wilkes, in your submission—and you also mentioned this in your opening remarks—you recommend that we should have legislation similar to the United States anti-trust legislation. What do you understand the United States anti-trust legislation is all about?

Mr Wilkes—My understanding, and I am not a legalist, is that America has had it over the years—currently Microsoft are going through a case that has something to do with domination—and that the legislation was enacted to stop any one person dominating the

market by having more than 25 per cent, I believe, or 20 per cent. That has created quite a healthy environment, as far as I can gather, in the American economy. I think Japan has the same, and a few other European countries have it too. I was criticising something so I was giving an alternative.

Mr NAIRN—I just raise it because that has been put forward by quite a number of people, but there is not legislation that caps those market shares as such. It is more about looking at how the market is working, which is not dissimilar to the trade practices legislation that we already have in Australia.

Mr Wilkes—We realise that the Trade Practices Act has been a toothless tiger for quite a few years, otherwise it would not have allowed this situation to have arisen.

Mr NAIRN—You could ask a few people who have missed out on mergers and things whether it is or not. Certainly there are aspects of it that this inquiry will clearly look very closely at. I just wanted to specifically raise that because there is this perception amongst a lot of small businesses that the anti-trust legislation in the US says, ‘You cannot go beyond a particular percentage,’ and that is not the case.

Mr Wilkes—I have been educated today then.

Mr NAIRN—It is the way in which the legislation looks at how the market is working, rather than nominating any particular percentage.

Senator BOSWELL—In the United States there is no overall domination by any one company. There are people that are strong in, say, Arizona, and they might go into the next state, but there is no dominance right across America by one or more chains. There is no legislation that actually says you have to have a cap on anything. I think the anti-trust laws have only ever been used twice—in the breaking up of Standard Oil and Bell Telephone, and it might have been used one other time.

Mr Wilkes—But they are still there though, aren’t they? We do not have them really.

CHAIR—Microsoft is where you have got a domination by one. There is competition in the Australian market in the retail sector. It is nevertheless of interest and we are looking at it. I found one thing that was of interest that you mentioned, and that was the number of older people who are going to the larger centres in order to do their banking. We have not had that drawn out before.

Mr Wilkes—I am not saying they are all doing it.

CHAIR—No, but I can imagine that happening.

Mr Wilkes—I do not want a credit card type of thing. I have had it sent to me many times over the years.

CHAIR—I have an 80-year-old mother-in-law that goes all the way to the bank in the city in order to get out her money because she will not use EFTPOS. Do you see that quite a bit, that that is influencing people to actually go to those areas to buy their goods?

Mr Wilkes—We did a customer survey just recently for our whole group. One lady—I cannot remember her age, I think she was possibly over 40—said, ‘You’ve got a lovely shop here but I wish you had a bank here. I wish you could uplift your building to where I bank.’ That was just one person, but it is still evidence of what is going on in the marketplace.

Mr Waldren—It is a problem in pretty nearly all small towns actually, that there are no banking services, so that particularly the elderly are forced to take on something electronically they do not understand. I have to say that we live with the same types of problems. Those elderly are either taken by vehicle to a town where the traditional banking service is available to them, or they are still lucky enough to be driving, or those that do not still drive have a friend who does that for them, and while they are in the particular township where the facility is available to use their way, they also purchase.

Senator MURRAY—Mr Wilkes, you would not know it, I do not think, but in 1993 the Hon. Steve Martin headed an inquiry in the House of Representatives which resulted in a banking study called *A pocket full of . . .* something—I do not know if any of you can remember the title. In the study they recommended that merchant fees, which you referred to—I think you called them your credit card fees but, strictly speaking, it is the merchant fees you pay—should be charged to customers not to the merchant. One of the reasons for doing so is that small independents like you are seeing major price rises on your merchant fees which are not being matched by the large chains, yet the transaction cost per transaction is the same whether you are large or small—it is an individual transaction. I think you just said to us that your merchant fees have gone up 300 per cent?

Mr Wilkes—No. You can virtually equate that to the increase in the credit card business I am doing. It has gone up 300 per cent because of the fly-buys, because of the encouragement awards—

Senator MURRAY—So it is the volume that has gone up. Have your actual merchant fees gone up?

Mr Wilkes—No, my merchant fee has not gone up.

Senator MURRAY—Do you mind telling us what percentage you pay as a merchant fee?

Mr Wilkes—I pay two per cent, and I pay 10c per transaction on a debit card.

Senator MURRAY—Do you believe those should be a customer cost rather than your cost?

Mr Wilkes—I believe it should be someone else’s cost, maybe the banks’, not the customers’. I do not know. I believe the banks are using us as their banking department in Beaconsfield, for example. They have just become paper chasers, in my view, and they have

put all the teller work and everything else on us. That is going to increase over time and it is going increase to the point where I am paying too much per month.

Senator MURRAY—If it is confidential to your business, do not tell us, but I will ask you the question. Do you know what percentage of your business is actually run through that form of transaction so that you are paying that two per cent on it?

Mr Wilkes—The total overall? I will give you some figures. Before Christmas, I was doing about \$2,500 in credit cards and now it has gone up to about \$7,000 or \$7,500.

Senator BOSWELL—A week?

Mr Wilkes—No, a month. That quote of two per cent is about \$40 to about \$145, and it is going to keep creeping up.

Senator MURRAY—The reason I put this to you is that, if independents and majors are generating large amounts of their business through EFTPOS and credit card fees, merchant fees and the percentage of pay is therefore an important part of your cost structure. If the major, for instance, gets their merchant fee at, say, 0.3 or 0.5 per cent and you are paying two per cent, it is another problem for you, isn't it?

Mr Wilkes—Yes.

Mr Waldren—I am prepared to provide you with percentages, and they are that a third of my day can be accredited to EFTPOS. That creeps up to 50 per cent of my day in very busy periods like holiday times.

Senator MURRAY—By your day, do you mean your daily take?

Mr Waldren—My daily take. I have had what you might call alarm bells ringing on occasions where I have had to reduce the amount of cash out for the simple reason that I would not have the cash available for those who were in desperation and, at the same time, I would not have cash available for pay cheques for local people who, on a Friday, are presented with a cheque as their salary and then, of course, they cannot bank it. They have arrived too late for any of the services like the post office or what I will call the sub-branch of the bank to accept that cheque. Because we do not have a 24-hour police service, we have no ATM. Therefore, a lot of the locals with their pay cheques rely very much on our ability to see them through the weekend.

Senator MURRAY—It is a bit odd, isn't it, that the customer will go to an ATM and pay the fee themselves, but they will come to you for a cash transaction and you pay the fee.

Mr Waldren—We are Father Christmas.

Senator BOSWELL—If someone brings a \$500 pay cheque, will you cash that and pay \$10? Do you pay two per cent?

Senator MURRAY—No, it is on the merchant's fees.

Mr Wilkes—I had a situation at Christmas time where I had some people from Norway. I cannot remember what sort of card they had, but I could not give them cash on their debit card. I rang the local bank and they said it was because of exchange rates and everything else. I put it to them that, if they wished to cash money with me, I would charge them two per cent if they would be happy to do that. They were quite happy to do that. That is my proposition. If somebody wants cash and they have only a credit card facility, I say to them, ‘Sorry, I’ve got to pay two per cent. Are you willing to pay that?’ They say yes, in a lot of cases, because they have to travel 30 kilometres to the nearest ATM or whatever it is. We have not got an ATM. I am the ATM, and so are the other fellows in town. That has been a practical approach I have taken. They have the choice. They do not have to do it.

CHAIR—Thank you for that. I appreciate your input. The committee obviously found it interesting because we have gone over time. Thank you for your involvement and your submissions, which were clear. I also congratulate you both again in terms of your involvement with the community, which is very extensive. We recognise that that is important. Thank you for coming today. I would also like to recognise Dick Adams, the federal member for Lyons and our parliamentary colleague. It is great to see you here today.

[10.00 a.m.]

WILSON, Mr Noel, Manager, Launceston Community Legal Centre; and Board Member, TasCOSS

CHAIR—Welcome. The committee prefers that all evidence be given in public; however, you may at any time request that your evidence be given in camera, with the recognition that the Senate may require at some point in the future that the evidence you provide be made public. The committee has before it submission No. 209, from the Launceston Community Legal Centre, and submission No. 205, from TasCOSS, dated 31 March 1999. Are there any alterations, deletions or additions that you wish to make to those two submissions?

Mr N. Wilson—I believe not.

CHAIR—I now invite you to make your opening statement to the committee, and we will follow that with questions.

Mr N. Wilson—I thank the committee for allowing me to give evidence today. Our proposition is quite simple. It relates specifically to Tasmania. It is that, while Tasmania has the lowest incomes, the highest dependency on social security and the lowest wages of any state, we pay the highest prices—apart from perhaps the very remote areas, for example, in the Northern Territory. We believe that competition is more important in Tasmania than in any other region of Australia. As we often are, we are a microcosm of the rest of the country. The difficulties with regard to competition are more exaggerated here than elsewhere. We blame this largely on the duopolistic situation of the two major retailers. I think that is putting it simply, and I would be happy to take questions.

Senator BOSWELL—I see a bit of an anomaly in your submission. You are saying that you want more competition, but you do not want Coles and Woolworths here. I would have thought Coles and Woolworths would give more competition. Can you see where I am coming from?

Mr N. Wilson—Yes. But the problem is that they control such a large proportion of the market that that reduces competition. We are not interested in having a situation where there are no large supermarkets; we recognise that supermarkets tend to bring down prices. But when they so totally dominate the market and there are only two of them, this begins to drive up prices further. A lot of our evidence is anecdotal—we recognise that—but I have personally found it very odd that goods in local corner shops which in Sydney would be markedly more expensive than goods in supermarkets because you would be paying for convenience, late opening and that kind of thing, are often the same price as goods in supermarkets. I am leaving out special offers and so forth, but ordinary goods are the same price, and I find that an extraordinary situation.

Senator BOSWELL—There are the corner stores, then there are the privately owned supermarkets and then you have the chains. I would have thought that the smaller ‘dad and mum’ corner stores would not have prices as cheap as those of the independent supermarkets or the chains. But it may be different down here.

Mr N. Wilson—Yes. It is an extraordinary difference which I have been very surprised to see.

Mr NAIRN—I am intrigued by how you have come to that sort of conclusion that the high cost in Tasmania is a result of the domination of the large supermarkets. I accept the evidence that you have given in relation to the cost of groceries between the various capital cities and Tasmania, but I do not see how you come to that conclusion, particularly when, if you take the research a bit further, you find that groceries now are cheaper in real terms than they were 25 years ago. It is over those last couple of decades that you have, in fact, seen an increase in the market share by the larger people, which tends to suggest that that increase, that solid competition between Coles and Woolies, has, in fact, driven prices down. We are dealing here with some other sort of phenomenon of difference in pricing between the other states and Tasmania. You might like to comment on that.

Secondly, have you done any particular research between towns around Tasmania? The two people who were here giving evidence this morning are operating independent groceries in areas where they, effectively, do not have competition from Coles and Woolworths. What is the break-up in costings within Tasmania?

Mr N. Wilson—Again, largely anecdotal evidence shows that if you go to a town like Strahan you find that groceries are a good 10 to 20 per cent dearer than they would be in Launceston. I noticed that St Helens was very expensive. I do not know where that takes us exactly. I accept entirely that supermarkets bring down prices when they enter a market situation where they do not exist already but, as their share of the market increases, there is a tendency for prices to begin to rise again. Again, I regret and must apologise for the anecdotal nature of the evidence but, from talking to a past manager from one of the major retailers, I understand that Tasmania is regarded as a highly profitable part of the enterprise for both chains, and many of their shops in Tasmania are at the very top of the list of profitability. I wondered if this committee could actually direct questions on Tasmania to the retailing sector and ask to see evidence of accounts and so on that could be properly deciphered by some qualified person to prove this point, because we are unable to prove it ourselves.

Mr NAIRN—It is interesting. Do you think it is a cultural thing? For a long period of time, Tasmania was way over there, so people more easily accepted that they might have to pay more because of this notion that you have to bring the goods a long way, and then that has been built on. When you look at some of the costing break-ups with the major retailers on the mainland, evidence has been put forward that if you take a Woolworths or a Coles in Callala, Pymble or somewhere like that in Sydney compared with some other lower socioeconomic regions of Sydney, then the prices are actually higher in the more affluent suburbs. Given the very low average weekly income in Tasmania, you would tend to think that that would occur, but what you are saying here is that it is not the case.

Mr N. Wilson—I do not know why; it is a mystery to me.

Mr NAIRN—It could be historical: that sort of acceptance that we have to pay more, so we put up with it.

Mr N. Wilson—Yes. You notice other aspects of a lack of competition. For instance, I am trying to buy a fax machine at the moment and I am actually having to chase the salesman to get one—I am practically begging him for a fax machine. I believe that that is another symptom of a lack of competition. I am not saying that that situation would be widespread. I do not know whether it is or not.

Mr NAIRN—He must be doing too good a business.

Mr N. Wilson—Yes. Many people seem to have problems with their suppliers, with getting them to send things. There seem to be delays here more than there would be on the mainland when you order something. Even when I ordered a bedspread yesterday from one of the retailers I have to wait three weeks, which seems to me quite a long time to have to wait for such an item.

CHAIR—It is rather interesting that an example was given of a price differential between, I think, Mackay and Tasmania—the price is supposed to be 23 per cent dearer in Tasmania. Roger Corbett, the Managing Director of Woolworths, said in evidence:

The reason why the Tasmanian marketplace is higher is with the transport costs of moving freight across to Tasmania. That is a significant factor.

If that is the case, and talking about the price differentials and so on, do you think we should have a uniform price around Australia for our product, so that no matter where the product is sold the price would be uniform, and supermarket shoppers in other locations would then be subsidising Tasmanian users? Do you believe that that is an appropriate way to go?

Mr N. Wilson—That is a very interesting idea. I imagine it could be quite difficult in a place like Sydney because you would be keeping prices artificially high. When trying to think of solutions to this, which I have put onto this inquiry rather than suggesting them myself—I am sorry, I have lost my train of thought.

CHAIR—The question was about having a uniform price around Australia which would then mean that supermarket shoppers in some of the mainland areas would be subsidising the Tasmanian shoppers. There is a view that there should be a uniform price around Australia. Do you agree with that?

Mr N. Wilson—I was about to say that it is probably quite difficult because in a place like Sydney that would be keeping prices artificially high. If Coles or Woolworths had to say, ‘A tin of peas will be 65c everywhere,’ that would cause the price to come down from \$1 in Tasmania to 65c but it would cause it to go up from 55c to 65c in Sydney. It would be very difficult to do that. I cannot imagine that Sydneysiders would be very pleased with that. If there were some arrangement where, say, the retailers had to voluntarily agree that they would fix prices everywhere within a range, perhaps a 10 per cent range or something like that, then that at least would be a considerable improvement.

CHAIR—I hear what you are saying, but once you fix prices you may lose the advantage of some price reduction for some reason—incentives, special deals of the month

that Pepsi are offering, and so on. The bottom line is that the lower you can get the prices to go, the better off the consumer.

Mr N. Wilson—Yes. That would be fine because the retailer would say, ‘Everywhere in the country we will reduce the price of Coke or whatever.’ That would only be a difficulty if it was a very localised fall on the market so that Pepsi was only going to supply cheap cola to Coles in Sydney, rather than if they could do it on a national level. Such a regulation could be quite complex—it would cut out fresh food and only apply to processed, tinned and packaged food. Such a regulation would have to be done with considerable care, and it would contain a lot of detail.

CHAIR—On page 2 of your submission you say that the price of goods are not high in Tasmania due to freight costs. What do you mean when you say that goods are often delivered free into the store? We were not quite sure what you meant by that.

Mr N. Wilson—Quite often the store will reach an agreement with, for instance, Cottees that they will purchase the cordial and that, within the purchase price, it is to be delivered to the Hobart warehouse as well as to the Sydney warehouse. I understand that to be the case.

CHAIR—Isn’t that likely to be the bottom line, though—that the price has been increased to take account of that? There is no such thing as a free meal, as they say.

Mr N. Wilson—Yes. I imagine that it probably is the sort of a situation where the cost is shared. It would tend to drive up prices a little, but it might reduce the profit that is being made by the supplier somewhat.

Senator MURRAY—Mr Wilson, I am interested to know how you lay off social and economic needs. I suspect the statisticians will tell us that Tasmanian stores probably operate at a lower volume than do mainland stores, particularly in Sydney. You know the saying in retail: low volume, high margin; high volume, low margin. Whether they are major stores or smaller stores, I would expect, as a result, them to need a higher margin simply to cover their cost and volume structure here. I will put a proposition to you. We had an earlier witness, Mr Waldren from Bicheno, who told us that there are two stores in Bicheno, which has a population of only 800. I would have thought one large store would probably service those 800. But if you had one large store which would produce lower prices, probably about a third of the people who are presently employed in two stores would lose their jobs. In other words, a multiplicity of independents and a multiplicity of stores might produce higher prices but also produce more jobs. As a person concerned with the social fabric, where would you put the emphasis for the committee—lower prices or more stores and more jobs?

Mr N. Wilson—We have directed our attention to the problem of prices largely because we see it as one of the greatest disadvantages for Tasmania and for people on low incomes. I am missing how to connect your question with our submission in that sense. You are talking about small retailers.

Senator MURRAY—Throughout Australia this committee has heard from independents and wholesalers who say that if you increase the market share of the majors, it will result in closing their businesses and therefore loss of jobs and, if you like, community income. You

say in your submission that the major issue is low prices for the consumers, which—to use some jargon—is very much an economic rationalist approach. People who want to balance social needs with economic needs say that you sometimes have to accept higher margins because it may produce more jobs. I am asking where you put the emphasis. If, in fact, the result of present policy in Tasmania is that there are more stores than there might need to be—and I gave you the example at Bicheno—but the result is more jobs, do you think, as a community, you should wear higher prices?

Mr N. Wilson—I do not think that that was a question we were considering. Our primary interest was not to discuss or to put proposals about the smaller retailers; it was largely to say that there are two major companies controlling the market and that is an unhealthy situation. I see your point, but I am not prepared to make a suggestion about where the balance should be as far as jobs versus prices go. I feel that, if the matter of competition were properly addressed in Tasmania, prices would fall and that would have a beneficial effect on our society.

Senator MURRAY—Nationally—regardless of the sector, but it is very true of retail—large business loses jobs and small business creates jobs. That is statistically so. We all accept that a benefit of competition is delivering lower prices, but the consequence can be the loss of jobs. With Bicheno, let us assume those two small supermarkets employ 20 each. If they amalgamated to one store servicing 800 people, you might lose 10 jobs but you would get lower prices. Your submission argues for lower prices.

Mr N. Wilson—I do not see how the Bicheno situation—

Senator MURRAY—It is an example for you.

Mr N. Wilson—Yes, but if one store became more efficient but it was the only store, then prices would tend to still rise because there would be no competition. Isn't that the outcome? That is the outcome that appears to be happening in Tasmania.

Senator MURRAY—What our two witnesses were saying is that there is a new Woolworths store being built not 40 kilometres from Beaconsfield. The catchment area of a really large store can extend up to 90 kilometres. I do not know how big that store is; it may result in a loss of business or it may result in the closure of a store. They will lose their 20 jobs but the community as a whole will get lower prices. The question persistently before this committee, and the nub of this issue, is: do we support open and laissez-faire competition which results in the majors producing more range, better product positions and sometimes—but not always—better service and certainly lower prices, or do we balance it off against a healthy independent sector and the jobs? You, as a socially concerned person, have to assist us with that kind of choice.

Mr N. Wilson—We feel that what happens is not that the supermarket comes in and prices fall, but that temporarily prices fall until the supermarket rearranges the competitive situation. Some stores close; they buy out some on occasions as well. They change the marketplace and then prices start to rise again as they achieve dominance. Once a major retailer has dominance, prices will rise. The ideal situation is that you get a large store, but

the prices do not have to fall because profits can increase instead. We believe that does occur and can occur when you have major chains dominating the market.

Senator MURRAY—If they move into a monopoly situation, you get monopoly pricing?

Mr N. Wilson—Yes.

Senator MURRAY—But how do we find the balance? You and we understand that argument, but the independent sector, both wholesale and retail, is telling us that we are at a critical point—where the critical mass which is necessary to sustain an independent wholesale and retail sector is rarely threatened. If I understand the submission correctly—and it was behind the chairman's question—you are suggesting to us that there is a lack of competition in Tasmania, which would imply you want more chains.

Mr N. Wilson—Yes, and perhaps that is how we did see the solution. We do not pretend to have considered all these areas—and I suppose we hope that the inquiry itself will be coming up with some solutions to the problem—but we did see originally that if we had Franklins in Tasmania, and we had three or four major chains, then that would improve the situation.

CHAIR—Franklins have made the decision not to come to Tasmania for their own reasons. How are we meant to bring them to Tasmania if they decide that there is not a big enough market, or else that they have transportation costs involved? What do you recommend we should do in terms of attracting Franklins to Tasmania?

Mr N. Wilson—Again, I suppose we hoped that you would have that solution, that the inquiry would come up with the solution. If you accept the principle that that is what needs to be done, then the inquiry could come up with a solution to that.

CHAIR—Surprisingly enough, in terms of submissions, they have been fairly big on the problems and fairly short on the solutions,—

Mr N. Wilson—I imagine so.

CHAIR—although I imagine Mr Richardson, who is appearing later on, will have plenty of solutions. Ladies and gentlemen are there further questions, or should we move to the retail traders people?

Senator FORSHAW—Could I just ask a couple of question? You have given us some details with respect to comparisons between Tasmania and the mainland states. Do you have any data on the range of prices across Tasmania? You mentioned, for instance, anecdotal evidence about Strahan. One could easily conclude from experience that the prices in Hobart might be a bit cheaper than in Queenstown, but do you have any hard evidence about what the differentials are across the state?

Mr N. Wilson—No, I am sorry, I don't.

Senator FORSHAW—What has been the position with respect to the small business sector? By that I mean not so much the retail grocers group that gave evidence a moment ago, but your butcher shops, your greengrocers and your delicatessens. Has there been a trend for the numbers of those stores to decline in Tasmania, particularly outside of the capital cities? What has been the experience in that area?

Mr N. Wilson—I have no evidence of that, Senator Forshaw, I am sorry.

Senator FORSHAW—You do not have any anecdotal sort of evidence? One can see fairly clearly in suburban areas in the city that I come from, in Sydney, that there are not as many butcher shops and there are not as many greengrocers as there used to be. Whether that is due to the domination of the big three and the expansion of the range of products they sell, I do not know. We have seen a reduction in the number of petrol stations too, and there are a range of reasons for that. I am interested to know what the position is down in Tasmania

Mr N. Wilson—I would say that it must happen, that the number of small retail outlets must be reduced by the opening of large stores. It is necessary that that would occur. But I believe that the retail sector in Tasmania seems to be very healthy. Small stores can charge competitive prices and be, for many items, cheaper or else the same prices as the supermarket. That is an extraordinary achievement, but it also suggests that the supermarkets are over-pricing their goods.

Senator FORSHAW—I understand the point you are making, that the general level of prices may be higher but there is a greater capacity for smaller businesses to exist because of the nature of the economy.

Mr N. Wilson—Yes.

Senator FORSHAW—Thank you.

CHAIR—Thanks, Mr Wilson. We appreciate you coming and thank you for your input.

[10.30 a.m.]

JACKSON, Mrs Mary Catherina, Member, State Executive, Retail Traders Association of Tasmania

MORGAN, Mr Paul Francis, Vice-President, Retail Traders Association of Tasmania

STEVEN, Mr Tony, Executive Director, Retail Traders Association of Tasmania

CHAIR—Welcome. The committee prefers that all evidence be given in public. However, at some stage during your evidence you may wish to give your evidence in camera. If that is the case, you should request to do so and the committee will consider that, but I give the warning that at some stage in the future the Senate may decide to make the evidence public. I remind you also that the giving of false or misleading evidence may constitute a contempt of the parliament.

The committee has before it submission No. 271 dated 4 May 1999. Are there any alterations, deletions or changes of any kind that you wish to make to that submission?

Mr Steven—No.

CHAIR—That being the case, I invite you to make your formal submission to the committee and we will follow that up with questions.

Mr Steven—Thank you. Mrs Jackson and Mr Morgan are both on my executive board and together we represent 400 or so members in the industry of something like 4,000 small, independent retailers in both urban and rural Tasmania. I would like to make a short presentation to the members of the committee now. I will then ask Mr Morgan to do the same and Mrs Jackson also has a short statement. We would like to answer any questions after that.

The Retail Traders Association of Tasmania believes in real competition and equal opportunity for all players in any particular market. Prices, service and product range are all affected when competition is diminished. Market dominance is unhealthy for the customers just as much as for the business owners, and this is even more so in regional and rural areas. The ever-extending tentacles of the major chains are now reaching into many other areas than just groceries.

The RTA would like to highlight to the inquiry the negative impact of major change extending into areas such as newsagents, florists, petrol, bakers, butchers, liquor, pharmacies, electrical, hardware and photolabs. For example, there are serious implications if supermarkets were to start selling products usually reserved for pharmacies. There are concerns involving safety, expertise and even personalised service. It is more likely that a local, caring chemist will know more about the medical background of his or her customers than an attendant at a high-turnover supermarket. Mr Morgan, a pharmacist from Hobart, is witness to this example with his store every day.

Consumers do not necessarily want large shopping centres and high-turnover supermarkets all of the time. According to the *Age* newspaper, a KPMG consumer behaviour monitor has found that among high-spending consumers Australian trends show a decreasing preference for larger supermarkets or shopping centres. Large firms like Woolworths and Coles have even acknowledged this by trying to enter the small business market by opening Paddington Stores in Glenferrie Road, Malvern, and Coles Fast and Fresh in Warringa South.

CHAIR—Are these Tasmanian?

Mr Steven—They are in Melbourne.

CHAIR—We would ask you to confine your evidence to Tasmania if that is possible, because that is why we are here.

Mr Steven—It seems to us that these major chains want all of the market, as currently they have approximately 80 per cent of the grocery section nationally and are still striving for more. This will lead to more closures and force independents down to an unviable market share level where eventually they will disappear altogether—witness the situation in many rural towns.

In Tasmania, 78 per cent of the grocery market is held by Coles and Woolworths alone. This is even more remarkable considering there are only the two competitors as against the normal three—the large three on the mainland. Woolworths have 51 per cent of the market on their own. It is dangerous for so much power to be held in the hands of just two chain store operators in a small state like Tasmania. Without independent stores in the community consumers would be left to the whim of the majors without pressure to maintain standards of service, product range, choice of retailers and even price. An example of this can be seen in the CBD of Burnie where Coles and Roelf Vos Woolworths are the only grocery stores in the area. These majors contributed to the closing down of every other smaller grocery store in the area. A further example occurred with the former Jimmy's independent supermarket in Launceston and now Ralph's independent supermarket in Hobart—both were bought out by the major chains.

The RTA represents members who have customers, and these customers want choice and product range. If they have particular needs, it is usually the smaller operators that can provide the smaller quantities of specialised products. The majors have an over reliance on economies of scale, and the unusual is often hard to get at the majors. Collectively, we are also able to provide a greater range of products to the market for the same reasons. The elderly are even more reliant on these aspects of the small retail sector. Customers want personalised service. The staff to turnover ratio at smaller retailers is much higher and therefore personal service is often at a much higher standard. This option is important for consumers and must be retained as we enter the electronic commerce age. Mrs Jackson, who operates a lingerie shop in Burnie, can testify to this.

There are other social implications as well, such as the small sponsorships for local clubs in the area which are now drying up as the majors are usually only interested in supporting larger organisations. Our members provide jobs and our customers need jobs. Without jobs in any given area, the spending power of the community is diminished at the expense of all

retailers, large and small alike. Profits from the small business in an area are reinvested back into an area, unlike the profits of a large or national company. This is having a diabolical effect on regional and rural areas, including all of Tasmania.

The state of Tasmania is losing people to the mainland. Our western style economy has evolved to include population growth as a mandatory ingredient for economic growth. Without population growth we find ourselves in a stagnant society with fewer opportunities for our young, so they leave. The cost to families is great. I personally am the only one left in my immediate family in Tasmania. I am always losing friends, and I know of many children who have been uprooted because their families leave the state.

Small business, including independent retailers, are the lifeblood of rural and regional towns. The pressure of the major chain dominance is being felt in several ways: the construction of supermarkets drawing customers to larger towns, supply domination of manufacturers who are influenced by the major chains and loss of jobs in these areas due to the capital intensive policies of the majors rather than the job intensive policies of the smaller businesses.

In conclusion, the major chains are now adversely impacting on newsagents, florists, butchers, bakers, petrol stations, liquor stores and pubs, electrical stores, hardware stores and camera shops with photo labs. Australia needs to halt the unhealthy and anti-competitive domination of retail markets by the major chains and introduce strong, new trade practice laws to ensure fair competition. I remind all major decision makers that, as important as gaining efficiencies is, the reason we pursue them in the first place is for the people. Efficient economies are developed for the people who live within them. It defeats the purpose of efficiency if those economies are dominated by monopolies which, by nature, are profit orientated not people orientated. I would like to invite Mr P. Morgan to say a few words.

Mr P. Morgan—I have operated a pharmacy in Hobart for 30 years. In that time I have served on the state executive of the Pharmacy Guild, the Tasmanian Independent Shopkeepers Association and, currently, the Retail Traders Association of Tasmania. Since 1991 I have been the Retail Traders Association of Tasmania's representative on the Tasmanian Retail Tenancy Monitoring Committee. We have heard a lot about the food industry, where the stranglehold by the majors has reached crisis point and has precipitated this inquiry, but there are many other areas of small, independent retail activity that are dramatically affected by the majors. These have just been mentioned by Tony.

Small, independent retailers are by nature usually stand-alone operators, though consequently subjected to many forces that impact on them much more severely than on the majors. They are often specialist in nature, like jewellers. They find it difficult to trade seven days a week. They try to match the majors' trading pattern but because a specialist—in this case, a jeweller—cannot physically work seven days a week, they find they have problems with that. One area in which small, independent retailers are severely disadvantaged is in shopping centres. Major traders can stand up to shopping centre operators because of their size. Smaller tenants are often preyed upon by operators of big centres. I know the Commonwealth and the states are addressing this problem with legislation but the playing field is still not level. You do not have to cripple a small, independent retailer to drive him

out of business. You only have to take away 10 per cent of his trade and he is no longer viable. We have seen this in country towns across the country.

Last year I was in a large drug store in the US and saw a strange thing. On the front counter were nicotine patches to stop smoking and on the wall behind was a mass display of cigarettes. It strains credibility to say that the store was genuine in encouraging people to stop smoking. Most would see this as trying to have two bob each way. We can prevent this sort of behaviour in Australia if we halt the march towards total market domination. There is another side to this issue. This is the power the majors have by their near-monopoly on the retail sector. Towards the end of his life, the late Sir Robert Menzies said, 'Australia is a great country. The only thing that can ruin this country is greed.'

Do we want big business to control the nation as they do in the US or do you want the people, through their elected politicians—such as you ladies and gentlemen here this morning—to run the country? Small independent retailers have experienced this behaviour already. On a number of occasions the manager of one of the majors has openly broken a state law because he says he does not agree with it. This is hardly the act of a responsible corporate citizen. As a result, people are starting to ask, 'Who is running the country—big business or the politicians?' Ben Chifley has a collection of speeches published under the heading, 'Things worth fighting for'. Small, independent retailers say our survival is worth fighting for. Thank you.

Senator BOSWELL—Mr Morgan, who is the person who defied the law? Obviously it was a state law. Which person said he did not agree with the law?

Mr P. Morgan—Do I need to name that person?

CHAIR—You have privilege. You cannot be sued. That is one of the great things of this committee.

Mr P. Morgan—I have been in the firing line already, so I do not want to be in it again.

CHAIR—I can assure you that you are covered by parliamentary privilege.

Mr P. Morgan—The gentleman is Mr Michael Kent, who is the State Manager of Woolworths.

Senator BOSWELL—I hope the Woolworths people will hear this—and they will hear it—and tell their managers here that no-one is above being beholding to the law. If they want to get up people's noses, they can just get their managers to make those statements.

CHAIR—I presume it was quoted in the newspaper.

Mr P. Morgan—Yes.

CHAIR—The committee would be interested in that statement because we actually have Woolworths coming to see us next week in Canberra.

Senator BOSWELL—We will refer that matter to the manager of Woolworths.

CHAIR—Sleep easy, Mr Morgan. You cannot be touched.

Mr P. Morgan—Thank you, Mr Chairman.

Mrs Jackson—I do not have a prepared speech—I just want to make a couple of points. We have the seven-day trading debate still going on; we have now got six-day trading. But two words that the majors used constantly was ‘choice’ and ‘competition’. That was their big bandwagon. Where is the choice, for argument’s sake, for Burnie people now? This is a city and we have no choice in the CBD of Burnie. We can either shop at Coles or Woolworths. I believe that there is no choice. This is what they fought for, and yet we have none. I choose to shop in one of the smaller communities because I refuse to shop with the majors, but that is me personally. Not everybody has that choice. Where is the competition when you can only shop with the two majors?

I also believe that there is a huge social area for our elderly, our disabled and our invalids. They use the corner store or the small independent supermarket for social contact because we take the time to talk to people. Even in my business, which is in Burnie, I find that a lot of people come in and they just want to talk. They buy a pair of stockings but, if you are not busy, they will talk about anything and everything. Take that social contact away and I wonder who replaces it.

I know there was a study done on this some years back by one of the universities interstate. It was quite amazing that elderly people, disabled people or maybe single mums—anybody that did not have a lot of social contact—would visit their corner store or their small business as many as three or four times a day because it was the only contact they had. Also, a lot of our people, especially in Tasmania, are on some kind of government benefit. What happens two days before pension day if they run out of bread and milk? They can go down to their local store and their local supermarket where they know the guy on a first name basis. They know his wife and his kids and they know the staff. They can get a bit of credit until their pension comes in. Can you go to Coles and Woolworths and ask for some bread and milk until pension day? I think not.

I also want to touch on the fact that it is not just supermarkets that are affected by the majors. Coles with their other umbrella, the Coles Myer area, own many other businesses. A lot of people do not realise that. I will revert to Burnie, because that is the area I come from. I went around the main city block last night in my mind—I did not even cross the road, I just stayed on one side of the road. In the last five or so years, we have had a Rockmans and a Sussans, and Harris Scarfe have taken over the Fitzgerald’s group. We have had Just Jeans, Jeans West, Chain Reaction, Fosseys and Best and Less. We have had Harvey Norman, in the next block up, take over Loughrans. We have two cheap liquor outlets in the town and we have one petrol outlet in the town. Burnie is an area that does not have negative population growth; we are going backwards. We have lost quite a few thousand people. I ask the question: why are all these majors and interstate companies opening in a city that is—I hate to say it—slowly dying? All the independent stores are being forced out. It is not only affecting Burnie; it is also affecting the small communities on either side like Wynyard, Penguin and Ulverstone. They have got stores closing as well.

The other thing that concerns me is the enticements that the majors use to get people to shop. The words I use—and they are probably not very nice words—are ‘suck people in’. They get caught up like a gambling addiction: ‘I’ve got to go in there because I’ve got to get more dollars on my frequent shopper card’ or ‘I’ve got to get these stickers like McDonalds use’ or whatever. So they constantly go there and maybe buy things they really do not need and cannot afford. I ask the question: who really pays? Is it the suppliers who are getting screwed to the wall by some of these majors or is it the consumer that is actually paying more for product because of all these enticements?

Something that has not been touched on this morning by our group is that, in the small town I live in, Wynyard, the local Woolworths or Roelf Vos store was pushing to get a Tattslotto agency. We have got a good newsagent in the town—they are quite successful and they have the Tattslotto agency. This is a small rural town that has many empty shops in it. The newsagent was financially in a position to buy a building closer to Woolworths, refit it and open up alongside Woolworths. These people moved one block, at huge expense to themselves, to stop Woolworths from getting this Tattslotto agency. I believe that is another area that they are looking at getting into, which again will take a lot of business away from the newsagents. Thank you.

CHAIR—Thanks very much for your submission and the succinct way you put your arguments. Now I would like to invite the committee to ask questions.

Mr JENKINS—Your submission is very interesting in that it covers some of the problems we have had about definition. We have used, interchangeably, ‘retail sector’, ‘grocery sector’, ‘supermarkets’ and the whole kit and caboodle in the one submission. Having said that, for some of the problems you raise—if we take them on board—the main solution put forward, and which your submission puts forward, may not tackle it. We have four recommendations. Two are to do with the capping and the other two are to do with things that state and local governments might do by way of social and economic impact statements and a moratorium on the extension of shop trading hours.

As I understand it, in Tasmania the Tasmanian state government has looked at the price issues and things like that, and I think that you are pushing those issues very well. But if I could go to things like supermarkets going into pharmacy, supermarkets going into Tattslotto and the fact that a whole host of small independent players in other things besides supermarkets are being taken up by national chains, how does capping on supermarkets stop some of those phenomena? It may be that we will have to have another inquiry to think of other mechanisms to stop this, or is it that we should be looking at some way of changing cultural thinking about the whole retail sector, not just supermarkets?

Mr P. Morgan—You have touched on the essence of a good deal of the problem. I think that a lot of it is that the majors are trying to encourage one-stop shopping as much as possible. Butchers have tried to incorporate every aspect of retail activity under their ceiling. They are trying to get pharmacy. If we can stop that concentration—I suppose is the word—of everything under one ceiling, that then gets away from the idea of one-stop shopping, basically. How you do that, I am not quite sure, but I do not think that there is any doubt that that is the aim of the majors.

I mentioned that I was in America last year. In some of the hypermarkets and very large stores, you can get everything you want. I had a very interesting experience in my pharmacy last year. A gentleman from Canada came and asked for some advice on something and I gave it to him. As he was walking out the door he said, 'I would like to ask you a question: do you own the store?' I said, 'I do.' He said, 'We used to have people like you in Canada, but we don't anymore because all the stores in Canada like yours are owned by chains. I am not saying that they don't do their jobs, but there is not the personal interest in the customer like there is an owner operated store.'

I have another side to this as well. I have had my best years in retail, and I think that my generation owes a duty to younger people coming into business, into their working life, so that they can have some measure of control over their destiny and not be controlled by corporate people whose aims are not always to do the right thing by the customer. I am not blaming them. They have shareholders; they have pressures on them. I mentioned Ben Chifley's book. I believe, passionately, in fact, that a person who operates a store—Mary in her shop, me in mine, David Wilkes in his, John Symons in his, et cetera—is there to try to provide what they think is the best thing and to provide good value for the customer. We are not just doing a job.

Mrs Jackson—I might just add to that. I think that what I mentioned about the other stores is a very important fact that this inquiry perhaps has not got in its requirements. I would like to see maybe a recommendation when this is wound up that it does affect far more than supermarkets. When you look at who owns most of these national chains in the retail or the rag trade—to identify what I am talking about a little more—they are, in lots of instances, the very same companies. I think this is the frightening part—that the public does not realise that Katies is owned by Coles Myers and Ezy Walking is owned by whatever. They are all owned by these same tight group of companies. That is the frightening part that the public may not be aware of. They realise Roelf Vos is Woolworths and Purity is Woolworths, but do they realise half of these other little shops that they are shopping in are Woolworths or Coles Myer as well? I believe it is very relevant.

Senator FORSHAW—You are the first witness that I am aware of—and maybe I have missed some—who has actually extended this issue into those areas. Indeed, we have had some evidence put to us. I actually asked questions along this line of the ACCC. It was put to us that in, say, the white goods area—electrical goods and furniture—the Harvey Normans and others do not dominate. In fact, a lot of the smaller stores—I am not sure whether you call them independent but, say, the Retrovision stores and others—compete very successfully and have a greater share of the market than, say, Harvey Norman or one of those other big chains. I was somewhat surprised at that just from personal experience, having watched the growth of the Harvey Norman stores over the recent years.

Similarly, I think ownership is one issue that you have pointed to. But I am not aware that, say, in the clothing industry, for instance, the David Jones stores, Grace Bros stores and the great big stores in New South Wales that I know of are squeezing out the smaller speciality clothing stores throughout Sydney and the suburbs and in the country. I am not aware that that is a problem. I understand the point you are making about who owns what. If we want to really chase that issue down, we can point to the fact that we have well-established wineries in this country that are owned by British tobacco or oil companies or

whatever. That is a broader issue again. But it seems to me that what we are focusing on here is the retailing area, particularly in supermarkets, in the food line. A lot of it is really about the fact that there are a limited number of wholesalers and that Woolworths and Coles have their own wholesaling operation and there are one or two other major wholesalers, whereas when you get into the other areas, whether it be clothing or electricals or whatever, it is not the same domination at that level—at least I am not aware of it. I suppose Email might have a big share of the market.

Mr Steven—When you are looking at putting all that together, the accumulated power of those companies across the board could be construed to be quite dangerous to the smaller retailers around the country.

Senator FORSHAW—My question was prompted, as I said—and maybe other members of the committee might comment—by the fact that this is the first time I have really heard the argument put about your electrical goods stores or whatever. I have heard it put about butchers and grocers and those who deal with food.

Mrs Jackson—I think that is because of your terms of reference perhaps. I actually wondered whether it was relevant, but I thought, ‘What the hell. I will go in boots and all, and you can toss me out if you do not want to hear me.’ I think it is a relevant point that, as a clothing retailer—and I have been in clothing for 37 years and in my own business for 18—I have been in Burnie and Devonport, so I have seen gradually over the last five or so years this pattern. It is the same pattern that, 15 or 20 years ago, was starting to happen in the supermarkets. We are now screaming and saying, ‘Hey, they have got 75 per cent of the market in Tasmania. Are we going to wait until we have got no independence in the major centres and then have an inquiry like this to try and fix it, or should we be aware of it and have a watchdog to ensure that we do not get to the situation where the rag trade is controlled and two or three of the majors have 80 per cent of the rag trade as well?’ That is the point I am making. A stitch in time, I think, is the old-fashioned word.

CHAIR—That is an appropriate term!

Mr JENKINS—The wider nature of this problem has come before the committee on the basis of trying to get definitions if you are going to cap anything or things like that. I am not putting Mr Morgan on the spot, but some of the trade that he does at the front of the shop is in direct competition with what might be provided on the shelves of supermarkets. If we were looking at a cap, it has been put to us that, if you take the wide definition of ‘retail’, a group like Coles-Myer might already have 18 per cent of that, and therefore we should be aiming for a 15 per cent cap. The other argument put to us is that—as Mrs Jackson has put to us in the clothing trade—because of the specialist niche marketing of some of the smaller businesses, they hold on longer and have been able to compete more. Should we be giving greater protection for the types of small businesses that provide on the basis of service plus price—that is, for those types of niche businesses?

I do not want to pick on Mrs Jackson, but she used emotive terms like ‘forcing out’ some of the small businesses and suppliers being ‘screwed’. But at the end of the day, if those things are more than just emotive terms and are actualities, there should be a law that deals with the type of behaviour that is seen to be negative in its effect on competitors.

Collectively, you have suggested that the Trade Practices Act should be strengthened and, if you have any ideas about which areas should be strengthened, I would like to hear them.

Mrs Jackson—There certainly are manufacturers who are screwed. The type of thing the majors do is say, ‘Okay, we’ll buy these products from you,’ and get them to expand their manufacturing bases. They buy more machinery, hire more staff and trade along for a couple of years. Then they start to want price and promotional percentage on top of it, or they say, ‘Well, we’re buying 80 per cent of your turnover now. We want this price down to this.’ The supplier cannot afford to say, ‘I don’t want to supply you,’ because he would go broke, but he also almost gets to the point where he cannot supply them, because the price is almost what it costs him to manufacture.

That is not for us as retailers to say, but I am quite sure that if you contacted suppliers—and the rag trade is the area I am more familiar with, but I am sure that this is happening in the grocery area as well—you would see that the prices that the majors are forcing on other manufacturers and producers are so low that they are almost forced to the wall as well. That is definitely happening. It has been happening for many years, and you have many suppliers who do not exist now because they swung to the majors thinking it was the easy street, and they ended up closing their doors. The majors three or four years down the track say, ‘Oh well, that trend is finished. We are not going to buy from Joe Bloggs any more,’ and he has no other market left, as we deserted him years ago because he went to the majors. There is very much another side to this argument.

Mr Steven—As for drafting legislation that would enable us to cap the power of any particular major company, there are several issues to be addressed. One would be what constitutes a community and what measures the impact on that community. The one you have already alluded to would be another—that is, how wide the definition of any particular retail operation should go and whether it should encompass just a particular section, like grocery, or whether it should go into clothing. There are a lot of questions there. I am afraid that you will have to go back to the people who draft the legislation to define some of the actual wording. If you could talk to groups like ourselves in that process, it would probably be very handy. There are examples of this type of legislation, as far as I know, in the antitrust laws in America and in several other countries that you may be able to use as models, but they would have to be dramatically changed to incorporate our unique situation in Australia.

Mr P. Morgan—When Mary was talking about the clothing industry, it reminded me of a story one of our members told me some years ago. He had a delicatessen business in a shopping centre, and quite a good business; he was very good at his work. He noticed over a period time that his business was gradually declining. He looked around and eventually went over to one of the major stores which was in the same centre as he was and he noticed that the centre had duplicated the layout of his store in the delicatessen section—it was virtually identical. Virtually by stealth, or whatever you like to say, they had just taken his business away from him. That is the sort of behaviour the Retail Traders Association feels is just not cricket.

Mrs ELSON—Was there predatory pricing in that situation where they were undercutting his figures?

Mr P. Morgan—No.

Mrs ELSON—Just duplicating his services.

Mr P. Morgan—They just duplicated his range. He had specialised in various things. He had a flair for that sort of thing. They paid him a compliment, obviously, because they copied his business but in the process they virtually put him out of business.

Mrs ELSON—Does the Retail Traders Association have any evidence of predatory pricing in Tasmania? We have heard in other states that when they do want to, say, get rid of a florist or a deli or something like that, they undercut constantly until they remove that person from the business.

Mr P. Morgan—I can give an example of garden centre. One of our garden centre people was telling me she has a business in a small country town in southern Tasmania. She opened the business from nothing and was operating and going along okay. She had started a business from nothing, which is quite a difficult thing to do, and the business was going quite well. After about three years, the local major store, which had a branch in that town, in early Spring would bring a truck into their carpark and sell pot plants off the back of this truck. That did not drive her out of business, but that was her peak time, and from having quite a good little business, she is now struggling.

That sort of thing is right across every area of retail activity—florists, you mentioned, butchers, delicatessens, pharmacy, the ones that Tony has listed. That is the competition. We see it as unfair because we are all individuals. We are stand-alone operators. I have no financial tie-up with any other trader and yet we are being targeted by a big force out there which has lined us up. We see ourselves as under threat and that is why we are so worried.

Mrs ELSON—Do you find the ACCC any help?

Mr P. Morgan—Yes. We had a meeting with them in the last 12 months and they told us that they are now much more concerned about the sorts of pressures that we are under, and that if we have any examples of that to let them know and they would pursue it. In fact, I do have details of that, but I have not pursued it. If I find out some further information, I would like to put that to this committee. I do not want to say anything further on that because I do not want to alert people as to what the particular thing is. Is the committee happy to have further information?

CHAIR—Yes, we certainly are.

Mrs ELSON—Thank you.

Senator BOSWELL—Accepting what you are saying about pharmacies and newsagents, and so forth, have you got any evidence of unconscionable conduct, predatory pricing, or anything that you can present to the committee? We do need some hard evidence. We are getting a lot of anecdotal evidence and if we can get some hard evidence it would be helpful.

The other thing I want to say is that there seems to be something that got into the folk law here that we do not have anti-trust laws in Australia. We do have anti-trust laws; they are called the Trade Practices Act. There is also something else that has its own wheels: in America there is a cap on grocery stores. That is not the case. There is no market domination right across America with any single stores. There is no legislation in place that has made that so. You cannot look to America or anywhere else. This is unique in Australia—where you have two or three major supermarkets that are so big.

Mr Morgan seems to be coming from a direction where he says that supermarkets are getting bigger and bigger and encroaching on his chemists, newsagents and so forth. That is the subject of an inquiry itself and so is the newsagencies, which I think is going to come down today. Mr Steven is saying that a critical point is coming up where it will be very hard to sustain an independent retail sector if it gets cut any further, or if the market share disappears any further, and therefore a cap will have to be placed on it.

I just put it to you, and I will put it to Mr Richardson after: if we put a cap on, what is going to happen? Will Franklins and Aldi come in and just take over from where Woolworths and Coles are at the moment? If you say to Coles, 'You've got 75 per cent of the market,' they will just get out of some of the bigger towns. Won't Aldi, who are looking for sites, and Franklins, just come in and replace them? All we will do is end up knocking Woolworths and Coles off and replacing them with Aldi and Franklins. Can I have your views on that?

CHAIR—Wal-Mart is a big American company that is also looking—

Mr P. Morgan—I read the other day, in preparation for this morning, that Wal-Mart is the biggest retailer in the world.

CHAIR—And looking here now.

Mr P. Morgan—I am sure they would be.

Mr Steven—Senator Boswell, that is what I alluded to in my comments about the drafting of the actual legislation and how carefully that has to be done. If you legislate against the industry sector instead of just particular companies, if the legislation was to say that a company of a certain proportion is not to operate at a certain market share level in a specific area, and depending on where you put those measurements, that would exclude Franklins from coming in and saying, 'We'll take up the last 20 per cent of the market share.' It all depends on how the drafting of that legislation is put.

Senator BOSWELL—So you would want legislation that excludes Franklins and Aldi?

Mr Steven—I do not mean that any company names should be mentioned, no. That would be unfair. What would need to be done, I feel—and this is the real crux of writing the legislation—is for it to take into account the size of the companies that are coming in compared with the size of the market and the market share.

Senator BOSWELL—I do not know how you would write legislation like that. It would be with great difficulty.

Mr Steven—I am not saying that it is an easy job.

Senator BOSWELL—I understand the problem. We are trying to come up with a solution. I take your point on liquor, pharmacies and newsagents. I have always been totally opposed to moving away because you will just create a huge market dominance, and we have one now. At what point do you reckon we are at now with the independent wholesalers?

Mr P. Morgan—We are not really qualified to answer that. I am sure Mr Richardson will talk to that most ably. That is a food issue. I am just thinking of my suppliers, Fauldings and Sigma—basic supplies. There is no problem there. That is not a monopoly situation. There are some smaller players such as API just starting in Tasmania. That is not a problem. It might be a problem in the whitegoods industry—I do not have enough knowledge of that.

Senator Boswell, one thing came to me as you were talking, and it is just a thought, is one of the important ways in which this sort of activity can be controlled. I touched on it briefly through the retail tenancy legislation. That has been a major area in which small business has been disadvantaged in the past. It is being addressed and I mentioned it in my opening remarks, but it is still not properly addressed because the difficult centre managements—I only know Tasmania; I do not know about other states—are still holding the whip hand. I have not listed these this morning but, for example, there are higher rentals per square metre for independent operators than there are for majors. You are probably aware of that. Another is relocation within the centre if they are not happy with a particular retailer. If a retailer is doing well they will get another retailer of the same type into the centre, and that halves his business. Key money has been a major problem.

CHAIR—Can I just slow you down there, Mr Morgan, for two reasons. First, we are running out of time and, secondly, the Reid inquiry did look at that. We are aware of those issues, and we are concentrating on some of the other factors. Senator Boswell, do you have anything further before we wind it up?

Mr P. Morgan—Thanks. I take your point that that has been addressed.

CHAIR—We are sympathetic to the issue. It is a good issue.

Mr P. Morgan—The thought that came to me as you were talking before was some sort of business registration which would probably need to be a federal thing. One of the major problems in Tasmania has been the fact—and Tony touched on this in his presentation—that, when stores go into business, often the best offer that is made to them is by a major, so that increases the major's share. Maybe one way of addressing that is some sort of mechanism whereby a retailer is bought by another independent retailer. I do not know, but maybe that is one way in which it could be controlled.

Senator BOSWELL—That is easy to control, but then you have to take into consideration that if Mary Jackson's lingerie shop is for sale and Coles offer her 10 times what it is worth, has she got the right to take 10 times what it is worth or does she have to take what it is worth? That is a balance that we have always got to consider. Does a person like Mary Jackson have the right to get the highest possible price for her shop? We have had that. If you ask independent retailers, some will say, 'No, I'll be loyal and I'll stick to selling my business to an independent,' and others will say, 'No, I want the right to sell my business to anyone.' But that is called 'creeping acquisition'. It has not been raised in Tasmania, but it has been raised everywhere else where retailers say, 'We're losing 1½ or two per cent of the market by the independents buying out more successful retailers.'

Mr P. Morgan—It happens here just the same as you mention.

Mr Steven—Majors have been buying out more successful independents.

Mr NAIRN—Going back to the legislation, shouldn't the test for legislation be a failure of the marketplace rather than some sort of percentage of market? Where do you stop when you start to specify how much of a market? With all the inherent problems of defining that market in the first place, where do you stop? In the case we had this morning with some of the smaller independents, you have a town with only one or two shops. They have got either 100 per cent of the market or 50 per cent of the market. Nobody is going to say, 'Oh, no. That's not any good.' Where it becomes bad—

Mr Steven—It depends where you put the percentage level.

Mr NAIRN—is when that market power is being abused, or, if you have two people, where they are in collusion and work together to push up prices.

Mr Steven—Those laws are already in place, Mr Nairn.

Mr NAIRN—Exactly, so—

Mr Steven—What I am saying is that those percentages on market share in a community need to be matched with the percentages of the size of the company in general. Say there are two supermarkets in Beaconsfield and together they have got 100 per cent of the market, but none of them are part of a national chain that has, overall, 50 per cent of the market in Australia. You have to match up the local community boundaries and percentages with the percentages of the national market that the national company would have. That is why I am saying the drafting of the legislation would have to take both sides of that argument into account. It is difficult to do but, for the sake of Australia and its people, its jobs, it needs to be done.

Mr NAIRN—I personally think that is almost impossible from a legislative point of view. There are potentially other ways in which the legislation can ensure that the market power is not abused, and I think that is probably the more reliable way of having that influence.

Mr Steven—Otherwise you are looking at an inquiry type situation to judge the effects on an individual market on a case-by-case basis. Whether that can be done I am not sure either, because that lends itself to interpretation.

Mrs Jackson—With due respect, there may be two Beaconsfield stores and they would like to think they had 50 per cent of the market each, but you have got to remember as well that one of the arguments and one of the problems that the supermarkets have, as I understand it, is that people are drawn to the larger centres to do their shopping. So the Beaconsfield stores are both providing a service for the people that do not wish to travel to the larger centres or, more importantly, cannot. Not everybody has a car; not everybody can get that transport. So those two businesses are offering a service to that small community, and a social service as well—they are providing banking services et cetera—but they do not have 100 per cent of the market because a lot of the market goes to the major centres. That is one of the problems.

Mr NAIRN—I was only using the example to show how you can get bogged down in that debate in trying to formulate legislation, in the same way that if you nominate a market capping share it would inevitably then apply in a very disproportionate way around Australia. One of the things I would be concerned about, representing a rural and regional electorate, is that you could see one of those larger chains close down in some of those towns because they would be looking for where they keep their profitability if they were restricted to a market share. Although independents would say, ‘Oh, well, an independent will move in and take that over,’ the psychological effect—and you know what it is like when banks close down—of losing a major retailer out of a regional town would also be fairly devastating, I would suggest.

Mr P. Morgan—Mr Chairman, could I just briefly read something to you? Mr Nairn mentioned the market and whether the market should dictate what is available to it, basically. I think you said something like that, Mr Nairn.

Mr NAIRN—No, I said the test should be market failure, not percentage. That is a big difference from what you just said.

Mr P. Morgan—Okay. I am sorry. I would just like to briefly read from a letter in a recent pharmacy journal about Wal-Mart. It says:

I am a Canadian pharmacist who is migrating to Australia in September.

... ..

I wanted to comment on Wal-Mart pharmacies in Canada and the US. These are pharmacies located in very large retail stores. I don’t believe that there are Wal-Marts in Australia so there is really no direct comparison but they are bigger than Woolworths or Coles and sell everything from groceries to clothing to electronic equipment to car parts. The pharmacy is a small part of the store.

I like the fact that there are no such pharmacies in Australia. One of the reasons that the prospect of being a pharmacist in Australia is attractive to me is because there are no such pharmacies.

I have not worked in a Wal-Mart pharmacy but a good friend of mine has. She found it to be very impersonal and did not enjoy it at all. She no longer works for Wal-Mart and says that leaving was the best decision of her life—

CHAIR—Can I just cut you off and say you have to be careful. I note there is a theme that has come through from the submissions that I read from Launceston about market failure. That does not constitute market failure. Market failure is when you don't have competition, you don't have choice, you don't have a range of products. I hear what you are saying, and everyone in Australia in the retail sector should think about the Wal-Mart name because they have certainly bought elsewhere. I know what you mean and their impersonality is a fact. But if those factors are important to you, you still have the choice of shopping where you think you can get those other factors of service, banking, assistance with delivery and so on. There is still the market. Senator Murray has the last question. We are over time.

Senator MURRAY—I am not to blame.

CHAIR—I certainly know that; I will not say who.

Senator MURRAY—Mr Steven, the American anti-trust laws permit the regulator to initiate divestiture, don't they?

Mr Steven—I am not familiar with them to a great degree so I cannot comment. I have had some experts talk to me about them so it would be hearsay on my part.

Senator MURRAY—Divestiture means you break up existing organisations into smaller parcels.

Mr Steven—I understand that, yes.

Senator MURRAY—Do you know that the Australian trade practices law does not permit the regulatory authority to do that—to break up existing organisations?

Mr Steven—Yes.

Senator MURRAY—Therefore, you would agree that we do not have anti-trust laws in the American sense, wouldn't you?

Mr Steven—True, yes.

Senator MURRAY—Thank you; that is a point I wanted to make. The second issue I want to discuss with you is truth in labelling. Are you familiar with that campaign?

Mr Steven—Yes.

Senator MURRAY—It is a consumer driven campaign to make sure people know what they are buying. Do you think there should be the introduction of truth in branding in this country? In other words, truth in branding would come on the basis of, say, Katies being identified in its signage, on its invoices, in its pricing and in its advertising as being a subsidiary of Coles Myer, and that would be so across all the brands. Do you think it would be helpful to the community to know who owns and controls all these splinter groups, if you like, that are controlled by the majors?

Mr Steven—It is not something I have thought of before but, yes, I think it would help dramatically.

Senator MURRAY—Why do you think it would help dramatically?

Mrs Jackson—Because of the truth factor, because people would know where they are shopping and where they are spending their dollars. They would know exactly that it is Coles Myer.

Senator MURRAY—Do you think they care?

Mrs Jackson—Yes, some people do. Some people care very much.

Senator MURRAY—My last question to you really relates to whether people care. When tariffs were reduced, manufacturers and others said that their factories would close and Australian jobs would be lost because foreign competition would come in; and it was true, that is what happened. But people did not care because they got cheaper imported goods. People do not care either about retail trading hours because by and large the community says, ‘We want 24-hour, seven day a week trading. It is in fact politicians who have protected industry sectors, not the community.’

I suspect people do not care much whether pharmacies get into the hands of Coles and Woolworths or newsagents or anybody else if they get a cheaper price. I suspect they do not care that much about whether the local store is independently owned if they get a cheaper price. We heard today from somebody who represents the social service sector whose whole submission was based on wanting cheaper prices. He had not thought of the lay-off of jobs and other areas.

Mr Steven—That is precisely the point, Senator.

Senator MURRAY—Yes. My question to you is: are you really pushing it uphill with this campaign? Does the community really care about these issues? Does the community care if the independent sector and the wholesalers are wiped out?

Mr Steven—The issue, I feel, is very much that the people who should care are the people with the knowledge of the effects. The point is that you are elected as individuals to make decisions on behalf of our community. To do that you make yourself knowledgeable, through these types of committees, of the situation that presents itself—the whole situation.

CHAIR—And we are doing that.

Mr Steven—You are doing that. When it comes to a customer—

CHAIR—And it is the whole community.

Mr Steven—not knowing the whole gamut of the information that is out there and making a judgment just on price, it is important that we make decisions that can get

committees like this to ensure that those people are protected from their lack of knowledge. I am going around this a bit sideways but—

CHAIR—There has been no submission—

Senator MURRAY—I am sorry, Mr Chairman, can I stay with this. You care and I care—

Mr Steven—Yes.

Senator MURRAY—and we understand the issues and we both know we care. But the problem has been, hasn't it, that the community as a whole has not been educated, if you like, in these matters by the politicians or by the industry sectors concerned. We had here earlier a very concerned human being—the TasCOSS person, Mr Noel Wilson; he is concerned about those who are most disadvantaged in our society.

CHAIR—He is still with us.

Senator MURRAY—He focused on getting the lowest prices for his constituents. You can understand that. My question to you is that you are putting the onus on us to produce—

Mr Steven—No, I am using you as an example.

Senator MURRAY—But you are putting the onus on us to produce solutions to what is a real problem. I am also putting it to you that we need much more support in the sales and telling area than we have so far enjoyed as politicians—

Mr Steven—Absolutely.

Senator MURRAY—on trading hours, on tenancies, on monopolisation.

CHAIR—To support that point, we have not had one submission from consumer groups in Tasmania, so the consumer groups are not complaining at all. When you talk about market failure, the consumers do not think there has been market failure.

Mrs Jackson—The people in Wynyard would argue with that. They just lost a major menswear store and now have to travel to Burnie.

CHAIR—But we have not had anything from the consumer groups.

Mrs Jackson—Possibly because the general public feel a Senate inquiry is something that is totally foreign—

CHAIR—Not Senate.

Mrs Jackson—Sorry, a joint parliamentary inquiry.

CHAIR—Thank you. It is very important.

Mrs Jackson—But a parliamentary inquiry is something frightening to them; most of the average people in the street could not come and sit at a table across from an imposing group of people like this.

CHAIR—I am glad somebody recognises that!

Mrs Jackson—The average person does not always articulate well and sometimes digs themselves into a big deep hole. I agree that we have disadvantaged in the community that have to shop on price; if you are on welfare benefits and you have got three or four kids, you have to. But there are still a lot of people who do care and who would prefer to buy Australian if they could, who would prefer to shop with a local business if they could and who are very much concerned. They are the thinking people who—

Senator MURRAY—Let me interrupt. Our problem is this: when banks moved out of the small towns, they closed, there was the loss of a service. When a major supermarket group replaces an independent, quite often it is lower prices, broader range, perhaps worse service—who knows—but people do not lose anything by it.

Mrs Jackson—They lose jobs.

Senator MURRAY—We understand that and you understand that, but the point I am making to you is the community do not because they have not lost that service, they have not lost the provision—

Mr Steven—That is why our campaign has been so difficult. It is seen as being a vested interest—look after us because we are special. That is not the case at all, as you have just acknowledged. The real impact, which is not general knowledge, is the loss of jobs and the changes to the social elements of communities.

CHAIR—Mr Morgan, can we have a brief concluding comment.

Mr P. Morgan—I would like to reply to something Senator Murray said. I agree with him that it is not an easy issue, but looking at it from the TasCOSS man's point of view, he wants everything to be cheap. I understand that and I sympathise with it. I have a lot of customers in my shop who are battling. But the issue is a bit like the Collins class submarines. It is a defence issue. Most people in the street do not give a hang about the nation's defence, they leave that to the politicians. That is an issue that politicians have to address. We are saying that this is an issue that we believe the politicians have to address.

CHAIR—It is a little different from the Collins class submarines. There are very few people who use your stores who also use submarines on a daily basis. The point is taken. In summary we do care; that is why we are here. We are glad to see that none of you were intimidated by our group. We appreciate your submission today; it was very useful.

Proceedings suspended from 11.36 a.m. to 11.45 a.m.

RICHARDSON, Mr Lionel James, General Manager, Tasmanian Independent Wholesalers

CHAIR—I welcome Sam Richardson, who has been one of the driving forces behind this inquiry. He has articulately represented those views, and I think his submission before us today is very comprehensive in encapsulating the areas of concern. If anybody wants to read a primary text on the issue, they should go to this particular submission, as I think it does bring it together, even though we note that some of your comments are provocative. In terms of the comments relating to Mr Reith, it is important to recognise that Mr Reith has no impact on this inquiry. We are a totally independent, bipartisan group drawn from different parties, and we will be totally independent in coming to recommendations from the group.

Mr Richardson, as you know, having been through this before, we prefer all evidence be given in public. I am sure that you will not be wanting to give any of your evidence in camera, but if you do please let us know and we will put it before the committee, bearing in mind that there is the possibility that, at some later stage, the Senate may decide to make it public. The committee has before it submission No. 277, dated 30 April 1999. Are there any alterations or additions that you wish to make?

Mr Richardson—Yes, I wish to table another submission. If copies of it could be distributed amongst you, it would be appreciated.

CHAIR—How does that differ from the previous one?

Mr Richardson—It is a supplementary submission.

CHAIR—Is it the wish of the committee that the document be authorised for publication? There being no objection, it is so ordered. Are there any further changes apart from this addition?

Mr Richardson—No.

CHAIR—I now invite you, Mr Richardson, to make your formal representations, which will be followed by questions.

Mr Richardson—Thank you, Mr Chairman. If the other members could indulge me for a couple of moments, there is an issue that I wish to raise with you personally. You have, unfortunately, labelled me as a wholesaler and have made certain disparaging remarks. I do read *Hansard* from these committees, and there have been a couple of disparaging remarks about my credibility of attending on behalf of my members. Sir, I would like to clarify the position right here and now that I am employed by independent retailers in my capacity as General Manager of Tasmanian Independent Wholesalers. If you can accept that, we will move on.

CHAIR—I do not recall there were any disparaging comments; it was simply a statement of fact that you are a wholesaler and, because you are a wholesaler, you represent the wholesalers. I think there was some disappointment that retailers themselves did not

represent retailers but accept that you speak on behalf of them. As such, we accept you as the spokesman for them. But there were no disparaging comments made. If you go back, you will find there were no disparaging comments and there was nothing said other than what was factual.

Mr Richardson—I think the point that was missed is that we are a cooperative and, therefore, the retailers own our operation. But can we move on, sir?

CHAIR—We certainly can.

Mr Richardson—Further to my submission of April 1999—wherein I focused on the basic issues in the retail grocery sector of critical mass, market failure and public interest, the ACCC's views in support, our critique in terms of inaccuracy of some of their comments and key recommendations in support of our concerns, as made in your committee's 1997 report, *Finding a balance*—I would like today, by way of this supplementary submission, to reinforce certain key issues raised there as well as providing leadership to the inquiry by presenting certain practical solutions.

I have listened to what you have said. These solutions, if endorsed in principle, may go a long way to levelling out the uneven commercial retail grocery playing field and rid Australia of its current stigma of being the most anti-competitive retail grocery market in the developed free market world economy. I am not going to keep referring to these attachments, but in attachment 1 there is the pie chart that you would have seen before—

CHAIR—This is in your latest submission, is it?

Mr Richardson—This is in the submission that I have here and that you have in front of you.

CHAIR—So this is the one you have just given us now. It is unfortunate that we have only just received it.

Mr Richardson—I am not going to dwell on those.

CHAIR—I think that it is appropriate that you do not, because we have had your formal submission and I think we should keep it to that.

Mr Richardson—That is fine. Such proposed solutions, which are separate and additional to our proposed pillars of retail equity recommendations which we originally put to you, are to be found at the close of this presentation also.

The market domination of major chains is now pre-eminent and contrary to public benefit, in our view. In the last 2½ years, 25 major manufacturers have downgraded their representation in the state of Tasmania. One such major supplier, a major player with 855 products covering four categories—beverage, confectionery, pet food and frozen products—has reduced its state support staff from 19 to 12 employees. It has expressed interest, having implemented such a job shedding strategy, in serving directly only large independents of \$40,000 a week or more sales. Small business in Tasmania is micro-business, and \$40,000 a

week is a fairly large supermarket in Tasmania, I might add. Had this proposed withdrawal policy been allowed to be implemented, it would have seriously disadvantaged no less than two-thirds of Tasmania's independent retailers.

This tendency of key suppliers of dry goods, frozen and chilled products is an emerging pattern that has arisen as a direct result of major chain dominance and partnering arrangements at head offices level. I have mentioned partnering within my original submission. The end result is an increasing trend where small retailers receive infrequent or no merchandising calls from these manufacturers' representatives. In this state alone, just two major chains command 77.7 per cent of the grocery retail market, and a number of the major manufacturers are now tending to desert or not provide competitive trading terms for the independent wholesalers. These are the very wholesalers who in turn support the independent retail grocers as their clients, and some of those appeared today, Mr Waldren and Mr Wilkes. Since employing an ex-major chain executive with extensive experience and knowledge of the industry, we have been addressing the inequity of trading terms with manufacturers. There is nothing like having the full bottle on what is happening in the industry, I can assure you. If unsuccessful, we shall approach the ACCC with any identified evidence of unfair trading.

The current inequities continue, despite the competitive level still being strenuously maintained by the independents. I will go to appendix 5, if you would not mind. In that you will find a price comparison that was done on 30 June and covers six supermarkets: Coles at Sandy Bay, Purity Glenorchy, Purity Sandy Bay, Coles Meadows Mews, Roelf Vos Riverside and TIW, which is the Festival group, which has pricing identical right around the state irrespective of where they are. That gives the lie to some of the comments that have been made here today.

CHAIR—Purity is owned by Woolworths, isn't it?

Mr Richardson—Yes, and Roelf Vos is owned by Woolworths also.

Senator BOSWELL—What is your point with this?

Mr Richardson—The point is that TIW Festival is the third cheapest on that list, and they are taking a lesser margin to be competitive.

Senator BOSWELL—Something escapes me here, because everything is the same price.

CHAIR—Which ones are you talking about?

Mr Richardson—The pricing structure is very price sensitive in Tasmania—everybody checks everybody's else's price.

Senator BOSWELL—Yes, but I cannot see—

Mr Richardson—If you look at the totals down the bottom, that is where you have your variances.

CHAIR—It is pretty close.

Mr NAIRN—It is almost nothing.

CHAIR—I do not know whether that helps you.

Mr Richardson—Our point is that we have to take a far lesser margin, and I will be pointing that out in this submission.

Senator BOSWELL—So your point is that you are competitive but, to be competitive, you have had to take a—

Mr Richardson—That is correct.

Senator BOSWELL—All right, now I understand your point.

Mr Richardson—Good, I thought I had lost you for a moment. The desertion by the major manufacturers and suppliers is combined with the erosion of critical mass of the independents by means of cheque book acquisition. Unfortunately more of that is taking place on the 12th of this month when Woolworths will take over one of our major independents. We do appear on the list that you will see next week.

CHAIR—Did the independent object to being taken over?

Mr Richardson—The independent had no other opportunity because there was another site very close to them that was going to be utilised if they did not sell. That, to my mind, brings the prospect of complete market failure that much closer. I believe we are in the early stages of advanced market failure in Tasmania.

I heard you mention consumers. Dr Richard Copeman of the Consumer Food Network, a subsidiary of the Consumer Federation of Australia, has put in a submission. Their submission to you sums up very neatly the major fictions presented by the major chains in their endeavours to convince the committee that their stranglehold on the market is somehow not acting contrary to the public benefit. This excellent one-page submission by Dr Copeman is at attachment 6, if you wish to have a look at it.

Tasmania suffers rather special disadvantages of the anticompetitive impacts of the major chain dominance in that it has the highest ratio of retail market square footage in Australia, with no less than 43 major supermarkets and five K-Marts servicing a population of fewer than 460,000 people, and Tasmania's net income per adult and its unemployment and welfare dependency levels are significantly worse than most of the other regions or states of Australia. This high concentration of major chain supermarkets working out of such a small population base has meant that not only as a state it is disadvantaged in terms of national price differentials—something that has been raised today—but also the major chains' collective endeavours to increase even further their already substantial market dominance has escalated the cost of doing business to the point where they have overcapitalised and the consumer is now paying the penalty in terms of price.

We acknowledge there is a problem with Bass Strait, but there is an overcapitalisation in this state in retail market square footage—there is just too much. In other words, the correct explanation as to why the net cost of goods sold at point of sale in Tasmania can be attributed not so much to transport across Bass Strait but to overcapitalisation by the major chains. With such major dominance, they have made the consumers, as islanders, pay for their corporate greed.

We contend the policies of the NCC to date have aided major chain dominance as well. We confirm our view that the economic rationalist philosophies and drive of the NCC has cost the Australian community countless thousands of jobs, especially in local communities, and put fragile infrastructures in rural and regional areas over the edge in terms of a dramatic loss of basic community services and cashflow. If you wish to have a look at that, it is in attachment 7. I will let you read that at your leisure; I realise you are under a time constraint.

We have found it strange that the very council, which is not answerable to federal parliament, whose charter is to develop a competitive market environment has failed utterly in the retail grocery sector and in effect in its drive towards deregulation, through aiding the increased dominance of the major chains, it has fostered a more anticompetitive environment than that which existed before its creation. We will be tabling for you and sending to your offices our submission to the NCC later today, so you will have that in your offices next week.

I would like to bring to your notice the declining quality of employment, especially in Tasmania. Declining quality of employment in our industry is another subject which I would like to touch on today. I notice that the SDA officials are here as well, and probably at a later date they can confirm it. The tables in attachment 8 and 9, within those submissions that I have given you, clearly show that, as the increase in market domination by the major chains has grown, there has been a relative decline in the quality of jobs available to our sector of the work force.

Attachment 8 reveals in common form the dramatic decline in full-time jobs, as against part-time employment on a national average basis, while attachment 9 reveals the discreet impacts on a state by state basis with major net falls in the very five states where there is both the dominance of major chains and the drive towards deregulation, regardless of the loss of public benefit to a fragile community. These fragile community infrastructures are so very necessary to retain access to services right across rural and regional Tasmania as well as Australia.

CHAIR—Mr Richardson, I would prefer it if you could confine comments today to Tasmania, because NARGA will have another opportunity, as you know, next week.

Mr Richardson—Yes. I picked that up from the earlier submissions. I am throwing in some of that only because it is relevant right across Australia. What constitutes a market, critical mass and market failure? We trade in an Australia-wide market for dry goods, frozen and chilled. The reason why our arguments and concerns are focused on this market is that the independent grocers, by their very nature, are not vertically integrated like our major chain opposition. Hence, the most efficient way for the independents to procure, distribute

and transport their goods—that is, provided they have sufficient critical mass—is by means of central warehousing and distribution centres. For the independent retail grocer, this is the most efficient way of running the supply chain from the manufacturer to the consumer, hence the most cost-effective method of delivery overall works for the benefit of not only the community in terms of jobs generated but also the consumer in terms of freshness and quality and in keeping the major chains honest as to range and price.

I know that loss of critical mass is one of your major concerns, Senator Boswell. Loss of critical mass due to the increasing and concentrated dominance of principally the two major supermarket chains in Tasmania in the last 15 years has been and is the independent retail grocers of Tasmania's major concern. We define critical mass to be that level of volume and purchasing power required by independent warehouses and distribution centres to be able to buy from the major manufacturers at relatively the same trading terms as the major chains.

I believe the issue of the overall public benefit must come very much to the fore in this inquiry. The major chains, in pursuing a charter of profit at any cost and in satisfying shareholders' acquisitive needs, have become rather like giant vacuum cleaners, stripping away disposable income from local districts, be they from Beaconsfield or Bicheno.

CHAIR—We have your very extensive submission. As we are under time constraints, how much longer will you be?

Mr Richardson—I will be finished in my 45 minutes.

CHAIR—We are getting to Beaconsfield, which is in Sydney—

Mr Richardson—This is the Tasmanian Beaconsfield.

CHAIR—We want some time for questions.

Mr Richardson—Okay. There are only another couple of major points that I wish to make, and then I will be ready for questions.

CHAIR—Fine.

Mr Richardson—The loss of cash flow and jobs in fragile community areas cannot be accepted as being to the public benefit. That is why we maintain that it is now imperative to strike a balance and effectively cap the dominance of the major chains and wind them back over time to an acceptable level. The advantages of such a pragmatic approach should be self-evident and ensure that critical mass volumes of the independent supply chains remain at viable levels and, by so doing, ensure a truly competitive and choice rich grocery marketplace.

As we see it, the way forward is for this committee to see the arguments of the major chains for what they really are and appreciate the public benefit ramifications of ensuring that the independent grocers remain a viable and competitive service provided to consumers. The way to secure this is by ensuring the current anticompetitive and uneven playing field of commerce in the retail grocery sector is put to rights by means of legislative edict.

For this reason, over and above what has been previously contained in our main submission to you, we present a series of three draft clausal amendments to part IV of the Trade Practices Act 1974. I refer you to the appendices. We seek to deal with three key ingredients that are currently driving the whole sector towards complete market failure. These clauses seek to cap the market share of the major chains. The second proposed amending clause intends to secure transparency in pricing between manufacturer, distributor and retailer, so that any attempts by large corporations which seek to misuse their market dominance and engage in anticompetitive practices are speedily identified and dealt with. Finally, by means of divestiture, we seek to unwind our currently unhealthy market stranglehold over the next five years by reducing the aggregate market share of the big three to 75 per cent or less with no one corporation being allowed to command in its own right more than 25 per cent of the market. I commend these three preliminary draft amending clauses to the Trade Practices Act 1974 to you and recommend that the committee refers them without delay to the ACCC with the instruction that they further develop them to suit their intended application.

Your committee has the unique opportunity to make equitable structural changes to the retail grocery sector, which will be very much to the overall public benefit for future Australians and, certainly, for Tasmanians. We, therefore, strongly commend that you do not, under pressure of political expediency, shrink from this important duty and wish you well in the drafting of your conclusions and recommendations. I know you will need to take more time over those clauses, but I draw your attention to the back of the submission where you will find some pricing structures.

Senator BOSWELL—Where is that?

Mr Richardson—Right at the back of the submission, starting off with milk and cream pricing. The table illustrates the advantage that the major chains currently have compared with the independents on milk and cream pricing, and it gives you a comparative price on one litre of whole milk. It shows that large independents, if they retail at the price of the major chains, which is \$1.30, make 14.6 per cent margin, whereas the chains make 20.9 per cent margin. This highlights the fact of what I was saying before that, to remain competitive, we have to take a lesser margin.

For cream, independents receive nil rebates; major chains receive a 2½ per cent rebate and they also receive six per cent in cooperative marketing. In orange juice and yoghurt, there is quite a disparity. Independents receive a one per cent rebate and 0.8 of one per cent in co-op marketing this financial year. Major chains receive a seven per cent rebate and six per cent co-op advertising.

CHAIR—How are you aware of that, Mr Richardson? On what basis is this—

Mr Richardson—I did allude to the fact that we had employed an ex major chain executive who has a very retentive memory.

CHAIR—Right. Which chain was he working for?

Mr Richardson—A major chain. For yoghurt, independents receive one per cent and, to date for the financial year, we have received 5.61 per cent in cooperative and marketing allowance. Major chains receive 2.5 per cent and six per cent.

I am bringing all these forward to highlight the fact that we do have to take a lesser margin. I would also like to bring forward bread, a very staple product. Independents receive two per cent. Major chains not only receive that two per cent, but they receive one per cent co-op and marketing and a five per cent settlement discount. It is not a level playing field.

On generic bread, the independents net cost is \$1.47. The majors netted down cost is \$1.26. We both sell it at \$1.95. We both sell milk at \$1.30. We sell yoghurt at the same price. I put that information there simply to highlight that it is not a level playing field; independents do have to take a lesser margin. They are the ones that are out there providing. David Wilkes who was here earlier works for Festival, and you asked him if he was competitive. He is competitive, but he has to take a lesser margin, which means he is not able to upgrade in his store to put in the necessary structures within that store to present the overall package as the major chains do. He is unable also to get the same interest terms from a bank loan. They are always about three per cent off the pace. I bring that forward to show you the disparity and the unevenness of the playing field in Tasmania.

CHAIR—Thanks very much, Mr Richardson. As your verbal submission has been approximately 30 minutes, it does restrict us somewhat in terms of question time, but thank you for your submission. Obviously, we will raise those questions of margins with the majors who are so well represented here today. They are all on notice that we will be asking questions about it next week. Senator Murray, would you like to kick off?

Senator MURRAY—I am familiar with all this stuff so I will just restrict myself to one question at this time if I may. Mr Richardson, just to be fair, those costings you gave us at the end—for instance, the chains' margin on milk and cream pricing—would be their margin before head office costs, wouldn't they?

Mr Richardson—That is the actual costs into their store.

Senator MURRAY—That is right. For the larger and medium independents, their head office costs, if you want to call them that—their management structure—are mostly within store, whereas the major chains have that cost element outside, don't they?

Mr Richardson—As a cooperative, we do all the marketing for our members. The rebates that the major chains would be getting would be going to their corporate office, as to our office.

Senator MURRAY—But the point I want to make is this: when you finally arrive at the independent's annual financial statement, their margin on sales—

Mr Richardson—It is far less than what it shows there.

Senator MURRAY—And wouldn't the chains' be far less because they have to incur their head office costs on this margin?

Mr Richardson—That would also be within it.

Senator MURRAY—And they come closer together, don't they?

Mr Richardson—No, sir.

Senator MURRAY—Well, the difference here is about—

Mr Richardson—Which one are you looking at? Milk?

Senator MURRAY—Let us say milk, because that is the easy one. The independents are 13.3 and the chains are 20.9, so the independents are about a third to 50 per cent less than the chains. I am suggesting to you that, when the chains' financial statements and your own financial ones appear, it is not a third to 50 per cent difference by then because surely the chains have had to lay in their head office costs.

Mr Richardson—You are really talking about EBIT at the end of the day?

Senator MURRAY—That is right.

Mr Richardson—EBIT is close to three per cent in a major and an independent retailer that is operating quite well in Tasmania would be lucky if he made 1.8. So there is still a vast differential when you come down to EBIT also. I might say that milk is delivered by the same vendor in the same truck. Whether it be to the furthest chain store or to the independent retailer who is just around the corner, it is the same vendor that delivers.

Senator MURRAY—In some of the American states they actually spell out the kind of rebate structure which is appropriate by geographical area, by volume and by value sometimes. One option that could arise from this inquiry is for the way in which rebates and discounts are awarded to be laid down as principles by the ACCC. That would obviously take into account buying power, because plainly the chains if they buy more should be capable of getting a better discount. They have tried those principles in America and they have had difficulty with them, but they have tried them. How do you feel about that sort of an approach to regulation, whereby principles are established by the regulatory authority for the industry to operate but they still give leeway to size and market power?

Mr Richardson—If I could refer you to proposal 2 in our provision to prevent 'anticompetitive price discrimination' by certain corporations. That is what we are proposing as a means of having transparency within the marketing of products within Australia. It still has a differential within there to allow competitive opportunities for manufacturers, but not of such a great magnitude that it becomes anticompetitive or antidiscriminatory in the way that they treat a smaller independent wholesaler or a large major chain.

It brings transparency. It is a very simple mechanism that we have put to you; in fact, the three of them are. I would like to think that you, as a committee, would send this to the ACCC. It is in preliminary draft mode only. If we can put something together like this, surely the ACCC with their resources can finetune this and put something even better. It is a

preliminary draft. I did listen to what you told me when we sat in Canberra; you told me to come back with some proposals.

CHAIR—We appreciate that.

Mr Richardson—We have put them there for you.

CHAIR—We need to answer the question of whether we think that is an appropriate way to go before asking for legislation to be drafted, but it certainly is appreciated.

Mr Richardson—Would you consider that this is something that should be sent to the ACCC and so have them respond?

CHAIR—That is up to the committee to decide when we meet, but we appreciate your input.

Senator FORSHAW—There is one issue that has concerned me all the way through this inquiry, and I will be the devil's advocate for the moment. What we are hearing constantly are concerns by the independently owned grocery stores and supermarkets that your organisation and NARGA represent regarding the domination by the big three.

But there are a lot of other little stores classically called the corner shops—the butcher or the greengrocer and so on. I mentioned them earlier today. Who is looking after their interests? Where do they stand in this whole debate? I can only go to the one figure, and I appreciate it is only one. But you have identified with the independents large and medium and I presume that there are one-off shops—say, delicatessens—that are not even going to get the benefit or would not have the benefit of the deals that your members can do with the wholesalers. In effect, it is a ladder and, just as you have an argument about the big three, there are these others down the bottom who may have an argument against your group as well but who are not really appearing before us.

I suppose a cynic could say, 'Well, it's the market.' You people, to quote someone's words, are getting screwed or are being affected. But how are the even smaller little family shops down at the bottom—some have disappeared over the years—going to survive? Do we end up protecting them as well in all of this or are we just protecting the independent grocers?

Mr Richardson—We as Tasmanian Independent Wholesalers—as a cooperative—have most of the stores that you are talking about as members of TIW. We also supply those very small stores. If they are able to purchase in orders of 50 cartons or more, they are able to purchase out of our warehouse. We also have three cash and carries that we distribute to those people as well.

Senator FORSHAW—Do they purchase at the same level? This is what I need to hear.

Mr Richardson—Within our structure within Tasmania. You will not hear me say that the majors—be they Coles or Woolworths—are not good corporate citizens, because they are. They also attempt to follow good corporate governance. Unfortunately, they have just

got too big and the balance has swung too far. In our warehouse there is one basic price to all. The only difference is in service fee structure. The more you buy, the less your service fee would be. It takes just as much to go round a great big warehouse and pick a \$10,000 order as it does to pick a \$30,000 or a \$40,000 order. Those people are able to buy out of the warehouse.

The only area that really has a problem in Tasmania is the marketing, and that is more attributed to 'above the line', if you like. There is 'below the line' and 'above the line', which is the terminology in our industry. 'Above the line' is the marketing rebates, the state and national incentives and co-op and marketing.

I say to you that we do support and look after those smaller members because we started from very small members in Tasmania. The problem we had in Tasmania was back in 1980 when Woolworths only had 7½ per cent of this market. They then bought the very two aggressive independent chains, one in the north and one in the south—and you will be hearing from one of the former owners of the southern operation, Purity, later on—to effectively take them from 7½ per cent up to 42½ per cent in this state. That is where we have a problem. The people I represent are also the corner stores you talk about.

Mr NAIRN—As for the settlement discount that you have in these figures, why is that not available to the independents?

Mr Richardson—The settlement discount on milk is because a processor will not allow us to aggregate our accounts and take responsibility for that. The chains are vertically integrated and the vendors' charge is for virtually just a delivery service. With ourselves, we are prepared to aggregate the accounts and accept responsibility but they are not willing to do that, even though independents in this state sell between 55 and 60 per cent of the milk and very close to the same percentage in bread.

Mr NAIRN—What is the reason why you cannot negotiate a settlement discount on bread?

Mr Richardson—The same thing.

Mr NAIRN—The same reason?

Mr Richardson—Yes. As for the problem in Tasmania, it is no different from most things—and I am not being rude when I say 'politicians' in this sense.

Mr NAIRN—Thank you.

Mr Richardson—But the political infrastructure is such that the consumer or the disadvantaged are looked after but not us. It does not matter if it is in power pricing; they are looked after and then there are negotiations with the big end of town as far as the Comalcos et cetera to give them a cheaper power price. The poor little bugger in the middle, which is the independent retailer, is the one that gets screwed. I am sorry for swearing.

Senator MURRAY—We are allowed to say it since the new advertisement. That makes it okay.

Mr Richardson—It is always the middle ground that gets screwed in any situation. The big fellows only have to sneeze and the manufacturers get a cold in Tasmania; they only have to frown. If you have 51 per cent of the market, the manufacturer comes in to you and you decide not to put his product in, he may as well fold his tent and take off because his product is not going to be in 51 per cent of the retail space in Tasmania.

Senator BOSWELL—You have in your submission ‘blatant misuse of market power’ and ‘anticompetitive trading environment by default’. Can you give us examples of the blatant misuse of market power?

Mr Richardson—You will be getting evidence of that at a later date.

Senator BOSWELL—What, today?

CHAIR—It had better not be too much later otherwise we will run out of time.

Mr Richardson—I would suggest that you are getting that today.

Senator BOSWELL—And on anticompetitive trading?

Mr Richardson—Yes.

Senator BOSWELL—I made a point before to the Retail Traders Association about market capping. You are aware of Aldi coming in?

Mr Richardson—Yes.

Senator BOSWELL—Aren’t we just going to cap the market? Franklins will say, ‘Thanks very much, all those sites you don’t want we’ll pick up,’ and Aldi will say, ‘The ones that we can get we’ll take.’ How are we going to assist if Franklins and Aldi take up the slack if we cap a market?

There is a thing in politics that we use frequently. It is called ‘unintended consequences’. You make the decision for all the right reasons—and this has happened to me on numerous occasions—and you end up with a monumental stuff-up because you tried to do the right thing and you got caught in your own noose. I brought in the legislation substantially lessening competition in substantial markets, and the first thing I did was get caught in a bind. The ACCC would not let Mackay sugar merge with CSR sugar and therefore all my constituents suffered because of what I did. I reversed that and it is all right now.

What I am saying to you is that, when you ask us to do these things, I am very concerned about the unintended consequences. I am also concerned that, if we cap a market, we will get in some Wal-Mart or some grocery store that says, ‘You beaut! Here’s a free kick.’ I would like you to comment on that.

Mr Richardson—My comment would be that there still has to be competition within that 80 per cent or 75 per cent market. You keep referring to Aldi. Aldi are a firm that mainly rely on 600 or 700 basic products. They are similar to Franklins in their operation. To survive in Australia—I do not see a market available here, with only 2.83 per cent of the national market, so I do not think they will worry about us. They would be looking for major populated centres, similar to what Coles, Woolworths and Franklins are doing at the moment. The major players that need help to remain viable and have critical mass, I still say to you, are the independents in rural and regional Australia. It is all very well for you to be concerned about capping the majors, but how are you going to allow that 20 per cent—and it is less than 20 per cent now, I would suggest to you—to survive and provide access to services right around Australia, because the people you are talking about are interested only in major populated centres?

CHAIR—So what you are saying, Mr Richardson, is that it is okay for us to allow the majors to have a dominant share in the cities such as Sydney, but we should have the cap for regional Australia?

Mr Richardson—No. I am saying that it is a great pity that in New South Wales, in Sydney, there is no real competition for either majors. If you were to cap that market—for instance here in Tasmania independents have picked up the major chains when they have moved out. Two or three examples of that are in Hobart, where Purity has moved out of some premises and an independent has gone into it. Another independent on the west coast has gone into an ex-Purity store there. I would hope that we would pick up the one they move out of here in Launceston. So there are opportunities. If the independents had security within their future, they would not want to sell for those exorbitant prices. It is only a very small minority that you are talking about. There are only a few left in Australia and they are minute in number. But those who are there, if they knew they were not going to have a major chain set up next door to them, would rather have a long-term future than a short-term gain.

Mr JENKINS—The examples that Mr Richardson has just given us, where independents have picked up the sites of former majors, seem to indicate that, with all its deficiencies, the market might be considered to still be operating in a proper way.

Mr Richardson—The only reason we have survived in Tasmania as independents is our collective critical mass within the state-wide independent wholesalers operation. If we were to try to set up an independent operation on our own, we would not have the critical mass to survive. Whilst it is not a cooperative, the warehouse is run on cooperative lines.

Mr JENKINS—My question goes to the pricing examples that you have given and the suggestion you have made for the amendment to section 46 of the act, which, of course, is to do with misuse of market power. In that suggestion you have plucked a 10 per cent differential in the discrimination.

Mr Richardson—Do you want me to explain that a bit further?

Mr JENKINS—Not in great detail, but the examples you have given do not fall outside out of that 10 per cent, if I have read them rightly?

Mr Richardson—They do, and if you read through them again you will see that. You are talking about retail prices there, I think.

Mr JENKINS—Even on, say, the price of wholesale milk, the difference between the chain and the large is marginal—it is about 10 per cent.

Mr Richardson—Major manufacturers have marketing allowances. They split them up in various ways: it may be national, it may be state, it may be co-op or it may be case-off but, at the end of the day, there is a percentage of what they are prepared to spend on their product, and that may be 10 per cent or 12 per cent. If you had a differential of 10 per cent on those marketing allowances from the nominated major manufacturers—it is a very simple mechanism, I assure you—the 10 per cent would be, if they were to give, say, Woolworths 13 per cent, Coles eight per cent and the independents seven per cent, outside the spectrum of the 10 per cent of differential. That is what I am saying.

Mr JENKINS—You are putting the onus of the test upon the supplier?

Mr Richardson—Yes. I believe the onus is on the supplier. It is a very simple line on their balance sheet at the end of every year. It should be mandatory for them to report either to the ACCC or to a supplementary body, be it similar to the Prices Surveillance Authority that was in place. It is a fairly simple mechanism. If you wanted to have a further hands-off role as far as politicians—and I believe this is something that you should be looking at—you could also have the wholesalers respond to the same body on the funds they have accrued.

CHAIR—Prices surveillance—that is very interesting. Thank you very much, Mr Richardson. We appreciate your coming before us. I think we will have the pleasure of seeing you again next week.

Mr Richardson—I will see you next Tuesday, I believe.

CHAIR—Thank you for your input and your obvious representation of the areas in which you are associated.

Mr Richardson—I am glad we have cleared up my credentials.

CHAIR—I see here that you are actually representing the Tasmanian Independent Wholesalers, so I think that is highly appropriate.

[12.38 p.m.]

LAWRENCE, Mr Christopher John, Proprietor, Mobil Service Station, Sorell

MORGAN, Mr Frank Henry, Owner/Licensee, Pembroke Hotel, Sorell

WALTERS, Mr Paul Denis, Executive Director, Tasmanian Automobile Chamber of Commerce

WILSON, Hon. Stephen John, Independent Member for Rumney, Tasmanian Government

CHAIR—I welcome representatives from Sorell and Midway Point traders. The committee prefers all evidence to be given in public, but if at any time you wish to give evidence in camera you may apply to do so and the committee will consider your request. You should bear in mind that the Senate may at some stage in the future require that that evidence be made public. The committee has before it submission No. 287 dated 20 May 1999. Are there any alterations or additions you wish to make to that submission?

Mr S. Wilson—No, Mr Chairman.

CHAIR—I invite you now to make an opening statement, at the conclusion of which the committee will ask questions.

Mr S. Wilson—Thank you, Mr Chairman. I just want to firstly point out before we start that I am an independent member of parliament. I facilitated this submission on behalf of a number of traders in the Sorell and Midway Point area. Frank Morgan will represent his own interests in the Sorell township, and Chris Lawrence and Paul Walters will represent Chris's own interests and the interests of other service station proprietors in the area.

I just want to set the scene if I may, Mr Chairman. The reason why we have provided a submission to you—and I do apologise for it being one of those later ones—is simply because the townships of Sorell and Midway Point, the municipality of Sorell and the general retail trading environment in that vicinity, provide an interesting case study for inquiries such as yours.

I noticed there are no Tasmanian senators or House of Representatives members on this committee who would be familiar with the area. Sorell and Midway Point are the first townships you come to immediately north of the Hobart airport if you head along the east coast highway. The highway splits in Sorell to go down the Arthur Highway towards Port Arthur, or up to the east coast of the state.

The population of the municipality is fractionally over 11,000 people. I have given you the 1996 census figure in the submission. The retail trading environment in Sorell tends to pick up people in the catchment area that includes the Tasman Peninsula and parts of the east coast of the state. People from almost half way up the east coast, from as far away as Swansea, tend to come down and trade in the Sorell area or in the eastern shore major shopping centre.

In addition to that, almost 12 years ago one of the Woolworths subsidiary companies, Purity, established a supermarket in Sorell and has traded there since. I want to make a couple of observations about that if I may. I do not want to take away from the way that the Woolworths group in this state is managed, it is managed within the law and within those parameters that we, as members of parliament, lay down for them.

My interest and involvement in this issue goes back a good decade and a half. I have been involved in that time in the debate over retail trading and retail trading hours and days that the major chains should trade. As you are probably aware, although for the last three or four or five years that has not been a major political issue in Tasmania, it certainly was for more than a decade prior to that. Some of the background information I have tends to lead back to those debates, as I am sure you would appreciate.

We can make a reasonable assumption about the development of the Woolworths group in Sorell. I am sure you are aware that Woolworths purchased, a number of years ago, two supermarket chains which were run by two separate prominent local Dutch families in this state—Purity and Roelf Vos.

You probably already appreciate that Purity operates in the southern part of the state. It is not in competition with the other wing of Woolworths, Roelf Vos, which has maintained its base in the northern part of the state. So they do not compete against one another. They are part of, as I understand it, the one entity.

It is fairly reasonable to assume that since their establishment in Sorell—and I might make it clear to you that there has been no attempt by the other major chain competitor, Coles, to enter the marketplace in that area—Purity has captured a significant proportion of the retail trade in the food line. So you can well appreciate that their position has become reasonably popular as a food trader.

I am making assumptions here but I can fairly assume that they have captured a percentage of the trade in that general catchment area that is at least equal to or greater than the state figures that you have been given earlier on for the two major chains. My estimation is that they would have captured very close to 80 per cent, and maybe more, of the food trade in that environment.

That may explain why I have the gentlemen I have with me before you today because in recent times the Purity supermarket has applied for, and been given approval for, a service station to be operated on the Purity site. They have been granted permission by the local council for that to operate, but only within the hours which are permitted for major chains to operate in Tasmania.

CHAIR—What are the trading hours in Tasmania?

Mr S. Wilson—I stand to be corrected, but they are allowed to trade only six days a week. There is no Sunday trading and there are limits on trading beyond 9.00 p.m. on Thursdays and Fridays and 6 o'clock on Saturdays. That is part of the law in Tasmania for chains of that size. That being the case, they have applied again to open the service station site 24 hours a day, seven days a week, in competition with the other service stations locally.

They have also made application quite recently—within the last few weeks—for a general liquor licence to operate on the same site. In doing so, they have indicated that they wish to operate a bar on the site of the supermarket. This of course opens up a whole new ambit of possibilities. In Tasmania if you have a general liquor licence, you are also entitled to make application to the provider—

CHAIR—Who would be approving the two outlets you have mentioned—the petrol outlet and the liquor outlet? Is it the state government?

Mr S. Wilson—It is. I am setting the scene—

CHAIR—Perhaps you should be talking to your colleagues, then, Mr Wilson?

Mr S. Wilson—The local government authority will approve or otherwise the service station site, and the liquor licence application would first be approved by the local council authority and would then proceed on to the licensing authority for their consideration. I just wanted to raise those matters so that you have some understanding of the scene there. The supermarket, of course, sells bread products, in competition with the bakeries; it sells meat products, in competition with the butcheries; it sells florist lines, in competition with the local florist shop; and they trade in plants, in competition with the local nursery. They are entitled to do that; there is nothing to limit them from doing so.

The reason we are here today is to indicate to you that, at their current rate of expansion—and they currently have a significant expansion before the public—it is quite conceivable there will be considerable short-term gains to the local consumer community from their activities. But as they put out their local competition, which they have been successful in doing to some degree in the past, in the long term they will be in a position to trade without any real competition in that market area. So they are basically the points I wanted to make in my introduction. I think it is probably more appropriate that you do not hear too much from me but more from those who are involved in the trading environment. Consistent with that, I introduce Paul Walters, who is Executive Director of the Tasmanian Automobile Chamber of Commerce, and Chris Lawrence, who has a Mobil service station in the Sorell township.

Mr Walters—I believe that the market dominance of the major chains in Tasmania will have a detrimental effect on our small industry members—I am talking about the fuel outlet side of the industry. We believe that there should be some cap on the dominance of the major chains. They buy their fuel at a wholesale discounted price that any of our petrol reseller members can buy. They buy it at a mainland price, not a Tasmanian price. We believe that it is unfair that the major chains should have a better buying price at a wholesale level than any of our other service station members, who provide a service to the motoring public. Our major concern is that this major chain tries all sorts of devious means to gain what they see is a benefit to them from extending trading hours. There is an act in Tasmania—the Shop Trading Hours Act 1984—that governs the trading hours, as Mr Wilson said earlier. But this major chain is hell-bent on trying to circumvent any of those current acts. Also, from the chamber's point of view, they try to intimidate local governments and councils into complying with their wishes.

CHAIR—‘Intimidate’ is a fairly strong word. Could you expand on that?

Mr Walters—I believe that the market power that they use puts local councils in a minority position, that the councils feel that they should bow to the pressure of the major food chains.

CHAIR—You are protected by parliamentary privilege so you are free to speak your mind. Do you have evidence of this intimidation that goes on?

Mr Walters—We had evidence earlier—and Mr Lawrence might want to comment—that in Sorell the council had extreme pressure put on it to pass the service station application. I believe that was 18 months ago now. They wanted to gain approval for the site of the Sorell situation.

I am not only talking about Sorell here. Our chamber has also represented other service station members in other municipalities where the Woolworths chain has used all its powers and their money to gain what they want to achieve in the marketplace in Tasmania.

From our chamber’s point of view, we believe that that is detrimental to the motoring public of Tasmania. We have a unique market in Tasmania where a majority of service stations still provide full driveway service, something which our mainland counterparts do not have. The motoring public here prefer full driveway service as opposed to self-serve, which is imposed on them by the majors. Some of the major oil companies, when they take back their service stations and run them using commissioned agents, turn them back into self-serve service stations, the same as Woolworths do with theirs. We believe it is detrimental to Tasmania and to Tasmanian motorists to have this way of trading virtually forced upon the motoring public. Thank you.

Mr Lawrence—Originally, when the major chain first indicated it was moving into Sorell, it carried out all the necessary planning approvals and legal requirements of the local authority. On the night of the presentation, the senior management of the propaganda machine of the major chain—

CHAIR—The presentation to whom?

Mr Lawrence—To the local council authority. They laid out their plan and indicated to the local council that they were participating in the market to service their customers in their network of retail food outlets to enhance their one-stop shopping concept. They told our local authorities that they would operate their site at a current market price, the board price indicated in the marketplace, but offer a 2c discount to their frequent shoppers or to people who purchased a \$30 minimum quantity of groceries.

The site was eventually opened. The major chain came out of the barriers with its own market price, which was a lot lower than my wholesale purchase price. They bludgeoned me for six months. However, for some strange reason in the last few months they seem to have adopted a policy of following the market price, which I have found rather strange. I do not know why they all of a sudden they did it, but they are still persisting in offering a 4c discount price, which I cannot match with my wholesale price.

I feel that I am being bludgeoned to death in the marketplace by the power of the major chain and their purchasing price. It is only a matter of time. If they persist in the future in heavily discounting to gain market share, there is only one opportunity for me, and that is out the door. That is basically the situation of my business. Also it is passing it on to other service stations in the area. As Mr Wilson indicated, our market area goes from Sorell up the east coast and down into Port Arthur. This will have an impact on those service stations and people purchasing a product in those rural areas. I perceive in a time to come that the cost of operating service stations in outlying areas will be cost prohibitive.

The consumer will eventually lose, as they have lost in the service station industry with added on services to the consumer and the customers such as repairing punctures, offering advice to travellers and keeping people on the road on weekends and after hours. These things have to go, because wages cannot be afforded for people after hours or even during working hours. They just take the core out of small business. They only take the cream. There are a lot of other things to running a service station than just pouring petrol. There are a lot of other services that you people have possibly appreciated at some time when motoring on highways around Australia. You do not get that anymore, or very little. That is about all I could say.

CHAIR—Thank you very much, Mr Lawrence. Mr Morgan.

Mr F. Morgan—Can I start by saying that I think major chain dominance in the liquor industry is certainly not in the long-term public interests of the community. I believe that their philosophy is probably to buy market share, which they certainly are doing. They do it very well, and I believe that the community eventually misses out through the lifting of prices at the expense of the smaller operators.

Currently, Woolworths have a liquor chain in Tasmania which is called Cheaper Liquor. They initially started off in the industry by buying a nine-litre licence, which they found very restrictive. They then decided that they would buy or lease hotel bottle shops—which is probably the first, or there may possibly be one in New South Wales or Queensland—and they have done that very successfully. They now control something like 37 per cent to 40 per cent of the beer market, and they also control 32 per cent to 35 per cent of the wine and spirit market. That, in itself, is a major concern in Tasmania, particularly for the retailers are in banner groups trying to fight the onslaught of the chains.

The current impact on the liquor industry at the moment has resulted in the devaluation of a lot of the existing hotels. There has been a loss of jobs, I believe, and there has also been a downgrading of services. I think the only thing that the hotel industry has looked forward to and is receiving is the revenue from gaming machines. But as there are only 100 hotels involved in gaming machines out of 248, it is not a lot of recompense for the whole industry.

We have a situation in Sorell where there are two hotels, a liquor shop with a nine litre minimum and we have three or four other licences for various clubs. The total market size I would estimate would be in the vicinity of \$2.9 million, which would be for the two hotels and Cheaper Liquor which would be involved in the package beer outlet. That would be the

area, but it also would be a lot of leakage from surrounding areas, that is, the east coast and the Tasman Peninsular.

On their application, I would imagine that the Cheaper Liquor chain will have an initial output of somewhere between \$500,000 and \$600,000 to build the facility that they want. I do not believe, on the figures that I have before me, that they could operate on much less market share than probably \$2.5 to \$3 million. If that is the case, we are going to see a major impact on myself and I would imagine the closing down of the existing wine cellar.

I am not representing, but I also am the chairman of Rebel Liquor which represents the interests of 42 hoteliers in this state and covers a small, medium to large hotelier. Apart from two other groups, we would be the biggest group that is fighting the Cheaper Liquor company in the retail package beer market and the wine and spirit market in Tasmania.

What we are finding is that the market size is increasing. I believe that the Cheaper Liquor company have outwardly said that they would like 50 per cent dominance of the market. If they get 50 per cent dominance of the market, it is going to be at the expense of the small to medium hotels, and even the larger hotels. I believe once they get that dominance, they then will be able to dictate in the marketplace a lot more with the wholesalers and also the beer companies, which they are currently doing.

We find that there are prices that we simply cannot match because of national trading terms, which we do not qualify for and which we are trying to do something about. That is a major problem. I believe that if they ever get 50 per cent, and they are certainly heading well towards 50 per cent, we in the hotel industry are going to be in quite a lot of trouble. I would refer to the executive summary and I could only fully support the recommendations that have been made.

CHAIR—Thank you, gentlemen, for your submission today.

Mrs ELSON—You mentioned before that there was a lot of pressure put on the council with the big chains and particularly the liquor and petrol ones. What sort of pressure are you talking about? Is it legal threats?

Mr Walters—No, not legal threats. It is trading hours. I must apologise if I was a little bit brief earlier. I have just returned from holidays. While I was away—and Mr Wilson referred to it—Purity have sought to trade 24 hours a day with our petrol outlets in Tasmania. From our chamber's point of view, we have always argued that the shop trading act should regulate the petrol fuel outlets because all they are is a petrol fuel outlet associated in most cases with a supermarket.

We have an exception in the north-west part of the state where Woolworths bought two separate identity service stations and they operate those the same hours as the service station. As you might not be aware, we have no trading hours now that regulate service stations and we have not had for the past nine years. We believe that, if the petrol outlet is associated or is situated on the site of the supermarket, that it should be regulated by the Shop Trading Hours Act 1984, which Tasmania has legislated against. That is one situation where our members both from the fuel outlets and also from the liquor outlets are under constant

attack. I have another prime example, and unfortunately I have not got duplicate copies, but I can leave them with you.

CHAIR—Who okayed it, by the way?

Mr Walters—The local council after two years of legal battle to the Supreme Court and right through the chain. I probably used the wrong word in saying ‘intimidated’, but they are not prepared to take no for an answer. The council fought this, as did as our chamber and our service station members. We represent 80 per cent of the service station members in Tasmania—out of 350—so our organisation is a fairly strong group. When these things keep coming up we have not got the resources to continually fight the multinational chains to try and achieve an existence for the likes of Mr Lawrence and our other members. In Chris’s case, he employs five employees and he is only a comparatively small service station. Most of our service station members would employ between five and 12 employees full-time, not part-time. We have got a great concern, as far as Tasmania is concerned, with the way that Woolworths are targeting the market in Tasmania. I have only just arrived back from Queensland, and there are more Tasmanians living in Queensland now than there will be in Tasmania in the next few years.

Mrs ELSON—So it really is a legal action that you cannot afford to counteract?

Mr Walters—It is legal, and it is a financial battle for us. Even though we are members of the Motor Trades Association in Canberra, we have to support our own legal battles on a limited income. We cannot compete against these people. Fortunately, we have been reasonably successful until now, and hopefully we will be successful in the city of Launceston next Wednesday.

Senator MURRAY—Mr Chair, if I can be helpful. If the committee is interested in this matter, the Senate Standing Committee on Rural and Regional Affairs and Transport last week brought down a report which deals with lots of these issues to do with the oil code, sites and other things. It touches on many of these areas, so I would refer you to that report.

CHAIR—Okay.

Mr Walters—Chair, if I may respond to Senator Murray. I apologise that I have been away. I did briefly read some of the faxes and the press releases that came out last week with regard to that Senate committee looking into petrol pricing. But, unfortunately, again the oil companies—particularly Caltex, from memory—made the public aware that the likes of Woolworths do not come under that new legislation. They have been exempted from it. This is something that that rural committee needs to look at, because for some reason or another—

CHAIR—Is that true? It does not sound like it.

Mr Walters—That is a fact, Chair.

Senator MURRAY—I would refer you to some of the minority reports. They have suggested that the restrictions on buying be loosened. The problem for the franchisees is that

they can only buy from the franchisor at a set price, and Woolworths are able to buy at the market at whatever is the lowest going price. It is about access to oil terminals and all that sort of stuff. But, rather than take up the time of the committee, it is covered in detail with some recommendations which should help address some of your problems.

CHAIR—Thank you, Senator.

Mr Lawrence—If I can interrupt in relation to the question you were asking, as Mr Walters said, there is intimidation on the part of the council. The ratepayers' money is being forced into putting up legal representation confirming the council decisions. These people just keep knocking at the door and the council has to keep forking out money for legal representation. They finish up with a situation where they say, 'We'd better lay down because the ratepayers can't afford it.'

Mrs ELSON—And the state cannot step in there?

Mr Lawrence—No, because it comes from local government level. Possibly, in some situations the state government may be able to walk in, but it is the ratepayers of the community who are footing the bill to justify the decisions against the multinational companies.

Mrs ELSON—So you are suggesting that there should be some assistance so that people like yourselves are able to legally challenge?

Mr Lawrence—I think that within the local government act, as well as an environmental impact study done on these big businesses, there should be a financial impact study done on the community which they are going to affect. It should be paid for by the developer and carried out by a university group or professional people in this field, not some firm that is obviously put up by the developer. It should be by an independent body to carry out impact statements—and not only in Tasmania because this goes right around Australia.

Mrs ELSON—I know; I see it in my area too.

CHAIR—As Mr Wilson started off, it was sounding almost as if the consumers were forced to go and shop at the majors, but obviously they must have been doing something right. I understand what Mr Walters and Mr Lawrence were saying about the particular issue of petrol distribution—and we want to look into that because there are a whole number of factors involved and it does seem to me to be unfair. But the fact that the majors got such a big market share must have been because of the consumers voting with their feet.

Mr S. Wilson—Can I respond to that by saying—and I am going from advice that I have received during the course of a number of shop trading debates in the state—that it seems to me that at least one of the majors has a policy that, where they move into a new area, they are happy for the particular store to be carried by its others for a period of time—and that could be as long as two years or more—for that store to be able to capture the market levels that they obviously think are reasonable.

CHAIR—Do you have evidence that when they came into Sorell they actually had a lower price than was charged in other areas? If you do not have that evidence, what you say is difficult to prove. One of our problems—as you would know as you are as much a parliamentarian as we are—is that we are being beaten around by both sides. One side says that we are in league with the majors; the other side says that the whole thing is a waste of time. We have been attacked by both the chairman of Franklins and the MD of Coles Myer in terms of this committee, with a particular leading announcer in Sydney who has a huge following having his views on this as well.

So, when we come forward with recommendations to the parliament at the end of August, we have to have something that all of us can consistently argue. It has to be more than rhetoric. It has to be based in fact. I hear what you are saying about petroleum, and that is interesting. But if you are actually able to show us that the prices that were charged when the major came into the area—was it Coles Myer?—

Mr S. Wilson—No, it is the Woolworths group.

CHAIR—were different from those being charged elsewhere in Tasmania, that is of interest to us.

Mr S. Wilson—I can only rely upon advice and evidence put to me when we were dealing with the shop trading debate, as it is known, in the state in the last few years. It is not specific to Sorell but it does point out that certainly surveys were being done by some residents in Launceston to indicate that in Kings Meadows, for example, which is not too far from where we are, one of the supermarket chains was running their fresh lines—that is, their fruit and vegies—much cheaper than those of all their supermarket chains in the same city because their competitor was a greengrocer just down the road. One of the traders in Sorell was in a not dissimilar position. But, after I approached that trader and indicated to him that I was prepared to facilitate a submission, he gave some serious thought to that and then contacted me to advise that he may need to close in due course anyway so he would not buy into it.

CHAIR—That would have been a particularly interesting submission.

Mr S. Wilson—I regret that was not possible.

CHAIR—It would have been interesting because in Western Australia we actually had evidence of where pricing was the same across the state but in a particular area, where there was a price war going on with an individual retailer, the price was quite a lot lower. That is of interest to us. We hear what you are saying but, unless we have actually got it there in black and white, it is a bit hard.

Mr S. Wilson—I do regret that I was not able to bring with me a number of the other traders, but I thought a manageable group was four. A group of about 10 probably was not manageable. But can I say to you that one of the butchers who was part of the submission has made it perfectly clear that in order to survive—and he has traded in Sorell now for, I think, probably nine or 10 years—

Mr Lawrence—Ten years.

Mr S. Wilson—In order to survive he simply moved to an adjoining town where the attraction, if you like—I think it is a reasonable term to use—of the local supermarket was less. No matter what he did with his prices, Purity had been able to match or beat him each time he made that move. So he has moved across to Richmond since I started putting this together; he moved in the interim.

Senator FORSHAW—The chairman referred to evidence in Western Australia. We did have some specific evidence in Queensland as well where the witness produced copies of advertisements in the paper from, I think it might have been Coles. I am not suggesting that we have made a conclusion about this, but the witness was able to point to a whole series of shops where the price was the same, except in one location where it was substantially less. What I am saying is that presumably as a member of parliament you should have the resources to show that, for instance, there was some advertising in newspapers around this time that in this town the price was X and in this town it was much cheaper in the store. I mean, that sort of material is very indicative, and should be helpful.

Mr S. Wilson—I might have a talk to you about the comparison between the resources made available to senators and House of Representatives members and state MPs just so that we can put that in perspective. I am not going to complain about that—

Senator FORSHAW—You should talk to David Crean or Jim Bacon about that, but I am sure they are doing something to fix it up.

Mr S. Wilson—Can I say that during the shop trading debates there were examples provided to me—I am not sure whether I can locate those, but it may well be possible that we can locate some and forward them on to you—

CHAIR—You could send it to Andrea Griffiths, the secretary of the retailing inquiry, at Parliament House. Mr Walters wanted to make a comment.

Mr S. Wilson—Before he does, can I go on to say that I think the issues are much greater than that. I appreciate the position you are in. I know that some of these problems can be addressed at state level, and the shop trading debate has been part of that issue.

CHAIR—You guys are probably the least deregulated of all the states, aren't you, in terms of shop trading hours? More regulated, I should say.

Mr S. Wilson—I think that may well be so. Even notwithstanding that, you can see the trend by the majors. And the reason I am before you—

CHAIR—You cannot do it if the government does not change it.

Mr S. Wilson—I came into parliament 18 years ago as one of those people advocating deregulation and let the marketplace set its own levels. The longer I have been there, the more I realise it is not as straightforward or as simple as that. I am here before you today because I do not want to be in that local environment in 10 years time and still in public

life, if I am, with people coming to me and saying, ‘You let this happen. There is now only a handful of traders to provide all these services because they have pushed all the others out. There is no real competition and we are now paying for it.’ They are the sort of predictions that are becoming a reality to me over the last five or six years, and I am making that comment quite seriously.

CHAIR—That is why we are here.

Mr S. Wilson—Eighteen years ago I would not have come before you advocating the capping of any private business in this state. I would not have done it in a fit, but I have learnt in the time I have been in public life that it is not as simple as that.

Mr Walters—As I said, I apologise—I have been on holidays—but we can provide you, from our chamber’s point of view, with written evidence, if it is possible to produce that evidence later than today.

CHAIR—Yes, you can.

Mr Walters—We can produce that evidence for you. The only evidence that we cannot produce is Woolworths buying price of fuel, but we know that it is 4c a litre. It is invoiced out of Sydney, so therefore we do not have access—

Senator FORSHAW—Four cents a litre cheaper; it is not 4c a litre.

Mr Walters—Yes, cheaper. No, the federal government have to get their 46 cents.

Senator FORSHAW—What do you expect?

Mr Walters—We can give you that other evidence, that is, the evidence apart from the invoice of fuel.

CHAIR—We have the advantage of Senator Murray having been involved in that inquiry.

Mr Lawrence—If you wanted to be an economic puritan and say, ‘Let the free market forces find their own level,’ it would be totally cuckoo because all the markets everywhere are manipulated at all levels.

CHAIR—If we had left it to free market forces we would not have set up such an inquiry. That is why we are here. Thank you, gentlemen, for your contribution today.

[1.22 p.m.]

de HAYR, Mr Brett Raymond, Executive Officer, Tasmanian Farmers and Graziers Association Meat Council

SMITH, Mr Harvey John, Chairman, PMF Pty Ltd

CHAIR—Welcome. The committee prefers that all evidence be given in public. If you wish to go in camera at any time please put a request to the committee and we will consider it. We caution you, however, that at some time in the future the Senate may decide to make that evidence public. The committee has before it submission No. 204 from the Tasmanian Farmers and Graziers Association Meat Council and submission No. 243 from Mr Smith dated 20 May 1999. Are there any alterations or additions that you wish to make to the submission at this stage?

Mr de Hayr—No.

Mr Smith—No.

CHAIR—I also remind you that the giving of false or misleading evidence may constitute a contempt of parliament. I invite you to make an opening statement, at the conclusion of which we will proceed to questions.

Mr de Hayr—Thank you. I would like to point out that the TFGA Meat Council put this submission, on behalf of the entire organisation, mainly as an example of what is happening in one commodity. We are seeing this in a range of commodities. To start with, we have confined most of our search in this area to the interface between producers and retailers—and processors in this one. We have not necessarily moved past that point because we feel that that is an area in which we do not have a great deal of expertise. Our main interest is in the direct interface between those two parties.

We also avoided looking heavily into the regulatory roles to start with because we felt that the NFF and other groupings were taking a path in that direction. The TFGA Meat Council in their review looked heavily at what was happening in other countries, and particularly what we could do that was of use. We could have come up with a range of different interventionist roles, but we felt that too often those were too far behind what was happening in the market place.

The areas that we looked at in particular were what was happening in the US and the UK, and we found ourselves in a difficult position in this area because farmers were largely between the devil and the deep blue sea. Dealing with single large, efficient players has the potential to pass on reforms to farmers. An example in this area was the Meat Standards Australia grading program, where we felt the supermarkets had the power to drive those reforms. Also, fairly importantly, they had the power to interface with the very large processors that we now have in this country, similar to the US. With the majority of the market share being held by a very few processors, producers are finding it extremely difficult to deal with them. They have very limited ability to influence their decision making. Large downstream customers of those processors do, and to that extent the supermarkets

have a role to play there. However, there is the significant threat, with a few dominant players, that they will not pass on these reforms, and so we are caught in a conundrum to that extent.

Briefly, in looking at the overseas systems, with respect to the market reporting legislation that the US have in place, whilst we felt that is useful, it appears to be having very little positive impact in that industry over there. In Australia the market reporting service that is run by Meat and Livestock Australia at this stage does not have access to the pricing of the major supermarket players. At this stage it is largely based on saleyards, and that is increasingly becoming an irrelevant barometer of pricing. So some system that would allow the producer based market reporting service to have access to that information would be particularly useful.

One of the most useful things we saw was what was happening in Europe at the moment with the development of producer alliances. That appears to be the most useful way of producers being able to have an interface with large players, be they processors or retailers. Without a large body to interact with, companies will do what companies do best, and that is maximise their profits. Therefore, a larger and more commercial based system for those large retailers or processors to interact with gives producers probably their best chance of survival.

That is basically the conclusion of our submission. Those two areas were the ones that the TFGA felt across a range of commodities would allow producers the greatest survival in this area. Again, it is not looking past the producer, processor or retailer interface. The argument between majors and independents we would like to leave largely alone.

Mr Smith—It is not my purpose here to bash the supermarkets. I personally feel that they provide a valuable, efficient service, and I am amazed at the integrity that they do show in the environment in which they are having to work.

CHAIR—Just for the record, do you undertake any work on behalf of the majors?

Mr Smith—No, not at all. I have had some dealings with them over a period of time, often in an adversarial situation.

CHAIR—It adds to your credibility.

Mr Smith—Where the problem occurs, I believe, is in the particular set of trading legislation—our ASC legislation. Firstly, the trading legislation prohibits unacceptable practices by small operators acting in collusion, but it does not address the case where any large entity, with market power, wishes to use that in a way that would be considered unacceptable elsewhere.

Given the realities of modern business practice, where the quick profit is the best profit, and the legal obligations I referred to earlier of the company officers to their stakeholders, then it could be argued that the operators have a legal and moral obligation to make full and effective use of their market power. If I were a shareholder in Woolworths or Coles, I would take them to court if they did not use their market power to put money in my back pocket.

I would like to correct an impression in the original submission. On consultation with a lot of other people—farm leaders in different commodities and people in the community—I have been talked into the idea that, rather than necessarily capping an individual supermarket, they could be allowed to operate under appropriate supervision. That supervision would cut in at some particular level, such as 15 per cent or 25 per cent or wherever you like to put it. In my original submission I think I suggested that you could initially set that cut-in point at their existing market share and gradually reduce it every year. I think I also said that they could have an exemption—in other words, they could operate under supervision of a monopolies commissioner.

I am aware of a couple of instances of significant abuse of market power by the majors. The first one—and this is my own interpretation of market changes over a fairly long period of time between about 1986 and 1996—is where you had regional market manipulation. If they felt the price was getting too high in one particular area they would effectively boycott that market for a period of some weeks. I base this on hearsay from other people and on market reports—the graphs of the prices. I had got to the stage where I could say, ‘They are going to hit Western Australia this week and they are not going to buy any pigs for a few weeks.’ That happened for three weeks and then they would move on to South Australia and do the same thing there. In other words, they were dampening down each regional centre.

I refer you to some graphs to illustrate the other example. I would like to table them.

Senator BOSWELL—Could you speak to them?

CHAIR—I move that these documents be accepted.

Senator BOSWELL—I second that.

Mr Smith—There is clear evidence on these charts that, during the period from January 1997 until virtually January 1998, we have a *prima facie* situation of classical price capping at a national level in this country in the pig industry. The first three charts show the same thing only on different time scales. The first one is a weekly chart. To the far left you will see the American price, which is represented by the bars, with the Australian price below it. On the second page we have a monthly chart which shows the longer term picture. During that same period through 1997 we see the Australian price very much below the American price for six to nine months. Traditionally you would expect the Australian price to have a premium of between 10 to 25 Australian cents per kilo above the American price. Because of the higher yield of the Australian animal and its lighter weight, it fits into a slightly more prime market.

I am not saying that the supermarkets or anyone else did the price capping, but we have to look at this question of referred power, of referred dominance, where this ability to control and manipulate individual markets is referred from the supermarkets down to the next person in the chain—the abattoir or whoever it might be. As Brett mentioned, even though the supermarkets might try to ensure that they are giving a fair price that provides sufficient margins, those margins do not get back to the farmer in many cases.

CHAIR—Are you coming to a conclusion, Mr Smith?

Mr Smith—Yes I am. I believe that there is too great a conflict between the concerns and the proper responsibilities of existing ministries and the wide responsibilities proposed for a monopolies oversight commission. At the very least it should be responsible to a separate minister. In discussions with a number of farmers who have not had the best experiences with AFFA and the Productivity Commission in recent times, they said that it would be better if the control of such a commission was not in the hands of executive government but fell to a standing, bipartisan joint house committee. We are talking here about safeguarding the interests and providing benefits to the people and not to the government. I believe that this is too important a matter to be used as a trade or partisan bargaining tool.

CHAIR—Thank you. I will now refer it to our bipartisan committee of the parliament.

Senator BOSWELL—In your submission you say:

What is commonly seen is unscrupulous activities by junior members of buying departments in pressuring suppliers. This practice sees these junior functionaries actively using their position to coerce or intimidate producers to supply, sometimes at the expense of being able to sell product to other outlets.

Brett, could you outline what you are referring to there?

Mr de Hayr—That related to one firm in particular—not the direct activities of the company but, say, a buyer within that company. This has been the result of an internal investigation of one of the major supermarkets down here recently. The allegations are that the buyer was actively distorting the market by directing people away from selling under different methods or by coercing for preferential supply status—only supplying to that company or supplying the first call on their product.

Senator BOSWELL—What is wrong with a buyer going out and saying to a farmer, ‘I want to buy so many of your potatoes?’

Mr de Hayr—Only in so much as in this case it was being alleged that that person was being pressured not to sell any of their other produce to any of this firm’s competitors. That is clearly a breach.

Senator BOSWELL—So they said, ‘We will buy all your product and we do not want you to sell any other product to anyone else.’

Mr de Hayr—They said, ‘We will buy the top line of your product; if you sell any of the rest of your top line before we have a call on it, we will not buy any of it.’

Senator BOSWELL—That was a matter of an internal investigation. What was the result of the investigation?

Mr de Hayr—We are awaiting comments from that firm at the moment.

Senator BOSWELL—Is there much direct buying by Woolworths and Coles from the farms here?

Mr de Hayr—There are significant amounts.

Senator BOSWELL—Are they buying only for the domestic Tasmanian market?

Mr de Hayr—I am not entirely sure in the case of Coles, but Woolworths definitely buy large numbers of lambs to go onto the Sydney market.

Senator BOSWELL—And vegetables?

Mr de Hayr—I am not entirely sure of the vegetable situation.

Senator BOSWELL—And they go out and do a direct contract with the farmer?

Mr de Hayr—Or via an agent—a livestock agent.

Senator BOSWELL—When there are domestic sales of cattle—how many abattoirs have you got here?

Mr de Hayr—There are three export abattoirs and two domestics.

Senator BOSWELL—That ought to give you sufficient.

Mr de Hayr—It would be, in the case of the two largest abattoirs. They both do contract kills for either of the majors, which constitutes the majority of their domestic throughput.

Senator BOSWELL—And who does the buying? Do Coles and Woolworths have buyers?

Mr de Hayr—They have their own buyers, yes.

Senator BOSWELL—They do not buy for each other?

Mr de Hayr—Not that I am aware of.

Senator BOSWELL—And they go out and compete against everyone else at the saleyards?

Mr de Hayr—Yes.

Senator BOSWELL—One of my main concerns about this is that the countervailing power of the farmer, if he has two people to sell to, is pretty limited. If he gets on well with Coles or Woolworths, good; but if he does not, he has not got too many other options left to him. Does that concern the farmers' organisations down here?

Mr de Hayr—Particularly down here, I think, because we do not have ready access, especially in slaughter stock, to many of the mainland markets. The problems of shipping across Bass Strait and the quality largely confine some of our activities here. Traditionally, the major supermarkets have provided some of the better prices. The problem is that if you

fall out of line with either of those two firms, for whatever reason, or if you choose not to supply under their terms, you are in a very difficult situation.

Senator BOSWELL—Up in the north-west there are big onion and potato growing areas. That would be in excess of the needs of Tasmania, wouldn't it? They would go to Melbourne and Sydney. Are contracts offered to those farmers by Coles and Woolworths direct?

Mr de Hayr—I am not entirely sure of Coles's procurement practice for vegetables here. For most commodities the domestic market is relatively small. However, for most of our products here, it is sufficiently different to the export market. If you have tailored products to either the majors or the domestic market and there is a change in strategies there, it is extremely difficult to divert it onto the export market.

Senator BOSWELL—When you talk about the export market are you talking about—

Mr de Hayr—International exports.

Senator BOSWELL—Have you got an active fruit and vegetable market in Hobart or Launceston where they have agents set up?

Mr de Hayr—Again I am not entirely aware of the fruit and vegetable side, but we do not, because of our size, have trading centres as big as, say, the Brisbane markets. That is why there is a high degree of direct trading within Tasmania.

Senator BOSWELL—That would be becoming even a higher degree, wouldn't it?

Mr de Hayr—Therefore the influence of individual buyers, irrespective of company policy, means that we often find ourselves in a very dangerous position. They can use their position irrespective of company policy to drive agendas or retard change in some areas.

Senator BOSWELL—That has always been my point. I think the management of Woolworths and Coles do play the game, but—and I have said this to both Mr Corbett and Mr Williams—I think that down at the bottom end of the chain there are sometimes things occurring that should not occur.

Mr de Hayr—That is the area where we have had greatest difficulty; not with the companies in general.

CHAIR—The problem, as I understand it, is that the individual buyers are judged on their bottom line performance, and this is one of the ways of ensuring a bottom line performance. Is a code of conduct going to fix that, do you think? We recognise that there is a problem, and I agree with Senator Boswell. From my observation it is down the line where these problems occur, at the retail end, with trying to get into a price war with individual retailers and also in terms of supply. How would you fix it if you were on this side of the table?

Mr de Hayr—Recently, a question was posed to me in relation to the supermarkets—if an additional farmer or a farm organisation was worried about the activities of a buyer, manager or whatever. To then raise that as an issue either with those companies or with the ACCC is beyond the scope of most individuals, especially if you are dealing—

CHAIR—I understand that. What are you recommending though?

Mr de Hayr—I suppose this is the problem we come up with as well. A mechanism that would allow those concerns to be aired is basically what we are after.

CHAIR—So an ombudsman? A code of conduct?

Mr de Hayr—I think an ombudsman would probably be of more use than a code of conduct. Unless there is someone policing the code, then—

CHAIR—Maybe we need both.

Mr de Hayr—I think that would allay a lot of the fears of producers—if they had some means of accessing someone who could look at the issue because at the moment it does not exist. They are not entirely sure whether the problem goes any further than, say, the buyer or the manager. That is the fear that people live with.

Mr NAIRN—Did you have any evidence from your members that they have been able to expand their operation, invest in technology, et cetera, because of the contracts they have entered into with some of the majors? That is one of the arguing points that comes back from the larger stores—that they have enabled a lot of smaller operations that do not have access to capital to really expand their operation and bring in new technology, because becoming a contract supplier for certain quantities gives them some backing to be able to go and borrow that money a lot easier. Are any of your members in that position?

Mr de Hayr—To an extent, I think that is correct. We have seen that particularly in the larger growers, where the supermarkets want to interface direct with larger suppliers. That definitely has occurred. One of the problems we have seen as a result of schemes such as the Soldier Settlement Scheme, where you have a lot of smaller producers out there, is that larger buyers basically do not want to deal with them because they are expensive to deal with. That is why we wanted to look at a mechanism that would allow those people to aggregate, because past agendas like the Soldier Settlement Scheme have given them the reality that we have to deal with at the moment.

CHAIR—So what is the problem with aggregation at the moment?

Mr de Hayr—At the moment, it is quite new, I suppose. The thinking and the mechanisms behind it are only just starting. We have a few alliances around at the moment, and they have proved particularly useful. They have allowed a flow of information and also a presence in the marketplace that have allowed a group of 20 or 30 producers to interact as one with a large buyer.

CHAIR—I was actually at a berry producers conference where we were speaking about this inquiry. They are having their own inquiry in the UK, but part of their solution has been this aggregation. That really is something that you can do yourselves as well.

Mr de Hayr—And that has happened to an extent. The experience we have had in some of the alliances is that there is a high failure rate, but also it is very hard because it is such a different way of thinking for a lot of people. In the EU situation—where they have provided some matching funding to get those alliances running—one of the problems we have learnt is that you have to cut that money off after a fairly short period of time otherwise they will not run on their own. But that seed funding has been vital, whether it is from a government or an industry basis, to actually make that happen.

CHAIR—We have a time constraint. We would like to thank you for your input, and your ability to come up with some suggestions, too, is useful. We will also look at this question of aggregation because I think it is something we have not spent a lot of time on. Apparently, it has been one of the big factors in the UK, so we will do a bit more work on it. Thanks for your input. We really appreciated it.

Mr de Hayr—Thank you.

[1.50 p.m.]

SYPKES, Mr Roelf Rudolph, Managing Director, Chickenfeed Bargain Stores

WILSON, Mr Ashley Arnold, Merchandise Manager, Chickenfeed Bargain Stores

CHAIR—Welcome. The committee prefers that all evidence be given in public; however, you may at any time request that your evidence or part of your evidence be given in private and the committee will consider any such request. I point out, however, that evidence taken in camera may subsequently be made public by order of the Senate. I also remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. I have been advised that you wish to make application to the committee to hear part of your evidence in camera. Is that correct?

Mr Sypkes—That is correct, Mr Chairman.

CHAIR—Is that part or whole of your evidence?

Mr Sypkes—The whole of the submission.

CHAIR—Because the hearing will be held in camera, I think it is appropriate for me to check with the committee that they feel comfortable that this should be presented to the Senate as part of the evidence. What is the wish of the committee? Is it appropriate to say that we will hear the evidence but not record it? Bear in mind that in 30 years time it may well be made public. Maybe we will all be doing different things; I certainly will be.

Mr Sypkes—I do not think we would have a problem in 30 years time.

CHAIR—We will have to clear the room. We have a request from Senator Andrew Murray and Senator Boswell that two of their staff—Mr Lee Jones and Ms Prue Regan—be allowed to stay. I understand that has been raised with Mr Sypkes and Mr Wilson and they are happy.

Mr Wilson—Yes.

CHAIR—Are the committee happy that they stay?

Mr JENKINS—I have always assumed that any of these confidential submissions and the confidential record of *Hansard* can be used by my members of staff in their assistance of me in committee work. If I am right in that assumption, we have no objection to the course of action as proposed.

Senator MURRAY—Mr Jones will be assisting me in the production of my response to the report and how we will deal with it. So he is dealing with material with me.

CHAIR—That being agreed, the two named staffers will be allowed to stay. We encourage you to regard this evidence in the same way as the other committee members do, and that is in entire confidence.

Evidence was then taken in camera—

Committee adjourned at 2.49 p.m.

