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JOINT SELECT COMMITTEE ON THE RETAILING
SECTOR

Reference: Industry concentration on the retailing sector

TUESDAY, 6 JULY 1999

COOMA

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JOINT SELECT COMMITTEE ON THE RETAILING SECTOR

Tuesday, 6 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: Mrs Elson, Mr Jenkins and Mr Nairn and Senators Ferris, Forshaw and Murray

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 2.49 p.m.

BAILLIE, Mr Mark William, Chief Executive Officer, CountryWide Retail Trust

ACTING CHAIR (Mr Jenkins)—I declare open this public hearing of the Joint Select Committee on the Retailing Sector. I welcome all witnesses appearing before us today, and camp followers who have caught us up after missing us in Bendigo.

Today's hearing in Cooma is part of the committee's inquiry into industry concentration in the retail sector and is the third of our public hearings in rural and regional Australia. Following hearings in Launceston yesterday and Bendigo earlier today, the committee is travelling to Dubbo, Bundaberg and Kingaroy. The committee has a very tight schedule, and we apologise for not being able to stay in Cooma longer, but we are pleased to be here in the seat of Eden-Monaro with the local member in company.

I welcome Mr Baillie. The committee prefers all evidence to be given in public, but 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 remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. Mr Baillie, 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 Baillie—Yes.

ACTING CHAIR—We will determine that at the time, but you will flag that to us. The committee has before it submission No. 291. I now invite you to make an opening statement, and at the conclusion of your remarks we shall proceed to questions.

Mr Baillie—Thank you for the opportunity to address the joint select committee at this public hearing today. In reference to my presentation, I would refer the committee to our organisation's written submission, dated 31 May. First of all, I would like to give you a summary of the points that I wish to make in today's presentation.

Our position, as detailed in our submission, is clear and unambiguous. We believe we have the credentials to speak authoritatively on food based retail services in Australia, especially as they relate to rural Australia. We and the national supermarket chains have spent millions of dollars on food based facilities in rural Australia and will continue to allocate investment funds. However, this high level of investment is dependent on current market fundamentals. We believe our investment and that of the national supermarket chains provide a range of micro-economic benefits to individual rural townships and communities. I will look at these in more detail and provide an example of how this actually works in practice. Our conclusion recognises the worth of the existing structure that is currently in place. As you have foreshadowed, at the conclusion of my main presentation I would like to make some comments on transitional arrangements of the GST in camera.

In our submission to the Joint Select Committee on the Retailing Sector, we summarised our position as follows. CountryWide's view, as Australia's largest owner of supermarket

centres, is that the current degree of industry concentration within the food retailing sector in Australia provides an overall net economic benefit to consumers and the community as a whole. Our credentials confirm the relevance of our interest in the issues being canvassed by the joint select committee.

For two years running, CountryWide has been rated the top performing listed property trust by accountancy firm BDO Nelson Parkhill in its annual survey of listed property trusts. The survey confirms investor and market confidence in CountryWide's investment strategy and recognition that investing in rural Australia yields benefits. CountryWide is a sector specific listed property trust formed to invest solely in supermarket based properties located principally in non-metropolitan areas of Australia. CountryWide Retail Trust is managed by a wholly owned subsidiary of Macquarie Bank Ltd, which has over \$1.5 billion in properties under management. CountryWide listed on the Australian Stock Exchange in 1995 with 23 properties, and has since increased its assets almost threefold. CountryWide has grown its portfolio of properties across all states and the ACT.

We are in the unique position of being the largest owner of Coles and Woolworths supermarket properties in Australia. The bulk of these properties are located in rural Australia and represent approximately 75 per cent of our portfolio by value, which represents just under \$300 million. As a result, our properties directly support thousands of jobs in rural Australia through the businesses that operate in them. On listing, one of CountryWide's key objectives was to be an active manager and allocate management and financial resources to improve the level of services in each of our properties.

The key to our portfolio is the quality of CountryWide's anchor tenants. Just to outline, we have 60 properties located across Australia: 34 of those are freestanding supermarkets, 25 are supermarket based shopping centre, one is a stand-alone discount department store. Thirty-two of the properties are anchored by Coles, 26 by Woolworths and two by Franklins. This shows the geographic diversity of our portfolio and our investment focus on such states as Queensland and Western Australia. The pie chart illustrates how we are building up our portfolio in states such as Western Australia and Queensland. The new properties that we have acquired recently are principally located in non-metropolitan areas such as Atherton, Gatton, Moranbah and Nambour in Queensland; and Carnarvon, Collie, Esperance, Kalgoorlie and Narrogin in Western Australia.

As I referred to earlier, the majority of CountryWide's properties are located in rural Australia, and that represents about 75 per cent of the portfolio. Our strategy has been confirmed by independent advice. KPMG did a study of our properties, and that indicated that we were investing in rural growth areas. We were bringing services to about 11 per cent of the Australian population and we provided direct employment, through the businesses that operate in our properties, of about 7,000 people.

The millions of dollars spent by CountryWide on its property portfolio cover a range of projects, including new supermarket based centres, adding new retail tenants and services to existing supermarket based centres, improving the layout of a centre and updating services such as new lighting, flooring, car park facilities, parenting rooms et cetera. CountryWide has been supported in this investment strategy by the national supermarket chains, which have updated their supermarkets at a cost of between \$3 million and \$4 million per

supermarket. The long-term nature of supermarket leases confirms the security they offer individual townships and communities. It is really a vote for the local economy and for businesses in that local economy.

CountryWide's success is intrinsically linked to the quality and security offered by its anchor tenants, the national supermarket chains. These qualities give CountryWide the confidence to allocate ongoing funds to improve and extend the level of retail services in each of its properties. This confidence is clearly demonstrated by the funds already spent by CountryWide and its allocation of future spending. CountryWide has introduced a number of new or enhanced retail facilities in regional New South Wales, in places such as Bathurst, Orange, Tumut and Wellington. Meanwhile, across the country, CountryWide has initiated a range of expansions and refurbishments at existing centres, including Moree, Murwillumbah, Singleton, Bundaberg, Hervey Bay, Port Augusta and Moranbah.

The number of refurbishments by supermarket tenants at properties owned by CountryWide again demonstrates the high level of investment in Australia's food based services. We just listed there the 30 properties that have been refurbished by the anchor tenants over the last five years in our own portfolio, at an average cost of between \$3 million and \$4 million. The national supermarket chains refurbish their supermarkets to offer a greater range and quality of products and services to their customers. The decision to do so is confirmation of their commitment to each respective town or community. It is interesting to note that the major anchors do not use city based contractors, by and large, to conduct these refurbishments. They actually employ local contractors to conduct them, so a lot of the money that is spent goes into the local community.

Ongoing investment by CountryWide in the national supermarket chains is a big vote of confidence in rural Australia. Again, we have just listed there the properties that we have in our pipeline of refurbishments and redevelopments, which will involve the allocation of approximately \$80 million in capital. You can read the list there. Our investment strategy is based on the existing structure of the food based retail sector. Change any part of this structure and our decision to invest will clearly have to be reassessed.

Existing market fundamentals guide our investment strategy, both in terms of selecting new properties for the portfolio and allocating funds to improve the level of services offered by existing properties. These market fundamentals offer four benefits to an investor such as CountryWide. Security is fundamental to any investment decision, and CountryWide secures this in three ways: securing a strong tenant such as the national supermarket chains; committing these tenants to long-term leases which can range between 15 and 20 years, plus options; and identifying areas that demonstrate a sound local economy.

Obviously investment of capital requires a return, and that is fundamental and goes hand in hand with the security provided by these long-term leases. Our investment returns, and we have generated the highest returns for our investors over the last few years of any property trust, demonstrate that returns in regional and rural Australia can be higher. Unlike other retail leases, supermarket leases are linked to rent and turnover. Any increase in turnover leads to increased rental to CountryWide and higher returns to our unit holders.

We want to add value through refurbishment, new development and new services such as the banking and petrol initiatives that are currently being undertaken. ABS statistics confirm that people spend a greater proportion of their disposable income on food and allocate more of their spending to food purchased in supermarkets. One of the solutions that has been put on the table for consideration by this committee, as I understand it, is limiting the market share of the major supermarkets. I would just like to look at the potential consequences of that action. We consider that this may actually have the reverse effect and result in people choosing to go to larger centres where they can access the full range of retail products and services offered by the national supermarket chains. The effect will actually be to accelerate the decline of retail services available in those areas where supermarkets are not represented.

It is important to understand the link between our decision to invest and the benefits that then flow on to the local community. Again, if the market fundamentals change, we will reconsider our investment strategy, which will mean that rural Australia may miss out on a range of real benefits and loses the opportunity to develop a vibrant economy. I would like to spend some time going through these benefits, as they are significant. The infrastructure of the national supermarket chains allows an increased range of food based goods and services to reach all areas of the country. New supermarket based centres or expanded services at existing centres offer tangible employment opportunities, particularly to younger Australians. Many smaller towns suffer from retail spending leaking to larger towns nearby. A local supermarket offers and updates a full range of products and services and helps keep spending in that local economy.

Refurbishment and expansion of supermarket based centres supports local businesses at different levels, from the construction, the refurbishment works that I mentioned before, through to providing new speciality space available for local businesses outside of the major chains. There are niche opportunities for specialty retailers that can offer products and services that complement or leverage off those offered by the supermarkets.

Anchor tenant leases act as a catalyst for retail development in rural Australia. The reality is that, without an anchor tenant committed to a long-term lease, any proposed major retail development will flounder. Communities with supermarket based shopping centres tend to develop a more vibrant local economy. Gone are the days of the fish van visiting rural towns one day a week; today people can have fresh seafood any day of the week. At a time when many of the major banks are closing branches in rural areas, the national supermarkets offer people the opportunity to do their banking while they shop.

Shopping convenience is offered in being able to visit one shopping centre and buy all your weekly needs. Together with flexible opening hours, this offers shopping when it is convenient for the consumer. The new supermarket chains are adding a variety of new products and services to their product range, and some of them are listed there: deli items, fresh seafood, photo developing, dry-cleaning, petrol and banking. These products and services are customer driven—people are demanding a greater range of products and services in the one location.

If nothing else, I would like to leave the select committee with a clear understanding of the benefits that flow to rural Australia under the current structure. What we are doing in Singleton is an example of this. The \$6 million to be invested in the Gowrie Street Mall

expansion will benefit the local community businesses and economy. It will result in more jobs, more choice, and will retain spending in Singleton. The \$6 million expansion of the Gowie Street Mall was a result of ongoing discussions between ourselves, the local council and Woolworths.

Anchored by a Woolworths Supermarket and a Big W discount department store, the Gowie Street Mall has acted as a focus for convenience shopping in the area and has developed to meet community needs in Singleton. The Big W store is currently the smallest in Australia, and the expansion will enable it to offer a complete range of goods. In addition to improving facilities for local shoppers and retaining spending in Singleton that currently escapes to Maitland and Newcastle, the expansion will also provide short-term employment for about 60 people and long-term—full-time and casual—employment for around 50 people.

CountryWide has purchased extra land from council to accommodate additional parking and to make provision for a potential petrol outlet and a fast food site. As part of the deal, we have negotiated two new 20-year leases with Woolworths. I guess it is an example of their commitment to that catchment area that they have committed to be there for that period of time.

In conclusion, CountryWide's position can be summarised as follows. I think we have demonstrated our commitment to rural and regional areas of Australia through the investment of significant amounts of new capital in the provision of improved retail facilities. Due to this focus, we understand the dynamics that the impact of new or improved shopping facilities can have in country areas. We are strongly of the view that improved retail facilities in Australia are underpinned by the capital commitment of the major supermarket chains in their own infrastructure and that Australia's food supply chain has served the community well given the constraints of a large land mass over a relatively small and widely dispersed population. Maintaining the current structure will ensure positive economic benefits will continue to flow through to towns and communities in rural Australia.

There are a host of benefits for the wider community in not attempting to overregulate or artificially control the current structure. We believe that the existing provisions of the Trade Practices Act give sufficient protection to the small independent retailer. However, we believe that an industry code of conduct monitored by the Australian Competition and Consumer Commission may be a suitable outcome in the current environment. That is the conclusion of my presentation. I am happy to field questions and then I do have the in camera segment of my presentation.

ACTING CHAIR—Thank you, Mr Baillie. I am sure that there will be questions. If I can just clarify this: you are telling us that you have no properties that have independent supermarkets as anchors; you are totally tied to the three majors. Is that right?

Mr Baillie—They are all anchored by Coles, Woolworths or Franklins.

ACTING CHAIR—So your future is their future. You would understand then that the committee would be in the position of having to weigh the evidence that you put to us on that basis. For instance, in a development like the one in Singleton where you suggested the range of things that Woolworths would be providing, these must have an impact on already

existing businesses in the Singleton area. What judgment can we make that what you are involved in here is actually a positive to the local area in that new services are provided as against older businesses that are crushed—‘crushed’ is an emotive word—that go by the wayside?

Mr Baillie—When we do our investment analysis of a property such as Singleton, we look in quite a bit of detail at the demographic trends of that area. We make estimates, based on the use of external consultants, about what level of escape expenditure actually goes outside of that catchment area. Within that we identified that there was a significant amount of escape expenditure because, in that local catchment, there was not the offer of people going to Newcastle or Maitland to do their shopping needs.

Therefore, where we come from is that, if we can contain that expenditure within that catchment area, it provides employment opportunities through new and enhanced facilities in the Big W. Also, through increasing the amount of speciality space in that centre—we are adding about 300 or 400 square metres of speciality space. We are trying to offer the consumers in that catchment area what they need in terms of their shopping requirements. That is the way we assess it. We look at what is going on outside that community at the moment. To the extent that it reins in expenditure that is currently going to other areas, then it will be a net economic benefit to Singleton.

Mr NAIRN—Just on this point, Mr Baillie: what you are saying is that the study that you have done has determined that people from within Singleton are not necessarily using a local service station and certain existing small businesses but they are being attracted to one of the other bigger centres—Newcastle or wherever—nearby. Therefore, with this development and the extension of Woolworths, they are more likely to do all that shopping in Singleton so it should not have as dramatic an effect on this existing businesses.

Mr Baillie—We are trying to capture some of the expenditure that is going outside of that community and bring it back to Singleton. In anecdotal terms, for people in Singleton, for instance, the range of products offered by Big W, which we are expanding, at the moment is not sufficient for them, so they drive to Maitland or Newcastle where they will probably do other shopping as well. If we can offer the expanded product range, then they are not likely to make that shopping trip to Maitland and Newcastle for the other bits and pieces that they do there as well. Therefore, we are likely to retain that in that catchment area.

Mr NAIRN—How do you do that market research?

Mr Baillie—We go in and assess, based on ABS statistics, what retail expenditure is in that community on a per person basis. We look at what is on offer there and we make estimates, given our knowledge of the turnovers for the anchor tenants and the turnovers for the speciality shops. Then we compare the two and, where there is a gap, obviously there will be escape expenditure going elsewhere. We use external advisers who have a very broad view—taking Australia wide averages and so on—to give us that information.

Mr NAIRN—I will come back with more questions later. I just wanted to get on to that point.

ACTING CHAIR—We will go to questions now. One of the aspects in your other submission that you did not include in the overheads was the remote areas. Your contention is that there was some benefit where the majors go into the remote areas where it might be part of a longer route. Do you want to expand on that?

Mr Baillie—From our knowledge—we looked right from Atherton in the north of Queensland through to Kalgoorlie over in the west, and we have looked at properties in the Pilbara and so on—we believe that it is only the large national supermarket chains that can afford to offer the range of products because they have got the infrastructure behind them to support that. For instance, we put a Bi-Lo store of about 2,500 square metres in Wellington, New South Wales, that had a catchment of about 6,000 people—a relatively small community. That was opened in July 1998, which is just under 12 months ago. When we opened the store, it was the biggest thing to hit Wellington in many years. Previously they had to go to Dubbo or Orange to do that sort of shopping and now in 2,500 square metres they can get the full range of product. The reason Coles can do that—Bi-Lo is a Coles brand—is that it sits along the supply route up to Dubbo, so on a marginal cost basis it can run that store relatively cheaply and can offer the full range of goods that people require for their day-to-day shopping needs.

Wellington is just one example, and we refer to other areas in our written submission. We have an attachment from our consultant at KPMG who talked about a Woolworths store at Meekatharra. We do not own that, but it was an example of where they are able to provide the full range of grocery and day-to-day shopping needs that may not otherwise be provided.

Senator MURRAY—I think it was originally a Charlie Carter site.

Mr Baillie—In Meekatharra?

Senator MURRAY—Yes. They got it when they bought the chain. Coles bought the Charlie Carter chain.

Mr Baillie—And this is a Woolworths.

Senator MURRAY—There was somebody there before that they took over.

Senator FERRIS—In three different places in your overhead presentation that you have given us this afternoon, you talk about either quality or security of anchor tenants. I would like to explore with you how you ensure quality and security of the supporting tenants. If you put a Woolworths into a shopping centre and that Woolworths is not one that includes a full range of goods at the time that the shop opens and you then let out premises to specialty shops, how do you ensure that Woolworths do not subsequently decide to include that range of product line that is carried by the specialty shop and therefore undermine what you call quality and security of your tenants? I am wondering whether you write into your leases particular criteria to ensure that Woolworths go in with a line of products which do not expand to the detriment of the strong tenants who come in as supporting tenants.

Mr Baillie—When we write an anchor tenant lease, in a large number of occasions it will define the range of products that are offered there. When we build a new centre, obviously we balance the current range of products offered by a supermarket. The worst thing for us is to build a new centre and because of the range of products offered within the existing supermarket we cannot lease up the specialty shop space because they just cannot compete. So we are very mindful of that. It is a case of striking the right balance between the two and ensuring that there is no overlap. It is no good for us as the landlord having empty space in our centres. It does not do us any good and, at the end of the day, it does not do the centre any good if there are vacancies sitting in there.

Senator FERRIS—Do the ‘big three’ go along with that?

Mr Baillie—They will always try to have clauses as wide as possible in their lease. Obviously, it does not come into play if it is a free standing supermarket, because we do not have any specialty shops to take account of. But where we are building or own a centre with a number of specialty shops, from our perspective we have bought the whole of the centre, not just the supermarket, and in order for us to get a return we need to rent out the specialty space. There are no hard and fast rules. It is a case of assessing what is needed in that catchment, what is being offered by the supermarket, what is being offered by the specialties and making sure that you keep the right balance.

Senator FERRIS—But how do you do it? Do you write it into the leases? In a case study of a new shopping centre where you have determined that you have 10 specialty shops to fill, do you tell Woolworths, Coles or whoever in principle what lines they are not going to stock to enable the specialty shops to come in behind? How do you work that through?

Mr Baillie—When we build the centre we will identify what usages there will be in those 10 specialty shops. There will be the whole range—the newsagent, the chemist. We are focused on convenience based shopping. I do not know if you have come across the term in your inquiry, but there seems to be a divergence between convenience shopping and destination shopping, which is the large regional centres where you go and spend half a day.

We are on about providing retail offers that complement the anchor tenant and that do not try to compete with the anchor tenant. We want to provide somewhere that the consumer can get into, buy what they need from the newsagency, the drycleaners, the chemist and so on, and get out again. It is all about time efficiency of shopping. At the end of the day, we put in as broad a clause for the anchor tenant as we think is reasonable, without being to the detriment of the specialty shops, because again it is not in our interest to have empty specialty shops sitting in our centre.

Senator FORSHAW—Quite often those specialty shops carry the same type of product too, don’t they?

Mr Baillie—There may be overlaps.

Senator FORSHAW—You might have chickens on sale in Woolworths but you will have a Lenards chicken shop as one of the other specialty shops, which I find rather interesting.

Mr Baillie—Sure. From our experience it is the specialty shops that add value over and above the anchor tenant—the Woolworths or the Coles—which do very well.

Senator FORSHAW—Like Bakers Delight as against just selling bread.

Mr Baillie—That is right. Where they are not trying to compete head-on with the offer but have identified there is a niche and have added value to that offer. To our knowledge, we understand that the anchors quite like some of those specialties outside the entrance of their store because they actually attract customers to the centre as a whole. At the end of the day it is about competition, with all businesses competing for increased sales revenue.

In our experience, the ones that thrive are the small retailers who say, ‘We may have done it this way for the last 20 years, but the economic environment has changed and we need to change to meet that changed environment head on.’ The people who say, ‘I’ve done it this way for the last 20 years and I will continue to do it that way for the next 20 years,’ do not tend to thrive in that sort of environment because they are not taking into account the dynamic business environment that they are operating in. And it is changing. It is not just the retail sector that is changing; the whole economy is changing around us. I think it is the people who are looking forward, rather than looking backward, who are making the most of those opportunities.

Senator FERRIS—Do you have many disgruntled small shopkeeper tenants who might feel that they are disadvantaged by a big supermarket perhaps trying to push into their area?

Mr Baillie—In our portfolio we have about 430 specialty tenants, and it is inevitable that you will always have some disgruntled ones. It is a case of identifying what is the cause of that disgruntlement—is it because they have made some bad business decisions? In the management of the properties, 75 per cent of our income comes from the anchor tenant across the portfolio and 25 per cent comes from the specialties but, in terms of the proportion of time that we spend in managing, probably 50 per cent of the time gets spent on the 25 per cent of the revenue. We are there to help all businesses in our properties prosper because it is good for us: if we can increase the income from that property, then it means that the value of that property goes up. But it is no good putting rents up so high that businesses go out of business, because again that leads to vacancies.

ACTING CHAIR—As property managers, do you have any problems with the degree of disclosure that you have to provide in some of the state jurisdictions which go to matters such as the retail mix of your shopping centres?

Mr Baillie—No, we do not. To the extent that we have only a fairly small proportion of specialty shops in any one of our centres—on average it is about 15 shops—we are not uncomfortable with the level of disclosure and we have not had any issues.

ACTING CHAIR—I think Senator Ferris’s questions do not go to the lack of confidence in being able to adapt to change and things like that but when it happens in an unfair way with the information not being given up front. A supermarket per se could be a fairly loose definition of what the business is. If a specialty went in in the belief that the supermarket was not going to encroach—and some examples are perhaps—

Senator FERRIS—Florists.

ACTING CHAIRMAN—Florists are a good example, yes. I was going to say Tattslotto agents but perhaps, with the size of the centres, that would not be the case. From time to time, the encroachment in some of the areas is, from the supermarkets' point of view, just an add-on, but from the specialties' point of view, it is their reason for being, so Senator Ferris's example of the florist is a good one. I suppose we were looking to see that up-front in the documentation or in procedures about the way you deal with the tenants—both supermarkets and the specialties—so that the smaller player has the confidence and can confidently go forward in the length of the lease. I think that is one of the issues. I do not think the issue is about not adapting to change of the way that the retail business is done; it is about being able to do that with a greater certainty and confidence of what might be around the corner.

Mrs ELSON—A number of times at this inquiry independent grocers have complained to us that the reason they get squeezed out of areas is that property developers offer very cheap leasing rates to the anchor tenant. Would they be paying a lot less than the other specialty shops?

Mr Baillie—It obviously is cheaper, but it is again reflective of the value that an anchor tenant brings to the property development. Not only are they renting a very large area of space—sometimes 3,000, 3,500 to 4,000 square metres; they are spending quite a considerable amount of money on the inside of their property. The figure of \$3 million to \$4 million that I mentioned is just on refurbishment. The costs of fitting out a brand new centre can be close to \$5 million or \$6 million, without including the level of stock that then has to go into that area.

It is reflective of the relative contributions: the length of the lease—obviously, a 20-year lease with a credit quality tenant who has the financial security to honour the obligations of that lease over the long term—the area, the amount of value that they invest in the centre themselves and the marketing dollar that they bring. Coles and Woolworths are a recognised brand name in the country. With all those factors, there is no doubt that anchor tenants do get a cheaper rent than specialty tenants, but it is reflective of those factors. Specialty tenants typically lease only 100 square metres, on average. They might have a shorter term lease of three to five years and the business that they bring—the investment in that property—would be a lot less in terms of the dollars that they spend. It is all those factors that go to justify the rents that are charged to the anchor tenants.

Mrs ELSON—How does that compare with a stand-alone supermarket?

Mr Baillie—The rents?

Mrs ELSON—Yes.

Mr Baillie—They would be comparable. I think there is not too much difference between them. Again, it depends on the catchment area and the population growth that is exhibited by that catchment area. But, on a like for like, a freestanding with a supermarket based shopping centre would be largely comparable.

Mrs ELSON—Okay, thank you.

Mr NAIRN—You said towards the end of your evidence that perhaps the committee should look at some changes to trade practices. Do you want to be a bit more specific in some of the areas? We have spent quite some time now taking evidence, and we certainly know the problem very well. The big difficulty we have as a committee is coming up with some solutions, and people putting forward solutions are a bit thin on the ground. We would be very keen to hear any suggestions for changes, particularly in the Trade Practices Act area, that we should be considering.

Mr Baillie—I do not think I was suggesting changes to the Trade Practices Act but maybe the enhancement of those existing powers within the Trade Practices Act. I am not a lawyer, so I will not tend to give you a technical assessment of what changes may or may not be required.

Mr NAIRN—Neither are most of us, fortunately.

Mr Baillie—It is certainly one of the proposals that seems to have been reported on in terms of a code of practice that governs what anchor tenants—the large retailers—will and will not do, so it is quite clear to themselves, the wider community and the smaller retailers. One of the suggestions that has been made is that some form of monitoring within the ACCC of that code of practice—maybe for a limited period of time to see whether or not it is working—is probably worth while.

If I were speaking solely from a very self-interested view in terms of CountryWide, I would propose to you: let us put a market cap on their properties because that would tend to increase the value of the properties that we as a trust already own. I am not doing that; I am looking at it from a wider perspective. Given that I have been to every one of the 60 properties in Australia, and I have met with councils and spoken to them, I see the benefits they do provide in those local communities, and they are real. I then looked at communities where they do not have them, and they are not doing as well.

I suppose we sometimes get mixed up between cause and effect and what are, no doubt, some areas of decline in rural Australia. Sometimes the cause is blamed on the national retailers. I do not think that is the case. I think it is more that the national retailers are following an underlying trend in rural Australia. Certainly the demographic work that we have had done for us shows that over the long term the population between metropolitan and non-metropolitan Australia is largely the same. There has been no dramatic shift. What is happening is that the very small communities are declining, but they are not going to the major metropolitan areas, they are going to the next biggest town, the towns of 20,000 and up. That is a long-term trend; it is not caused by the encroachment of the national retailers on them.

I will be as specific as that, that I think there should be some code of conduct, and some monitoring role for someone within the ACCC to ensure that the code of conduct is being adhered to and giving a forum for small retailers. No doubt there are some areas of valid grievances that have occurred, but certainly our understanding is that they are the exception rather than the rule.

Mr NAIRN—We took a lot of evidence from people who said, ‘We feel that we are being hurt, but it is going to cost us a squillion to even get to first base on this.’ If small businesses had an easier access to the ACCC—if there were changes that made it much more accessible in that respect, particularly in the financial sense—you would not have any problem with that?

Mr Baillie—So long as it is clearly defined what that role will be, because there are a number of forums already in place for retailers and landlords. We would need to make sure we do not overlap the existing structure that sits in place.

Mr NAIRN—Yes, thank you.

Senator MURRAY—You put a case for the positive side of your business. Have you had independent objective confidential surveys done of tenant satisfaction in your centres?

Mr Baillie—No.

Senator MURRAY—I ask the question because the Reid fair trading report—and, indeed, probably every commercial tribunal dealing with commercial tenancy throughout Australia—has established that the tenants of shopping centres are the least content and the most unhappy of all tenants because of the way in which landlords manipulate their lives and because of the way the relationship with the major is skewed to the benefit of the major. Is your company different from the other majors on the property side about whom these allegations have been made, and have you tested whether your customers are content?

Mr Baillie—Let me respond by saying that, out of the 60 properties we own, 25 have specialty shops associated with them—on average, 10 to 15 specialty shops per property. If you look at the rents that we charge across our specialty shops, the average rent per square metre is somewhere around \$300 per square metre. As such, it is much lower than some of the other rents that are reported in some of the larger centres, where they are skewed very much to the specialty trader. We have heard reports of more than \$1,000 per square metre.

To that extent we do not intrinsically have a problem with our tenants. In fact, across our properties where we do have shopping centres in rural communities, they are very well tenanted. We do not have a very big problem with vacancies because the specialty tenant wants to be outside the major supermarket in a township—it generates the foot traffic and so on. That is why our focus is very much on convenience shopping and offering what the consumer wants in that particular community. Certainly we do not have a big problem, to my knowledge, in that area. Most of our tenants are doing good business. That is not to say that there are not exceptions to that—across a portfolio of 450 tenants you would have some problems.

Senator MURRAY—I agree with you that \$300 per square metre average—I presume you are talking about net rent—would be a good outcome compared with the majors. Everyone that we have heard evidence from recognises the benefits of the major chains. Everyone seems to equally recognise the benefits of having a healthy independent sector. The problem for us is that witnesses have handballed the solution back to us, and essentially we have to deal with an economic and social proposition. The economic proposition is that,

unless the numbers of small and medium supermarkets survive, you cannot have a viable wholesale sector. There is a symbiotic relationship with them, and the critical mass level is at or near that stage in almost every state. Therefore, in some way, concentration needs to be restrained; otherwise you simply lose the sector.

The social end of the problem presented to us is that the loss of an independent sector results in a loss of jobs—even relative to the supermarkets because their job relationships are different, and there are people with a community attachment and establishment which is different from the majors. You were asked earlier by Mr Nairn whether you have any solutions. I listened to your answer and your answer was essentially no—you did what others have done and handballed it back to us. But you would accept, I assume, that the prospect of the three majors owning 100 per cent of all supermarket business—even if it were possible, which it is not—would be a ridiculous thought and that, if there is that impetus, we need to find ways of restraining it in some way, surely. Or would you not accept that? Would you take the view that, if the country ends up being run by three chains, that is fine?

Mr Baillie—I take the view to look at the wider economic benefits. We must recognise in Australia that we have a land mass about the same size as the United States of America and with less than a tenth of the population.

It depends on, I suppose, the population's view as to what they see as the wider good. Is it a wider range of products at an affordable price, available when they want to shop? Or is it in support of a specific sector within the economy—and, I must admit, probably a minority sector in the economy—being the retail market? I would suggest that the consumer is voting with their feet and they are saying, 'We want the full range. We want the lower prices.'

As I understand it, evidence you have heard previously would tend to support that there has been a real reduction in prices in the last two or three decades in food in Australia based on independent evidence. They want it available when they want to shop. I speak from personal experience. I was brought up in the country. I can remember—and I refer to it in here—the fish truck turning up every Friday and that was a reality, having fish on one day a week. But now many of the communities that previously had that option only one day a week can go and buy it any day of the week.

Senator MURRAY—But if I can interrupt you, the statistics do not show that people are voting with their feet because, whilst there are stores which have growth as a result of chain skills, if you like, the actual growth of the chain business has been, roughly speaking, half from new stores and refurbishments and half from acquisitions; in other words, substitution—buying somebody's existing business, improving it and motoring it forward. That is the point; they have acquired market share.

You contrast Australia with, say, somewhere like the United States. But the United States has divestiture laws. They may—they do seldom—have a look at a sector and say, 'You are too big,' and reduce it. If the ACCC was given this power in this country and in fact did that to the majors, it would not affect you. There are still going to be chains and large shopping centres. It would simply bring a halt to concentration. How would you, as a person of an economic and a social view, I assume, react to giving that power to a regulatory authority, which is not the same as a cap; it is just the power they would have over much

concentration? How would you react to them having that power, having the discretion to use it if they felt it was appropriate?

Mr Baillie—Isn't the end result, though, if they use that power, to put some form of a cap on that market share? If we are in a position now that they can at some stage—whether it is in the short term or the longer term—say, 'That's enough concentration,' wouldn't the end result of that be to effectively put a cap on that?

Senator MURRAY—But it is not initiated by a figure which is selected arbitrarily of 75 per cent or 80 per cent or whatever because it can vary, obviously. The question I am asking you is: should there be no restraint in our society whatsoever on the chains acquiring and dominating every form of retailing there is that they can—clothing, toys, food, supermarkets, whatever—or should the parliament introduce some form of restraining device, which is available in other jurisdictions, like the United States and Europe?

Mr Baillie—I think the United States have the luxury of having very large markets in regional areas. For instance, around Los Angeles, I think they have about the population of Australia living there. So they have that luxury that they can deal with very large population bases within small geographic areas. That probably gives them the ability to look at sectors and say, 'This is concentration.' I suppose, in the wider economic good of Australia, with the ability to offer our population as a whole the range that may not be able to be offered by the independents at a price, because of the introduction of powers by the ACCC which limits the concentration, are we asking that section of the population to subsidise the other areas of the population?

Senator MURRAY—But they are not subsidising. When there is an acquisition the price structure that we have seen did not move that much. We had a look at a Tasmanian set of figures yesterday. The selling price of the independent and the chain was the same. So we have got to be careful of assuming that chains automatically deliver lower prices, wider range and better service. They often do, but they do not always. I interpret your answer as no restraint. That is my understanding.

Mr Baillie—I think the oversight that we have at the moment through the ACCC obviously has some elements of that in there.

Senator MURRAY—What can they do about creeping acquisitions?

Mr Baillie—I think they have got powers in terms of market dominance and so on.

Senator MURRAY—No. We have asked them the question. I will leave it there.

Senator FORSHAW—Do you have restrictions on leases for some of your tenants in, say, a large mall or shopping centre that is different from the major chains? I was thinking of hours, because quite often—and I am talking from city experience here—you will see that the Woolworths or the Franklins is open Sunday until 9.00 p.m. or midnight but the other shops are not. How does that come about?

Mr Baillie—From a store owner, a property owner, we would like all of our tenants to be open as long as possible because it attracts custom and so on. In terms of trading hours restrictions, we do not put any overt restrictions on our specialty tenants.

Senator FORSHAW—So the answer is no, you do not differentiate—that is simply their own choice.

Mr Baillie—No. It is up to them. We might have minimum trading hours from nine to five so that we at least know that all the shops will be open in the core trading hours because it does not do anyone any good—

Senator FORSHAW—Okay. I just thought there might have been a problem there.

ACTING CHAIR—Mr Baillie, I understand that CountryWide have a property here in Cooma.

Mr Baillie—Yes.

ACTING CHAIR—Is it just the one?

Mr Baillie—Yes.

ACTING CHAIR—Was it the original or the second Woolworths?

Mr Baillie—It is the original one.

ACTING CHAIR—So did you own the site at the time the second one became Woolworths?

Senator FERRIS—Cannons.

ACTING CHAIR—Cannons became Woolworths.

Mr Baillie—Yes. We purchased that particular property in November 1995.

ACTING CHAIR—And how did you view Woolworths? They bought Cannons. Is that right?

Mr Baillie—They bought the chain, yes.

ACTING CHAIR—What was your view of that?

Mr Baillie—To the extent that we earn our rent off properties such as Cooma by the turnover of those stores, the conversion into a Woolworths of the Cannons chain did bring about, if you like, a pause to the growth in that turnover. However, it is important to note that at around the same time Woolworths purchased the Cannon chain they also fully upgraded and spent about \$3 to \$4 million on our centre to actually minimise the impact of the two Woolworths in town. My understanding is that there has been no appreciable

difference in pricing structures pre or post the entry into the second store of Woolworths. I do not know if any of the members of the committee have any different evidence. We do not monitor prices. It is not our role to monitor prices in any particular town. We report the turnover of the stores on a monthly basis from Woolworths and that is how we earn our income.

ACTING CHAIR—But I take it that your stores are stand alone Woolworths?

Mr Baillie—Yes.

ACTING CHAIR—So it is really only on the basis of what share they have been able to maintain at that store?

Mr Baillie—Yes.

Mr NAIRN—Presumably that share has been maintained, otherwise you would have had a problem.

Mr Baillie—I think there was a slight decline in the year after Woolworths converted the Cannons store into Woolworths because, I suppose, Woolworths shoppers now had two opportunities to go and purchase goods. But since then there has been a gradual increase. Part of our strategy is to diversify our exposure to any one property so that if we do have problems in any one property it is not a big problem for our portfolio.

ACTING CHAIR—Do you enter into any agreements with Woolworths or the others about whether they are going to do the same sort of thing—buy up another supermarket in the similar catchment area?

Mr Baillie—No.

Resolved (on motion by **Senator Ferris**)

That the hard copies of the overheads be received into the body of evidence.

ACTING CHAIR—Even though we are over time, I think we should move to this in camera evidence.

Senator FERRIS—Before we move in camera, I am just concerned that the GST and the ramifications of it are outside the terms of reference of this committee. Could Mr Baillie explain in broad terms what it is that he wants to talk about because it may be that another more appropriate body could be the place.

Mr Baillie—It is only one aspect of the GST; it is not a broad comment about the GST and its attractiveness or otherwise. My comments are very concise and they are designed to show that there is a potential issue in the GST transitional arrangements which may actually give the major retailers a free kick, if you like, of quite a considerable sum of money. I know you, as a committee, are concerned to keep a level playing field, and I just wanted to make you aware of this probably unintended consequence of the GST arrangements. I want

to give it in camera because it deals with some commercially sensitive issues as far as they relate to our trust.

ACTING CHAIR—The committee would understand I am in a slightly difficult position in chairing this aspect of it. This issue was raised in Mr Baillie's original submission.

Mr Baillie—I suppose I just want to expand on that and give you some precise—

ACTING CHAIR—I am in the hands of the committee.

Mr NAIRN—We have a time problem for one, because there are other people organised to give evidence. We did discuss GST and aspects related thereto as a committee and decided that it was outside the terms of reference. Can I suggest maybe a slight compromise? Mr Baillie might like to give the committee a confidential further submission on that topic for us to consider at a later time.

Senator FORSHAW—In writing?

ACTING CHAIR—Written material.

Mr Baillie—I do have a handout that I can supply you with today.

Mr NAIRN—And we would keep that confidential, not authorise it for publication.

Senator FERRIS—There is a tax reform unit that is looking at all these things. I was going to suggest you might get more satisfaction by meeting with those people because they are working through issues such as this in a range of different areas.

Mr Baillie—The purpose was that you are looking for solutions—

Senator FERRIS—Well, the Treasurer—

Mr Baillie—But in terms of your committee's work, if you want to maintain the level playing field—however, you may perceive it as being not level at the moment, so if you do not want to tilt it any further—this is one area that could be used to maintain that. That was my only intention in providing you with that additional information today.

ACTING CHAIR—I think we have seen the compromise. Coming from where I do, where you do not usually have the numbers, you take a compromise like this, unlike other compromises—but we will not get too political. I hope, Mr Baillie, that you understand where the committee is coming from.

Mr Baillie—Sure. I will leave you with this.

ACTING CHAIR—We appreciate that you might supply that information and it will be on the basis of a confidential addition to the body of evidence.

Mr Baillie—Sure.

ACTING CHAIR—As we have gone over time, we thank you very much for your thorough presentation.

[3.56 p.m.]

COOMBES-PEARCE, Mr Gregory Wayne, Business Development Manager, Cooma-Monaro Shire Council

MERCER, Mr John, Manager, Snowy-Monaro Business Enterprise Centre Inc.

CHAIR—I welcome Mr Mercer and Mr Coombes-Pearce and thank them for their attendance. The committee prefers all evidence to 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 remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. The committee did not have a submission before it but has a few pages that by the agreement of the committee we will take as part of the body of evidence. Would you like to now make an opening statement? At the conclusion of that we will go to some questions.

Mr Mercer—I would not mind actually going through the document you have got, as a verbal submission. First of all, I have two points that I would like to make before I get to the body of it, which is a little overview about the business enterprise centre and also about the organisation of the inquiry and how these are organised in rural areas. Please excuse the submission. It is not quite as professional as you have had with overheads, et cetera. But, after all, we are country folk.

Senator FORSHAW—There are a lot of city folk down here at this time of the year.

Mr Mercer—Yes. I will make a few points about metropolitan thinking later on. I have a certain view, as you will read in this submission, about metropolitan people. Basically, I have to make the point that this submission was organised by me this morning and it was organised from talking to various business people in the region. The other thing is that this submission has not been approved by my community based board because they have not seen it yet. I have to make the point that these are my views that you are hearing. I would like to make that point very clear.

Just so that you understand the context or the environment from which I am coming, I have given you a bit of an overview of what a BEC is. It is a business enterprise centre which is a not-for-profit community based organisation which services three local government areas. Its core services are free confidential business information, referral and counselling services. We are one of a network of 49 in New South Wales and 130 in Australia. Basically, each BEC besides that core role has various other roles that its community requires of it. I have listed some of the things there that we actually do. I will not go into those in any great detail.

I would just like to add this point about the inquiry itself. I would like to read from what I have written on the second page. Obviously, having a parliamentary select committee travel out to rural and regional areas is most welcome. There are, though, a number of business people in this region who would have wished to discuss issues with an inquiry but were

unable to do so for a variety of reasons. I believe there are issues with the formality and the process of such inquiries in rural areas. In most cases, it is unlikely to gain a positive response. People get frightened about actually having to talk in public into microphones and having people sitting there with signs in front of them. It really does not go down well in a rural area and create the environment for reasonable discussion and for getting people to come, sit here and answer questions.

Requesting written and prepared submissions from small business people in rural areas in most cases is also unlikely to gain a positive response. In many cases, they neither have the resources nor the time to do this, especially when we are now in the ski season. This is obviously—as we saw from the last gentleman—very different from larger metropolitan businesses, who have all the resources and generally quite a bit of time with specialist staff to actually prepare these things. I have a belief that you have to look at the process of gathering evidence for select committees in rural areas and make it a lot less threatening to rural people. That is not to say that we are not competent in addressing people like yourselves, but you can make it a lot easier.

I will now turn to some of the issues that I have heard about. I have to apologise—it is not backed with a huge amount of figures; it is just from discussions with business people. The first is about Australia Post, newsagencies and stationery shops in rural areas. Australia Post is a national government agency which has access to the marketplace via the postal and pension payment system. Its diversification in rural and regional areas can have a major impact on newsagencies and stationery shops. Their buying power as a government-owned corporation enables them to sell stationery products in rural areas cheaper than many rural newsagencies can buy similar products.

Also, as they are the national postal carrier, they presumably have the ability to use that for their direct marketing purposes. I do not know, but they may be able to do it cheaper than anybody else could do it. It would be interesting to get some evidence on that. The other point that was raised with me was that Australia Post obviously sells at post offices from Monday to Friday, nine till five. But in country towns—and especially in country towns that have a tourism element to it—quite simply, that local tourism trade has to be serviced. So you find that a lot of newsagents actually sell stamps. What surprised me is that they cannot sell them to make a profit. They are licensed to sell, but they buy at the same retail price that they sell at. So here we have an unfair playing field for rural newsagencies when it comes to Australia Post dipping into somebody else's market, it is fine, they can make vast profits and use their buying power. So I think that is an issue that you have to look at and think about.

The next one is about major retailers. I mention now that I do not think any of the local business people in this region are against major retailers coming into the area. But in rural areas we have to understand that there has to be an integration of major retailers and small businesses. There is much talk about the mix of the major retailers and specialist shops and them in some way being able to coexist without one sending the other one out of business. Obviously, you are aware that the three major retail chains have an 80 per cent market share in grocery lines nationally. I understand, from information I saw earlier, that this is predicted in the year 2001 to be 85 per cent.

There have been statements by the three major retailers that they are interested in continuing to increase this market share. Frankly, this is going to have some interesting effects, as detailed in our submission on the next page under 'Rural grocery shops'—and we have somebody who will hopefully arrive from Adaminaby at 5.30 this evening who will strengthen what I am about to say. There is a major issue which could in the long term close rural independent grocers completely. Currently, there are two major grocery wholesalers who service the rural independent grocer and general stores. One of these is owned already by one of the major retail chains—which, in itself, is an issue. The major problem is with the three major retail chains' declared aims to gain further market share above the already massive 80 per cent. As this retail share increases, wholesale grocery business must reduce.

If the wholesale grocery business reduces, it is not going to be a viable business, so either one or both of these major grocery distribution chains is possibly going to go out of business. Where are the small independent grocers going to buy product from, because they will not have a distribution chain? I will not go any further into that because, hopefully, you will have somebody at 5.30 to talk to you who hopes to have a career when he takes over his father's business and who foreshadows this by asking, 'Am I going to have a career, when my source of supply could actually fall apart within the next 10 to 15 years?'

Going back to a point I made on the ACCC—because you talked earlier about whether they should be given more powers—I find it absolutely stunning that an organisation like the ACCC allows a major chain store to buy out a regional chain store, which creates a monopoly in a small rural town, a point you mentioned earlier on. This situation is even worse when there is a pretence of competition when the store operates two outlets in the same town. It creates a reduction in quality and service, and local people then consider—despite what the gentleman said before—travelling up to one hour to a major regional centre to shop for groceries.

The problem is not just a loss for the major retailer and the chain store; it is also a loss for other small businesses, because people are going up to the big regional centre to buy and, at the same time, they buy specialty goods as well. So the specialty shops in these regional areas lose out as well—another small point that was brought up to me that I found quite fascinating.

Another is the fact that rural newsagencies—and I was amazed when I found this out—stock approximately 1,000 magazine and newspaper titles. They do that because they offer a service. They are generally open seven days a week, despite what we heard earlier about them not being open as long as major retailers; they are. But the major retail chain in some rural areas will only offer the top 10 per cent of the publications. Basically, they will place them in an impulse buying area, but they do not offer the whole range. There is an inequity there for the small business person who is investing in major stock.

Major retail chains are now diversifying into petroleum—and you will have Steve Bartlett coming to talk to you at about 4.30 about this—and are using their major purchasing power to enable fuel price discounting, which is welcome. But there also is the possibility that they will make contra-marketing deals between the grocery and retail side and the petroleum sales side, which others are not able to do, which to me is not a very level playing field.

There are two other points in this, one of which is very relevant, the other at first might not seem relevant, but I will tie it back in a summary. It concerns accommodation in rural seasonal tourism areas. Small retail businesses in seasonal tourism areas have to cope with high staff accommodation and retail lease costs, generally because they are in a tourism area and there is high demand for accommodation during the season. The problem is that they have to continue paying that high demand cost and spread it over a year's trading. As I mentioned in my submission, that really does not work out in towns such as Jindabyne where the all year round turnover cannot accommodate some of the expected staff and shop rental costs. One business person told me that they would love to expand up into Jindabyne, for instance, but because of the actual cost of tenancy and having to pay the cost of housing somebody up there, it is impossible to do.

The final point on the last page, which might not seem obvious at the beginning as to how it affects retail trade, is the retail trade of pubs. As you may be aware, with pub licences goes the ability to gain up to 15 poker machines. In a metropolitan area I understand that one machine can generate an income of up to \$75,000. This would suggest that 15 machines could create a \$1 million income. I understand that already in Cowra a liquor licence was purchased and transferred to Sydney to gain this advantage, while the local pub was closed. This shows how the impact of legislation on a rural area has not been fully considered.

If I could summarise some of those points, I would suggest that much of the legislation introduced by state and Commonwealth parliaments is drafted and debated by politicians and bureaucrats who have been brought up and live in metropolitan and large regional centres. They operate, as I said earlier, on metropolitan thinking. Legislation and regulation is created with only the consequences in metropolitan and large regional areas in mind. It is now time to legislate so that a rural impact statement must be included on the consequences for rural life and be included in any regulations or legislation that is brought forward.

We are continuing to have government intervention and, in some cases, non-government intervention, which is having dire consequences for country Australia. As we begin to lose the banks, the post offices, the general stores, the pubs and the butchers, the heart goes out of Australia's small towns and villages. The next step is the closure of the school and the shifting of the council offices and other services. This, in turn, takes with it the professionals such as the school teachers, the local bureaucrats and the bank officials who in many cases are members of the local service organisations and community groups, which in turn cease to function. Quite frankly, when you add together all the small things I talked about, that is the impact. I think there are cases where regulation needs to be looked at especially with major retailers that have 80 to 85 per cent of the national market. Thank you.

ACTING CHAIR—Mr Coombs-Pearce, do you want to add any comments?

Mr Coombes-Pearce—Yes, thank you. I would like to formally present to the committee a copy of a report that my general manager wrote to Mr John Cosgrove, Presiding Commissioner of the Productivity Commission, with respect to the inquiry into the impact of competition policy reforms. For the committee's information, my background is that I am a logistician. As business development manager at council, I look at the logistics and do strategic analysis of a number of things that affect the local council.

One particular area that I have some expertise in and have done quite a bit of delving into is the first item in the general manager's submission—the sale of the supermarket chain to Woolworths. I have done quite a bit of work on that and at one stage I think I could just about tell you how many cans of baked beans were sold in this town, to whom and on what date. But some of the relevant information that I have stored in my head may be of some use to the select committee.

During my own analysis of the effect of what was going on with the two Woolworths stores, I did a survey of the draw in population base that covers the three shires—Snowy River Shire, Bombala Shire and Cooma Shire—and on the day I did the survey that draw in population base was 19,802. From that, there is a number of small business tourism operators who spend between \$450,000 and \$500,000 per annum, and they spend it in the town.

But over a period of time with the joint acquisition of two Woolworths stores and the advent of the Woolworths service station, we found that there appeared to be a commodity price rise on the shelf of some 17½ per cent. We found that over a period of time those business operators in the region, tourism and otherwise, were looking to alternate ways of reducing their overheads to defray the 17½ per cent cost increase. One of the things they did was to make a weekly or fortnightly order and have it delivered from another major area—either out of Sydney or direct from Canberra—up to their properties or businesses, or they simply stacked on a trailer and went shopping once a fortnight or once a week.

I was able to track some \$12.5 million leakage out of the region to the ACT or to other major areas, and that includes Sydney. We looked at the town to see how we could overcome it. Part of the research found that the depressed state that we had in the early 1990s impacted a lot on our businesses. But we found that one of the significant things is that, if you fracture your CBD and have satellites, then you do not have—this is the term they use in the industry—parasitic feeding on one another like you have in a shopping centre where you have—what is the current term they used?—the anchor tenant and collective tenants that go round it.

This council has embarked on a methodology to try to consolidate our CBD and stop that leakage. One of the things we found out from the depressed period of 1992 was that we had a high unemployment rate of the teenagers, the under 20s, the kids that were either preparing to leave school or had just left school. We went into negotiation with one of a number of companies so that basically they employed the youngsters. We wanted to stop the leakage so that there was the potential to attract that sort of business in the town. We have done that and, in the location of it, we have tried to minimise the impact on the CBD. To a degree, that has worked. The CBD still seems to prosper.

I think the best anecdotal evidence, which beats any factual evidence you like, is to walk down the main street and count the vacant shops in any country town. In the six years that I have been here, the best I have seen at any one time is three vacant shops—I think we are down to two—in the main street and not the periphery area. In attempting to consolidate our CBD, we recognise that, with the two Woolworths, we were losing and we seemed to be losing business elsewhere. So rather than a council run activity, we have been pro-active in endeavouring to attract development. We have been seeking business and community

involvement to attract another major. We would locate it right smack in the middle of the street, if we could, and we do not even care if it had wheels—basically it is to consolidate the CBD.

To date, we have had an excellent response, and things are progressing. All those involved in the project have realised that we will probably lose one of the Woolworths stores because, if the other major can compete on a level playing field, there will be a loss of the jobs in that major Woolworths store to the competitor. But we believe the competitor will bring with it an additional 12 jobs. We believe that we can actively compete in that area on a level playing field.

The other thing that has come out of our research is a funny thing—a spin-off with fuel. We are in a higher altitude area, probably about 800 metres here, but we notice that the major that is in town with their fuel outlet is not a fuel blender but a fuel supplier. Therefore, we are disadvantaged because our diesel is not a winter mix diesel, so we have problems with any of the diesel engines around here in wintertime. We also found out after a little while that the fuel was not blended and therefore is not necessarily the right octane to operate at these higher levels, and this is the cause of some of the problems that we have had.

We keep getting fed information from the community that the town tends to be somewhat locked up. Whether that is fact or perception, I would not like to get involved in that sort of conjecture, but we can identify that some \$12½ million has flowed out of the community to other regional areas. By using the consultants that the majors used to come up with their facts and figures as to whether a supermarket chain would work or stack up in this town, we have been reliably advised by that consultant that, should we attract another major into this town, such a chain would be able to attract \$20 million back into the town. That is about it, I think.

ACTING CHAIR—Thanks very much for those comments. Just before inviting my colleagues to ask some questions, the committee is conscious that from time to time these types of inquiries are a bit over the top—and I am sorry that that might be a reflection of metropolitan thinking or otherwise—but each of us as members or senators realises the advantage of going out from time to time onto the dirt road corner and kicking dust with a few people or chatting at the back of a CWA hall around the kitchen table with a cuppa. I am sorry that we missed out because we are being formal, but can I say in our defence that we were given a fairly tight time line for reporting on this inquiry. So we have had to go down the straight route of having the public hearing set-up.

Mr Mercer—Mr Chair, am I allowed to add one thing which comes out of the *Impact of Competition Policy Reforms on Rural and Regional Australia* report?

ACTING CHAIR—Certainly.

Mr Mercer—I draw your attention to page 234 of the *Impact of Competition Policy Reforms* report, which presumably you have all read, and in particular to one of the conclusions in chapter 9 which states:

Much of the legislation which restricts the sale of some goods and services to certain businesses is yet to be reviewed. The legislation review provisions of the NCP allow for the benefits to the community of restricting competition to be considered against the costs

and I will come back to that word ‘costs’—

of such restrictions. To the extent that the benefits from these restrictions exceed their costs, restrictions on the sale of certain goods to specific retailers could be sustained.

I think the major problem with that finding is that, whilst the finding is good, it is the interpretation of costs and benefits. Again, unfortunately, when we get bureaucrats or politicians doing drafting jobs based on metropolitan influence and thinking a lot of the rural consequences are really not considered, because basically the major push is that you have people who—like me at one stage—lived in metropolitan Australia and considered things from a metropolitan viewpoint. This is why I would come back to the point I made in my submission that you have to ensure with legislation or ministerial regulations that a rural impact statement is applied.

Senator FORSHAW—I would like to ask a couple of questions. What you have put to us is that the purchase by Woolworths of Cannons has led to a situation where in effect there is no competition between the two stores because of the one owner; that the prices were on average about 17 per cent higher and that, as a consequence, you have seen an amount of—how many million was it?

Mr Coombes-Pearce—We could track \$12.5 million.

Senator FORSHAW—Let me just be the devil’s advocate for the moment, which is one of the jobs we have to do, to test some of these things out. If that is what has occurred, why would Woolworths allow that to occur? It is not in their interests to see business in the town go elsewhere, because one assumes they are losing a substantial part of that business. Could you comment on that.

Secondly, let me put on my hat as a senator from Sydney. I am a Sydney person, but one of our tasks is to get out into the country as regularly as we can. I have spent some time not living in the country but visiting relatives that live in various rural parts of New South Wales, et cetera, and I have also been coming down here for the ski season—I will be down here on the weekend. But one of the comments that I hear is that, because of the influx of people into this region in the ski season, prices are higher for various products. That is not so much in the supermarkets but in other areas, and one expects that that would happen.

I am intrigued as to how it was that the purchase of one store by Woolworths has led to such a substantial economic impact upon this town. This is an area that does depend—certainly at this time of the year—on a lot of visitors. One of the problems has been that we have not had as many people coming skiing in recent years as used to be the case.

Mr Coombes-Pearce—Just a couple of things, Senator: 66 per cent of the people who come down here do not come down in the winter time; they come down in spring, summer and autumn.

Senator FORSHAW—I am not one of them.

Mr Coombes-Pearce—Of the 14 weeks of the ski season, 25.1 to 25.6 per cent of the people come down in an eight-week period. In that time in this particular town there is not a fluctuation with the visitor numbers such as you would expect in some tourist towns. I cannot comment on the other shire and up in Jindabyne, because the vast majority of businesses in the Jindabyne area only operate in that ski season.

Senator FORSHAW—I apologise; I probably had Jindabyne in the back of my mind in that respect.

Mr Coombes-Pearce—The thing is that those operators who cater for the tourism industry year round have found that their overheads have gone up some 17 to 17½ per cent. When you look at it collectively—especially when the annual purchasing power of each unit is \$450,000 to \$500,000—that may not represent a hell of a lot of people through the door at Woolworths or Cannons. But before they were purchasing at Cannons. They no longer do; they go to Canberra or they are finding alternative means of getting their dry goods out of wholesalers in pallet lots out of Sydney.

Senator FORSHAW—Do you have some hard evidence on that? I cannot argue or dispute what you are saying to me but I am trying to understand why. Woolworths are not stupid.

Mr Coombes-Pearce—I know they are not stupid. They have got the market tied up, haven't they?

Senator FORSHAW—They are not going to see a substantial part of their business disappear. If anything, they would be trying to build it up once they bought the store. In parts of Canberra, Woolworths might be the only supermarket in that area—okay, it might be easier to travel to other areas. Do you have any hard evidence to show that the prices are substantially higher?

Mr Coombes-Pearce—The consultants that we employ are consultants that the major chain we are looking at uses. They did the research into the area and actually got information, as I understand, direct from the two outlets in this town.

Senator FORSHAW—The normal thing we have heard is that the end result of something like this has been that other businesses in the town lost market share—and closed or whatever—to Woolworths, or whoever the big retailer was. In the same way, we have heard that petrol stations might lose business because Woolworths buy a petrol site and use the discount system through the purchases from their supermarket to collar that market.

Mr Coombes-Pearce—In support of the service station issue, we have actually had two service stations close. Other small retailers, such as the gas supplier, have felt the effect. They were going to Canberra; they now get deliveries direct to the sites, whereas before they would come in and change their bottles. There are different elements of it. Even for the rural ag supplier, for example, instead of such things as pipe fittings for a caravan park being bought here, they are now being purchased in Queanbeyan.

Senator FORSHAW—But they are not necessarily products that Woolworths are selling, are they?

Mr Coombes-Pearce—No. You asked before where the evidence was. We have gone across a number of outlets, not only Woolworths, and there has been an impact right across the town. Not only are we losing the commodities that were normally bought at Woolworths but also people are going away and shopping for other things and making other arrangements. When you talk an increase over a period of time in the order of 17½ per cent, if people can procure their commodities for an overhead cost of five per cent—up to seven per cent, I have been advised, as the highest amount—they are still saving in the order of 10 per cent to 12 per cent.

Senator FORSHAW—It would be useful for us if you do have any information as to the pricing of products here by Woolworths since they took over the Cannons store—and this may be difficult for you to obtain—vis-a-vis prices in a Canberra supermarket area. I do not know whether you have that. It might be too late to get that, but that would bear out your costs.

Mr Coombes-Pearce—It was something I did have in my possession. In the approach that we took with the business community to seek a competitive major, we managed to get a range of prices, the increases over an eight-month period that we could actually track and the variation in prices of the same commodity in the Woolworths stores. We used that information to seek out then who we could use as a major competitor to attract. I have passed that information on to that major competitor.

Senator FORSHAW—I do notice from your submission that you point to some other economic circumstances, particularly the closure of the meatworks, the abattoir, and the issue over the gaol. From what I understand, the last couple of years have not been the best years. I can only talk from the ski season.

Mr Coombes-Pearce—Come down at other times. We will gladly take you around.

Senator FORSHAW—I accept that, but I suppose there is a focus about measuring how well the area does at that time of year. Thank you.

Mr NAIRN—Greg, can you explain to the committee whether there is any real operational differences between the two stores? When I talk to people about this circumstance the thing that they find it difficult to understand in a town the size of Cooma is how one retailer can have two outlets. But, if you asked the question of Woolworths, they would say they are servicing a different clientele. Have you got any comments to make about how those two stores operate in that respect?

Mr Coombes-Pearce—We have asked the question of Woolworths, and they have obviously given you the same answer they have given us: they are serving a different clientele. But, if you look at the make-up of the town, there is not that much of a difference in the make-up of the town to justify that sort of statement. I must admit that, when I had my dealings with the consultants, from the evidence that they had they were suggesting that the second Woolworths store, once it was taken over by Woolworths, had a serious decline

in its revenue turnover. It is Woolworths company policy, as I have been advised by Woolworths, that all stores are to look alike and accord with their marketing regime and how they dress the place up. If you look at both of those stores, they both now fit that marketing regime and dress up, and I fail to see how they are addressing two lots of clients when they are using the same marketing technique.

Mr NAIRN—So one store does not carry a bigger range of home brand goods, for instance, trying to pitch at the lower end of the market or anything like that? Or one does not have a more of a predominance of fresh fruit and vegetables than the other one? There are none of those sorts of changes?

Mr Coombes-Pearce—The range is there. Maybe the depth of the range is bigger in the main store, that is, the original store. Being closer to the CBD and the foot traffic being attracted to the CBD, they get a bigger client base. But from the reading of the consultants report and my discussion with Peter Lochon, I am unable to define any variation of any magnitude.

Mr Mercer—There may be a point about a different market. Frankly, I do not know because I have never really researched the differences between the two shops. Do they have major differences? I guess Woolworths would argue the case—and I do not know whether they have—that the store in the Hains centre during snow season would cater for passing trade who were going up to the mountains, self-catering. But I would add that, the year before I came here, I stayed in Adaminaby and we still stopped at Woolworths and did our shopping for the camp when the second store was not open.

It is important to understand as well that I do not think anybody is saying that we should not have major retailers in rural areas; yes, we should. We are just making the point that you cannot have a monopoly situation, because it is not good for prices and it is not good for quality. Somehow it has to be integrated with small business and speciality shops. Whilst the council cannot talk about it, that is one of the things that they are trying to aim at with that concept of competition which ties in with a major retailer and specialty shops that surround it. I do not know whether you use regulation to do it or what, but there has to be some way.

Mr NAIRN—John, can I just ask you a question in relation to your role in the BEC? One of the things we have found in evidence given is that, when one of the majors comes in, particularly in regional towns, some of the smaller independent grocers do struggle and some often go out of business. Part of the reason some of them struggle in the way that they do as opposed to others that do not is that some are less reluctant to stick with the old ways they used to run their businesses. Have you had a role with the BEC or could you make some comments about the way in which some of the smaller businesses are adapting to a new regime so that they can compete better with the bigger retailers?

Mr Mercer—I think it is very difficult to generalise, but I will try. Yes, there are some businesses that always will remain doing what they have always done. They did a business plan, maybe in their head, when they set up the business 20 years ago and they are still working on the same business plan. But in this region, in the four shires that we as a BEC look after, many of the small businesses here are very innovative and very adaptive. I was talking to a butcher yesterday and was trying to get some information. He simply made the

point to me, 'Yes, John, we have to cope with competition from major retailers. The way we have to win is by being smarter, cleverer and offering service that these big boys are too bureaucratic to offer.' So I think we have a lot of small business people around this region—and I cannot speak for any others—who are really trying hard.

But I hark back to the point that, when you get 80 per cent or 85 per cent market share in a particular industry by three players, I believe that is not democratic capitalistic competition. I think the answer to your question is, yes, there are some who are maybe still in the dark ages, and they will die, unfortunately. But there are an awful lot out there who are diversifying, moving into different things. The problem is that things are happening faster, technology is changing and customer tastes are changing. If they are going to survive, they have to be in there looking at the changes. I have got great faith in small business and I think Australia has as well. That is why we have so many of them and why so many are surviving.

ACTING CHAIR—How do you rate the importance of centres like yours to give small business confidence—the fact that you are there, to be able to go and speak to them and for you to help them?

Mr Mercer—You are asking me to do an advert for BECs and I will take the opportunity. I can only agree that what we do not have enough centres around Australia that provide hands-on, free, confidential business advice. Frankly, the two major networks of BECs are in Western Australia and New South Wales, and they have been very innovative and have very supportive state governments.

I have to say that the federal government has not come to the party and joined in the support of these. Federally, we have just formed a national association of BECs. If we could have that supported by federal government and deliver through that network many of your federal government small business services, I think we would get your programs down to a real grassroots level where it counts, as against going through a lot of filter systems that cost an awful lot in administration and bureaucracy without actually delivering the end product.

That is what BECs do. They are owned by their communities; they are managed by their communities. And anything more that government can offer to support small business is absolutely vital because we all know from the statistics that this country depends on its small businesses. Of course, it is important to have major retailers and things like that, but it still depends on its small businesses.

ACTING CHAIR—Having let you have that advert, can I just briefly share some metropolitan thinking with you? How important is it in areas like this for small businesses to know their rights under the trade practices legislation and to be able to be guided to use that? I know here in Cooma, given the ACCC and the supermarket buy-out, it may not be the right place to ask this question. But I am wondering whether that is an important aspect—for there to be a place where small business can go and have everything demystified or have somebody hold their hand to lead them in the right direction.

Mr Mercer—I could not agree more. I think it needs the referral process. It needs a one-stop shop in small communities and rural areas where they know they can go to be provided

with advice and information that is totally confidential. That is another point—people do not like going to areas where they think it is going to be talked about. Part of the charter of BECs is that it will do that.

I could not agree more on the regulations and rules; we have six filing cabinets of resources all based on government rules and regulations. The BEC network put forward a submission to the small business inquiry some years ago in the time of the previous government, and I think there were 250 regulations or something like that—I cannot remember the exact number—you might need to consider when starting up a small business. That is frightening. And, yes, it needs very localised small business enterprise centres or the equivalent where you can go and get this information.

ACTING CHAIR—Thank you both very much for the effort that you put into your appearance before us today, sharing your experience with us and giving us a little bit of local gloss. Thank you very much.

Mr Coombes-Pearce—Thank you very much. Just one little statistic for you that I had written here and forgot to mention: in Australia three of the majors control 80 per cent of retail in Australia, whereas in America six of the majors only control 20 per cent of the market.

Mr NAIRN—Yes, we know those statistics well, Greg.

Mr Coombes-Pearce—Can we change them around?

[2.47 p.m.]

BARTLETT, Mr Stephen James, Director-Manager, Wonfair Pty Ltd, trading as Slaters Fuel Services

ACTING CHAIR—Welcome.

Mr Bartlett—I am here today because I was sort of invited through the Business Enterprise Centre to, as the letter says, meet with the select committee and discuss some retailing issues. So I am here with a rather open mind.

ACTING CHAIR—Good. And hopefully we are here with an open mind to listen to you.

Mr Bartlett—I suppose I say that because I do not know quite what to expect either.

ACTING CHAIR—Okay. The committee prefers all evidence to be given in public, but 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 remind witnesses that giving of false or misleading evidence may constitute a contempt of the parliament.

Steve, we do not have a submission from you but would you like to make some opening remarks?

Mr Bartlett—I have read some things in the newspapers about this inquiry. From an industry point of view, of grave concern to my industry are which direction to go and the use of monopolistic powers. If I can put my two bob's worth in, I suppose I will. But I have not prepared anything because I did not quite know which way to prepare it, and I suppose I am also fairly open-minded in my approach to competition. So I would prefer to field some questions and see how I go with that.

ACTING CHAIR—Mr Nairn.

Mr NAIRN—Steve, even though it is a formal hearing inasmuch as *Hansard* records it, from the committee's view we are trying to get the broadest cross-section of information about what is happening in the retailing area, and particularly in relation to the larger retailers and the market share that they have, so that we can then make some recommendations to the government and the parliament about law changes which could take place, for instance, strengthening the ACCC's role on predatory pricing and all of those sorts of things.

You might just like to talk about the circumstances within the fuel industry, particularly here in Cooma, or even in general, if you have some of that knowledge as to what might be happening. I know that a lot of this inquiry has concentrated on the specific retailing and supermarket area and the position of Coles, Woolworths and Franklins, but it is a retailing inquiry across the board in that respect, so what is happening in the retailing area fuel-wise is certainly of interest.

Mr Bartlett—Okay. I suppose there is a bit of history to a lot of this too, and I will try and keep it very brief because we do not have all day. The fuel companies and service stations in general have moved into retailing general merchandise, more so probably from the mid-eighties through to now, and therefore they have been in direct competition with the traditional supermarket supplier or even the corner store type of retailer. A lot of that has been because it is another avenue for that piece of property to earn income: the customer comes in the door, can buy their groceries, bread and milk and then go home with a tank full of petrol. Also, with the changes in technology with motor cars and so forth, the ability of a local workshop owner to keep on top of all that technology has become more difficult. The franchised car yards can handle that better than the local can, so he has had to change his business mix, and the shop has been a beneficial component of that, right up until the last couple of years, when Woolworths have directly decided that in order to get some of that trade back they will compete by opening service stations.

There have been a number of inquiries where the oil companies have made submissions to government about the repeal of the sites act and the franchise act that relate to the petroleum industry because the oil companies are unable to compete with Woolworths and Coles in the fuel game on the same sort of playing field. The simplicity of that is that oil companies are restricted to operating something like less than 10 per cent of the properties that they own, whereas Woolworths and Coles can operate every individual property that they own.

In this town, and in many towns in the country where Woolworths have opened a site—Coles are really only dabbling in that area and have opened one or two sites, so it is Woolworths that are the leaders from the traditional retailers' side into the oil industry—I have an opinion that they have probably used some predatory techniques in order to gain a market share, because they can; not necessarily predatory with the intent of running people out of business, but I suppose that is the result. I believe that is because they have a broader source of income and an ability, because they are big business, to even subsidise a segment of their shopfronts in order to get what they want, if you like. In this town and in many country towns—I can cite Temora, Cootamundra and Young, where I have had some fairly close experience—the impact has been that for petrol retailing our margins have been cut considerably. We are surviving, but most of the time we have been surviving because at different points in time the oil companies support us.

The bottom line of all of that is that the person who is trying to operate one of those businesses and who employs staff or does not get his thresholds right will eventually go out of business, but there is probably just enough of the pie left to keep mum and dad operating and keep them employed. They will work hard to make a bit of a living, though they are not going to get rich and be able to retire happily in five years time, if I can express it that way.

A lot of this has come about because Woolworths have said, 'Spend some money in our shop and we will give you a voucher for 2c a litre discount under the posted price that you see at our pumps,' which is a pretty good enticement. But it is an enticement that I cannot match when I operate a traditional service station. Even if I had a bigger and better shop, which I guess is something that I need in order to compete at some level, I do not know that there is enough left in the margins of the petrol to be able to afford to do that type of marketing.

Mr NAIRN—Steve, when Woolworths opened up in Cooma, what was the average price for unleaded fuel?

Mr Bartlett—It was about 78c, I guess, at the time.

Mr NAIRN—What did Woolworths open up at?

Mr Bartlett—We went to 75c and then it progressed lower over a period of time and off the top of my head I think it got down to about 68c a litre.

Mr NAIRN—Yes, that was my recollection.

Mr Bartlett—At that point in time, the oil companies were telling us they were going to pull out of supporting us at that level because it was unsustainable.

Mr NAIRN—So during that period if Woolworths came in at, say, 75c you were selling at 78c—

Mr Bartlett—We matched it at 75c.

Mr NAIRN—You would match it at 75c and the oil companies would subsidise you that 3c; is that right?

Mr Bartlett—No, they do not subsidise you to that extent. They will subsidise us to make a margin. That was based on their wholesale prices or the ACCC approved maximum prices. We would effectively be on a sliding scale of margin down to a point where there was nothing left for the oil company or for us for that matter.

That is the traditional way it has always worked in the oil industry and why you have the cycles in the metropolitan markets. The oil companies support on a sliding scale until they say, 'No more.' They withdraw support; the price moves back up because the retailer has to move it back up; and then the scale will start again. Often it will depend on which retailer decides he wants to do it for a bit less—sometimes to induce his supplying company to support him. It is not a clean business in that regard with a lot of people. But effectively we lost 3c a litre off our margins on day one when Woolworths opened the doors in this town.

Senator FORSHAW—Can I just interrupt and ask what was the margin you were operating on?

Mr Bartlett—About 7c or 8c a litre.

Senator FORSHAW—That is what I thought.

Mr Bartlett—I suppose the average now is closer to 5c but we did get down to about 2½c a litre at one stage in the initial stages. Woolworths, I suppose, were fighting—the same with all the other people in town—but they were setting the pace and people were matching, because if you do not match then they do not come to you.

Mr NAIRN—The rule of thumb is about 4c or 5c to break even, isn't it?

Mr Bartlett—Yes, definitely. And that number has to grow depending on your throughputs, because your wages costs are the same regardless of your throughput. To draw the comparison, if you are in Sydney and you are pumping a million litres, you can work on 1c or 1½c but you cannot do that in the country. I honestly say that 7c or 8c is comfortable but we are not going to get wealthy men out of it and it is not a rip-off to the consumer, but at 5c you are hanging in there.

From our point of view in our business as a distributor, we wholesale to farmers and other things so it is just a portion of our business. Most of the service stations here in town are owner-operators. So the way they have coped, as I see it, is to do more hours for themselves; they employ less labour to help them run their businesses and they take a lesser margin than what they were enjoying two years ago. There has only been one site close in the district—

Mr NAIRN—That is the one at Four Mile?

Mr Bartlett—Yes, the one at Four Mile. But I think it is mostly because of the fact that they are families operating these businesses and they probably own their premises and they can just sort of hang on. The guys that are paying for their premises would be suffering more by paying them off.

Mrs ELSON—Steve, I have not been into a Woolworths fuel station. Do they sell other products too? Do they sell their bread, milk and so forth in the service stations?

Mr Bartlett—Generally, no. Basically, they put a drink fridge in. They sell a little bit of oil, some chocolate bars and stuff like that. But the latest trends that I have been reading about are that they are going to revamp that and go more to the full convenience store style of outlet on their sites; not so much here, because it is not within the car park complex, but at Coffs Harbour, for example, where the site is in the car park complex of the shopping centre, you will have a convenience store and a Woolworths and there will be various other shops. I believe that is what they are going to do with their next developments. I assume from the way I read things that, over time, they will come back to their existing sites and revamp the shops.

ACTING CHAIR—Where do the gimmicks—like the discount on the price if you purchase a certain amount at the supermarket—fit into the overall scheme of things from your point of view as a competitor?

Mr Bartlett—At the end of the day, it is a gimmick. You can buy the little bite-sized Mars Bars—and that is about all it is worth in reality. The average amount for fuel is, say, 30 or 35 litres. Two cents a litre is 70c. Some people are driving a hell of a long way to save 70c. In fact, they are probably wearing their car out more so. But it is a discount; it is 2c a litre off the posted price. My posted price is the same as theirs and I do not offer the 2c. I am trying to offer other things, but people see that fuel is 2c cheaper. They do not realise that it is for a lousy 70c. Maybe I should just give them a Mars Bar instead. It is just an emotional thing.

ACTING CHAIR—One of the points that has been made to this inquiry is that consumers are marching with their feet about, say, supermarkets and things like that. Certainly we have not had overwhelming evidence from consumers to say that they are actually up in arms about—for instance, in supermarkets—the amount of market dominance by the three majors. But I just wonder how astute, then, consumers actually are about what they are doing, or are they being led?

Mr Bartlett—I have a few opinions on that.

ACTING CHAIR—Share them.

Mr Bartlett—I do not think the consumer realises the ramifications of that. It is not just the fuel industry; I look at it in more general ways. When a supplier sells goods, they generally would like to sell a large quantity and they will cut their price on that large quantity because it is easier for them. Then, of course, when they sell a smaller quantity of goods to another consumer, they tend to try and get a little bit more for it. That is one way we sell petrol. If a farmer out of town wants to buy 10,000 litres off me—which is a truckload—I can make, say, 2c a litre on that because, over the total trip, I have made 200 bucks. But I still have the same overheads to go and deliver 200 litres to the next farmer. He does not like the fact that I want to charge him a little bit more than the guy next door who buys 10,000 litres. Everybody wants the lowest common denominator. But, in reality, I should charge more. I look at it this way: in the case of the supermarket chains where they are buying truckloads of lettuces, for example, a farmer who can get a contract to supply those would probably be a little bit better off than if he was supplying 10 individual greengrocers.

I think what is starting to happen is that the big companies like that are forcing the suppliers to manufacture to certain standards and also manufacture at a certain price: ‘This is the price that we will give you for your truckload of lettuce. Take it or leave it because there is another bloke down the road.’ Therefore, there is a supply chain that is probably not making the money that they deserve for their investment, their time, their labour and all of those things. But, if they do not beat that price, they have not sold anything and the crop’s bugged, for example. And I think even the meat industry would be going that way in a lot of areas. I think the dairy industry will end up going that way with this deregulation and so forth, and a lot of the little farmers will drop off the tree.

Each small farm supports a family, and the kids go to school and all of that stuff that is associated with the infrastructure of our communities. The bigger the farm, the less labour you probably need to operate it effectively; you could use a few more machines and the like. So there is a whole group of people that is going to end up out of work and looking for other things to do, and other skills. There are some industries that they could possibly move into and, with the technological industry that was not there 20 years ago taking over a share of our jobs nowadays, there is a general shift. But I just do not see that that shift is fast enough to make up for what we are losing at the other end of the scale. I do not have statistics for that, but I guess you could get some trend analysis over the last 20 years. Possibly that is one of the causes of a lot of the youth unemployment—and because dad can no longer afford to put his son on the farm because the income is not there.

It is quite a generalisation but I just look at it and say that market power is not just at the retail level; it is also in the wholesale chain, and there are wider impacts in the community because of that. Like I said, I am not against competition as such, but I am just very wary about some of the impacts in that area. In the oil industry, there are four oil companies, all with a share of roughly 25 per cent. They can dictate to me what I buy it for—and it is big dollars—and I have a lesser ability to dictate to my customers what they will pay for it.

Senator FORSHAW—There used to be, what, eight retailers 10 years ago?

Mr Bartlett—Yes. I wish I had some statistics for all of that. As I said, it is rather a generalisation but I think it is the way it is happening.

ACTING CHAIR—Are there any other questions?

Senator MURRAY—I have a kind of philosophical one. We have come to the end of this inquiry process, we have got to produce a report, and the report will either result in a change in law or not. There are two kinds of law changes we can look at—and a lot of people want us to change the law. One kind is black-letter law, which says ‘You can’t do that’ or ‘That’s a cap’, or whatever it is. Another kind is what we call discretionary law, whereby we give the power to a regulatory authority. We say, ‘If such and such a circumstance arises, you have a look at it and make a decision on the merits of that particular case.’ An example in trade practices law is merger activity. Sometimes the ACCC agrees a merger is okay and sometimes it does not, on its merits.

With some of the questions that we are dealing with here, and that you have been dealing with, such as market power, excessive retail concentration, and deleterious effects on rural and regional communities, but also in the cities, is your instinct as a business person that you would prefer black-letter law, or would you prefer a more flexible situation where a regulatory authority would look at the matter on its merits against certain criteria which the parliament would set?

Mr Bartlett—Obviously, there are arguments for both ways, and I think it is going to be very difficult to have black-letter law in our society nowadays. If you look at it from the point of view of the fuel industry at first, where, under the sites act, oil companies have been allowed to own premises but not operate them, that has worked quite well because the oil companies have not been, at the end of the day, able to dictate the final retail price.

It has created a whole lot of small businesses, if you like, that should operate on their merits as individuals, and the oil company should be entitled to a return on its investment from that property and the like. But the consumer still has choice, and lots of individual choices, rather than the choice of, at this point in time, four potential retailers in petroleum products, which ultimately it could get back to with the repeal of the sites act because the oil companies can see that they can go now and operate all of these sites, take that retail dollar and prop up their businesses in a different way.

Look at the situation we have now, and I will use the Fly Buys card as an example, which is a Coles Myer generated product as far as I can see. This is where the regulatory type of laws can be avoided. To the best of my knowledge Coles Myer has the Coles store,

the Myers store, the Grace Bros store, the Katies store, the K Mart store, and probably a couple of others that I do not know about. You can use your Fly Buys card at all of those shops. Really, all of those shops are brand names and behind them all is the one conglomerate, the one big company. I can see that the idea of regulatory pressure could be avoided because they will just put another brand name out there and the perception of what is going on gets lost to the consumer. The reality is that there is one GM in the background controlling all of this, one infrastructure controlling multiple brands.

That does not give you an answer really; it just says that regulatory law and pressure from controlling bodies does have its merits, but people and companies can get around that. On the other side of things, not always is the black-and-white stuff going to work either. But I think in some ways it could work to the advantage of keeping people employed as much as anything, and not necessarily be a the major detriment to competition and efficiency.

Senator MURRAY—Thank you.

ACTING CHAIR—Are there any further questions? No. Steve, I hope that was not too painful. That was very interesting from the committee's point of view. It was very good of you to share your experiences and comment on some of the things that are integral to the committee's deliberations. Thank you very much for appearing before us today.

Mr Bartlett—Thank you.

[5.13 p.m.]

WILSON, Mr Peter Charles, Adaminaby Store

ACTING CHAIR—Welcome. Mr Wilson, would you state in what capacity you are appearing today.

Mr Wilson—I am representing Adaminaby Store, our company name. Our trading banner is the Five Star banner and we buy from Australian Independent Wholesalers at present.

ACTING CHAIR—The committee prefers that you give all evidence in public but, if for any reason you wish to ask us to go into camera, we can consider that, but we should remind you that subsequently any in camera evidence might be made public by order of the Senate. Also, I should add that the giving of false or misleading evidence may constitute a contempt of parliament.

Whilst the committee does not have a submission from you, we invite you to make some form of an opening statement and then we will go to questions.

Mr Wilson—I do not have a problem with that, thank you very much. I was asked approximately three or four weeks ago by Gary Nairn, my local member, whether I would be able to get to this meeting. I did not realise at the time that it was school holidays. We are exceptionally busy right at the moment but anyway I am here.

I would just like to put my points across. I have a couple of points which you may or may not have heard before but I will say them because at least I will know I have put them across. First of all, our business is owned and operated by my parents, my wife and me. I have a 16-month-old son. We have made our home in the township of Adaminaby. We have lived there now since 1976 when my parents purchased the business from the previous owners. There have been an awful lot of changes in that time, as one can appreciate.

As I said at the beginning, we trade as Adaminaby Store. We are a Five Star banner store, which means we buy from Australian Independent Wholesalers. However, we have the ability to direct what we buy because we are not actually tied to AIW; we are tied to the organisation called United Star Supermarkets Ltd. That enables us to buy through them from AIW, which gives us a little bit more say in what we do.

I am currently manager of the business. As I said, my parents still own and work in the business. I have been working in the business full time since an afternoon in 1985 when I finished my HSC exams at Monaro High School here in Cooma. Prior to that I was working at the same store in various capacities. My duties included cleaning floors every day after school and working during school holidays. Basically, what I am trying to say here is that we have made our home there; we are happy there. In the last two years I have purchased a house there and I want to stay there, but there are some problems we are facing.

The domination of Woolworths, Coles and Franklins in the supermarket industry is going to affect our business in a number of ways. The major effect stems from the fact that there

are two main grocery wholesalers on the eastern seaboard—Davids Holdings, which is now owned by a South African company, and Australian Independent Wholesalers, which is owned by Woolworths Australia.

As the chain stores' market share has increased over the years the independent trade has decreased, thereby making it more difficult for these two wholesalers to make profits. To give you some idea of the change, when we took over the store 23 years ago the independent trade had at least 60 to 70 per cent of the supermarket grocery trade whereas now, as we all know, it is down to less than 20 per cent.

If the chain stores are not stopped from continuing with their chequebook buy-ups of these supermarkets, these wholesalers will not have enough independent stores or market share to sell to. For example, today I opened and read the latest *Retail World* that we received. I would just like to bring to your attention an article on the back page of this issue. The article is headed, 'Franklins buys Conti's'. This is just one example of what is happening. Even though we live in the backblocks we still keep in touch with what is going on. It says:

Franklins has added another independent store to its stable, this time Conti's IGA supermarket in Cobram, Victoria.

IGA, of course, purchase through Davids Holdings.

The acquisition, which takes effect from August, continues the unabated drive by the chains to buy market share through acquiring some of the country's best, or strategically located, independent operators.

I could go on but that is the paragraph that I want to put across.

Mr Gary Nairn has been into our shop quite a few times. In fact, he owns a house at Old Adaminaby. He and his wife have purchased groceries through us and it is a pleasure to serve them, and while ever we are there I will be happy to continue to serve them.

To fit our story into this picture, I would just like to present you with some facts which you may or may not know. We are 52 kilometres from Cooma, where our nearest chain store is located. We service a population of approximately 300 locals plus a seasonal tourist trade—currently extremely busy. Personal transport, particularly for the elderly, is limited. No public transport or frequent bus service exists between here and Cooma. There is a bus service which operates once a fortnight—hardly enough.

In order to have a chance to be fair to our customers, it is totally necessary for independents like ourselves to have a competitive wholesaler with a wide range of goods to suit demand. I make my main point here: if Davids and Australian Independent Wholesalers, or both, were to be squeezed out of the marketplace, where will our store in the bush—as we call it—buy our goods at a reasonable price and with reasonable freighting costs to meet the demand in our town? If no supermarket, such as ours, is able to stay viable, I am certain that the town of Adaminaby will decline. Our business currently supports two families—as I mentioned, my mother and father and my wife and me—and seven casual staff on top of that. In our little town that is much needed work, I can assure you. If we could employ more, we certainly would. They are direct effects.

More far-reaching effects which I would like to mention are: if there is no small supermarket in our town, then around 70-odd suppliers that we buy goods from—some ranging from very minute amounts, of course; some ranging to many thousands of dollars—will miss out on our business. They range from, for example, fruit and vegies, bread and milk, hardware, souvenirs, electrical goods, camping goods, footwear and pharmaceuticals. I would like to point out that there is no chemist shop to supply pharmaceuticals. We have a special chemist licence to stock S2, or pharmacy only, medicine. It is amazing the number of times we help people out. We sell a large range of that product.

In our little town, if that service was not available—and I believe it would not be there without a supermarket—there would be a lot of sick people, including asthma sufferers. We have special permission from the state government of New South Wales to stock ventolin. We fought for that for years. There has been a number of occasions where we have actually helped somebody who has been having an attack by having Ventolin there. Also, you have your utilities, such as your rates, your electricity, et cetera. We also sell catering supplies, and so the list goes on—up to 70 suppliers.

The second far-reaching effect is that tourism, which is one of our biggest employers in Australia, will reduce in our town. If there is no supermarket out there, where are they going to buy their goods? They are going to come to Cooma; they are not going to go and stay out there, because it is just too far—people will not travel. There will be a lot more road use, due to residents having to travel further to buy goods, and I am sure the Democrats will not be very pleased to hear about the environmental impact of that.

My next point is: in the 1970s there was a big push to decentralise—that was part of the reason we ended up here in 1976. Small business grew greatly in the country areas, and independent supermarkets traditionally catered for these areas. In the later 1990s, centralisation is taking place, and country Australia is in decline. One of the major reasons for that, of course, is the bank problem. We lost our bank—do not quote me on this figure, but I believe it was some 2½ to three years ago. It is an absolute nightmare to have to drive a 104-kilometre round trip to get change. It is a real hassle.

Senator FORSHAW—Which bank?

Mr Wilson—We had the National Australia Bank out there at the time. The chain stores are mainly interested in high population areas and, as such, do not cater for smaller towns of 300 people. They are not interested in coming out and setting up at our place. If independent stores are left to service these towns, where again do they get supplies if the wholesalers are out of business due to lack of market share?

My last point is this: Australia seems very good at following the example of other countries, and I would like to mention the Howard government GST at this point. We have brought in a GST in this country, and it is being brought in basically to bring us into line with other countries. We are one of the last to do so, at least in the Western world. Why don't they take note of some overseas practices which could assist in this matter, such as the antitrust laws in the United States? NARGA, the National Association of Retail Grocers Association, are recommending capping to the present levels of 80-odd per cent, reducing to 75 per cent, total market share of the three major chains over the next five years. Please

remember: for every one person a chain store employs, an independent store employs 1.7 people.

Please encourage our small businesses and stop the chains before they shut us out of the place we have worked for 23 years. As I said, I have bought my house out there. I hope to be there in another 23 years—God willing—serving Mr Nairn and whomever else might come my way. I thank you for this opportunity to talk to you this afternoon, and I hope it is of assistance.

ACTING CHAIR—Thank you very much for the effort you have gone to in preparing that presentation for us. In fact, in your presentation you have answered a number of the questions that you were likely to be asked, but I am sure that there probably still are a few questions. Just for the committee's benefit: we have one further witness as well; I do not want to frighten you away from asking questions, but we are a little pressed for time.

Senator MURRAY—In another country area where we spoke to some supermarket retailers, they indicated that about a third of their produce was sourced locally—in other words about two-thirds was from the wholesaler, mostly electronic ordering, and about a third was by telephone and reps calling. You are in a much more isolated locality than they were. What percentage do you get from your wholesaler, and what percentage is local?

Mr Wilson—One hundred per cent is from various wholesalers. We travel to Canberra. When I say 'we' I mean my father. He is now 60 years of age. He is wanting to back out of that job a bit, but he is still doing it. We travel to Canberra once a week. My father leaves home at 4 a.m. on a Thursday to get to the Canberra markets by 6 a.m. when the semitrailers are getting in with all the fresh produce from Melbourne and Sydney. He then hand picks all the produce and leaves it in the coolroom there. We then go to many other wholesalers down there to pick up our groceries from Australian Independent Wholesalers. We go to various catering supply places, because we do some wholesaling out there, simply because of the isolation. We do all our own freighting.

Senator MURRAY—So your bread, your milk, your fresh fruit and vegies—all that sort of thing—you cannot get locally?

Mr Wilson—No. Our milk, up until September of last year, was purchased through Capitol Chilled Foods here at Cooma. There was a problem after the milk was deregulated in New South Wales where we would have had to start to pay the freight, because Capitol Chilled Foods would no longer subsidise the freight and, of course, the New South Wales Dairy Corporation did not have to. We approached National Foods, and they have appointed us a distributor. At the moment, we travel to Cooma every Monday, Wednesday and Friday and pick up our milk from a semitrailer that is bringing it down on a run to the Woolworths stores here and also down around the coast and back to Sydney. We do that three times a week to service our area with milk.

Senator MURRAY—So you have no driver salesmen deliveries to you of any kind?

Mr Wilson—We cart or freight, I would say, 98 per cent of the total product range that we stock. We have an insulated utility and we have a pantech truck—do not get me started on that, with the Democrats' changes to the GST.

Senator FORSHAW—Please do.

Senator MURRAY—Stay on the subject, won't you?

Mr Wilson—While I have the chance, if I may: our pantech truck is rated to carry a GVM, gross vehicle mass, of 4,490 kilograms. We miss out on the fuel rebate by 10 kilograms. What are you going to do about it? That is not fair in our isolated state.

Senator MURRAY—I am sure we will be able to solve that problem.

Mr NAIRN—I suggest that you round up, Senator Murray; I think the rule is you round up to one decimal place.

Mr Wilson—I would be very pleased.

Senator MURRAY—It is like decimalisation; you just round up. But thank you for letting me know that, because I will pass it on.

Mr Wilson—It is a nightmare in our situation. Once again, with our utility, which is only a one-tonne vehicle, we have to travel three times a week—that is over 300 kilometres—to get our milk. There is no other economical way of getting it out there. We would appreciate the fuel rebate there too.

Senator MURRAY—You made that point, and we have heard it. Back to the issue of how dependent you are: do the 300 people in your town—you have also got people in the outlying area—ring in and then you go out and service them fully with their goods? Do you do a lot of deliveries as well?

Mr Wilson—We do a lot of deliveries on the wholesale side of the business. But we have two sides to our business. We have our wholesale side—or what we call 'intermediate wholesaler', because we buy from the wholesaler and then pass it on. We put on a handling freight charge on top of that to cover our time, and we do deliver to those customers. That is not just in Adaminaby. I have customers in Berridale; I have a customer in Dalgety; I have two customers in Cooma itself.

Senator MURRAY—Are those businesses or families?

Mr Wilson—They are businesses. This is all wholesale.

Senator MURRAY—Do you deliver to families as well?

Mr Wilson—No, they come to us. But we do offer our retail customers a once a week ordering service where people—especially busy people in business—place an order with us on a Wednesday for the fruit and vegetables that they require. My father buys the fruit and

vegies for the order on the Thursday when he is in Canberra, and then the customer can come and pick that order up at 12 p.m. on a Friday; the order is ready to go. We find that we are able to compete with Woolworths quite favourably, in fact, on fruit and vegie prices. We go in there at least once—usually twice—a week and make a note of all of their prices, and we charge the same price for our fruit and vegetables out there.

Senator MURRAY—Do you interact with other retailers? Do you go to annual conferences?

Mr Wilson—Other grocery retailers?

Senator MURRAY—Yes, through your wholesaler links.

Mr Wilson—With the banner, isolation is a problem, because of having to go so far. Usually these conferences are, at the closest, in Canberra—and we already have to go there once a week—or, more often than not, Sydney, and obviously getting there is a problem. But I have spoken to various retailers over the years, and certainly in our area I know that the gentleman at the Berridale store has concerns similar to my own. I know the gentleman—

Senator MURRAY—If I can interrupt you, that is the reason I am asking the question. Do you have interaction with sufficient people in a remote locality like yours to say to us that your experience of being very dependent on a wholesaler is typical? As I have said to you, others are about 66 per cent dependent on a wholesaler. Are you telling us that you are in the late-90s dependent?

Mr Wilson—Yes, 100 per cent, absolutely.

Senator MURRAY—Would you say that is typical of people who are in remote service situations?

Mr Wilson—I can only speak for our area on that question, and say yes. The store in Cabramurra—which is a very tiny town that was built as a result of the Snowy Mountains Scheme in the 1950s—is a further 50 to 55 kilometres up the mountain from our place, and the owner has got it even harder in terms of getting goods to his store. He buys some of his goods through Australian Independent Wholesalers too. He has an account with them in Canberra. He gets it freighted to Cooma, and then he drives all the way—well over 100 kilometres—to Cooma to pick it up and takes it back up himself, once again doing all his own carting. He does buy all his produce through us, and he does buy catering groceries through us as well as various other bits and pieces that he might run out of over time.

They are serving a community. It was a community of about 300 people many years ago. It is now, I understand, a community of about 30 or 40 people. It is very little. They are looking at opening that up to tourism as a result of having all the empty accommodation, which could change all that and hopefully bring some more business his way.

Mr NAIRN—I was going to ask you to describe what happens with the freighting circumstance, but Senator Murray got in ahead of me. I know the story of how you operate but I wanted you to get it in the *Hansard*, which you have successfully done.

Mr Wilson—Freighting is a nightmare. We have had various quotes from various transport companies around here, and we cannot get a company to economically transport our goods. We have tried. The only option that was left to us was to buy our own truck and do it ourselves, and that is the only reason we do it, because it would be a lot easier to have someone bring it to us, as was always done until about four years ago. We bought our own truck to do that four years ago and started doing the whole lot.

Senator FERRIS—You really have reflected a typical bush store. It is very interesting to listen to.

Mr Wilson—That is ours.

Senator FERRIS—Can you give the committee some idea of the profile of the 300 people who live in your town—what percentage of them would be dependent on a welfare cheque and what percentage would be pensioners—whether your business is expanding, whether it is contracting, whether you have introduced new services, like some of the drop-offs that you do on the way back, and whether that is a recent phenomenon? Have you started stocking videos? You are obviously very dynamic in that whole delivery chain. Are you also trying other things to expand some of the stock and services that you offer?

Mr Wilson—I would rather not have in *Hansard* what our turnover figures are.

Senator FERRIS—No, I am not asking you that.

Mr Wilson—But I can tell you that my father—who, as I said, is 60 years old—sort of wants to step out. I am 32 years old and I want to be there in another 20 or 30 years. I am desperately growing the business. I am getting business anywhere I can. Our figures as at the end of the financial year this year were 10 per cent better than last year. The previous year we were eight per cent better than the year before that. The first year that I actually started trying to grow the business, which was three years ago, we were 23 per cent up on the year before. So, stacking that on its end, you are looking at about a 40 per cent increase or more on turnover from three years ago. We are desperately trying to grow our business because we firmly believe that, if you are not going ahead, even if you are stationary you are going backwards.

To answer your question about the make-up of the people, I would only be estimating. Obviously I could not tell you exact figures. I can tell you that the population, as I said, is about 300. Out of that, most of the houses only have one or two persons living in them. They are elderly, widowed—that sort of thing. There are a number of people on social security benefits, as in unemployment. Within the area there would be, I would say, a minimum of 40 people on permanent unemployment. Once again, I am guessing. There is not much permanent work in town because there is no industry. Tourism is our only industry. Farming, of course, is there, but most of the farmer's wives et cetera are out there working in the motel, at our place; anything to get a few extra dollars because, as we all know, farming is not making good money.

The mean age of people out there would be at least middle age, heading towards 50, 55, I would guess. To give you an idea of the young people perspective, about 25 adolescents

catch the high school bus from the area into Cooma to the high school here. There are others that it picks up along the way, but I am just talking about our area. It ends up being a busload by the time it gets here. The school itself is a primary school. It has two teachers and 40 students, as I understand at the moment, from kindergarten to year 6. So there are not many families as in, for example, mum, dad and two or three kids. They are mostly recent retirees. Lately we have had a reasonable influx of new retirees, which is good to see. That helps us because at least they are buying their convenience goods, which helps us to grow a bit. That is about the best information I can help you with.

Senator FERRIS—You talk about growing the business. What have you done to grow the business? That was the other bit of my question.

Mr Wilson—I have chased business. I have been on the phone—Telstra has made a fortune.

Senator FERRIS—I think I advanced the idea that you might have started to stock videos. You have not expanded your stock base?

Mr Wilson—Our range has greatly increased. To give you an idea of that, my father always uses this example: 23 years ago, when we bought the business, the previous owner stocked one brand of margarine—Meadow Lea—and that was it. If you wanted margarine you took that. We currently stock eight to 10. We have a big seven-door coolroom in the back of our business. Over the years, as we have been able to afford it, we have grown the business. As far as the goods that we have on offer are concerned, while we do not have videos—because they are on offer over at the post office, and there is no point in trying to cut across each other—at an absolute minimum we would have 500 per cent more stock now than we had 10 to 15 years ago—a lot more stock.

Senator FERRIS—Amazing.

Mr Wilson—As Gary Nairn can testify, our shop is jam-packed. We get many comments from tourists that come in and say, ‘Gee, you don’t see many shops like this any more.’ Does that give you some idea?

Senator FERRIS—It is a credit to you.

Mr Wilson—It is the only way we are going to survive, but we need a wholesaler—we really do.

Senator FORSHAW—Have you had any problems with your wholesaler in getting supplies? Are you being squeezed on price—anything like that?

Mr Wilson—I should point out that, until about October last year, we were dealing from Davids Holdings. In fact, you can see on my business cards we are listed as an Adaminaby Welcome Mart, although at the moment we are in the process of changing to Five Star. There were two reasons involved in that. The first one, the major one, was the fact that Davids, when it was taken over by the South African company, saw the idea of bringing all their stores under the one IGA banner as one group. The problem was that it was extremely

difficult, on their draft plan that they first put to us, for us. We would not have been able to stay with them for the major reason that Davids, on their draft plan—I must admit they changed it in their final plan, but by that stage we had already tried AIW and decided to stick with them—wanted to charge a flat fee I believe it was \$60; once again, don't quote me—to pick up any order between zero and 99 cartons. Forget it—there is no way we could compete. AIW do not have that problem. Does that answer your question?

Senator FORSHAW—By the sound of it you are having no trouble getting your goods. You have the freight difficulty, but you have overcome it.

Mr Wilson—Yes.

Senator FORSHAW—As I understand it, your concern is that you might be bought up by Woolworths, Coles or someone like that.

Mr Wilson—No, not our store.

Senator FORSHAW—I am trying to understand.

Mr Wilson—Not our store. Sure, Conti's in Victoria just has been by Franklins. But they are only interested in this store. This store employs 126 people.

Senator FORSHAW—I understand the broad descriptions you have given and the comments you have made, and appreciate the excellent work you have put into the submission. I am trying to understand if you have a particular problem as to the impact, or possible impact, of, say, Woolworths or somebody on your store, either by your being bought out or by them opening up another store. I cannot imagine that they are going to do either of those things in Adaminaby.

Mr Wilson—Not in Adaminaby. Our problem is that the current market share rate is around 80 per cent. If that is allowed to continue to grow and gets to, for argument's sake, 90 per cent—because it is not going to get lower; it is only going to get higher—the problem is going to be how much market share the chains can collectively have before the wholesalers of both Davids and AIW do not exist.

Senator FORSHAW—Yes. You made those comments earlier.

Mr Wilson—And where do I get stock? Do I go to Woolworths and do my shop and then try to sell to these isolated communities? That is my biggest single problem. I do have others but I did not want to bore you with all that today.

Mrs ELSON—I just have a quick question. Do you have EFTPOS and does that cost you?

Mr Wilson—We do have EFTPOS.

Mrs ELSON—Are people using you as a bank more now that the bank has closed?

Mr Wilson—We did not have EFTPOS before the bank closed. That was one of the nightmare problems we had with our bank. Our bank was very, very nice. Three months before they decided to close their doors—they never told anybody, of course—they offered us a fantastic deal on an EFTPOS machine: no rental for the first 12 months and \$85 a month thereafter. We thought, ‘Oh well, it is a good time to try it. If after 12 months it does not work, we can just give it back.’ Three months later the bank was shut because it was no longer needed.

Prior to the bank closing, there were only two businesses in town with EFTPOS. Since the bank closed, I believe there are now seven businesses with EFTPOS. It has become a necessity, and we serve as a bank by giving out cash to customers when they need it to buy things. Other shops do not have EFTPOS facilities so we carry cash to give out to those people.

Mrs ELSON—Is the system costing you?

Mr Wilson—It does not cost us because we put the cost back onto the consumer. I would much rather not have to do that. For example, if a customer comes into our store and wants to get \$100 cash out and does not want to make any purchase at all—or up to \$10—we charge them a \$1 fee to help cover our charges.

Mrs ELSON—That is cheap, isn't it?

Mr Wilson—It is when you consider that you have not got to spend \$15 or \$20 on the round trip to get to the closest ATM. Tourists cannot believe that there is no ATM or bank in town. One came in today, and they were absolutely shocked. They said, ‘Where is the closest one?’ I said, ‘Fifty kilometres away.’ They said, ‘You are joking.’ I said, ‘No.’ But that is the way it is. So I gave them money out on EFTPOS, no problem. For a dollar, it saved them a lot.

Mrs ELSON—Very good.

ACTING CHAIR—Thanks very much, Peter. Your enthusiasm has been very infectious and had everybody wanting to ask questions, even though you were very thorough. Thank you for sharing your experiences of doing business in Adaminaby.

Mr Wilson—I do have enough copies of my talk to give each of you, if they are needed.

ACTING CHAIR—That will be much appreciated. Thank you very much. We can accept that as part of the body of evidence.

Mr Wilson—Thank you very much for your time.

[5.49 p.m.]

EDWARDS, Mrs Terry, Proprietor, Terry's Cafe and Restaurant

ACTING CHAIR—The committee prefers all evidence to be given in public but, if you wish at any time to request that evidence or part of your evidence be given in private, 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 remind you that giving false or misleading evidence may constitute contempt of the parliament. Having got that off my chest, please feel free to relax and be as informal as possible. Whilst we do not have a submission before us, we invite you to make any form of statement you would like, and we will then ask you some questions.

Mrs Edwards—I have not prepared a formal submission. In fact, I only became aware of this hearing a few days ago. I was asked if I had any views or impressions about major chain stores, supermarkets, McDonald's and those sorts of places. I simply said what I thought, and they said, 'You might be interested.' So please feel free to ask me whatever you would like to know.

ACTING CHAIR—Probably the easiest way to start would be for you to tell the committee your circumstances—the way in which you see your business interacting with the sort of competition that you mentioned—and aspects which you see may be detrimental to a small business. I think some questions might grow out of that.

Mrs Edwards—One of the major problems I have is with Woolworths. My coffee shop, which is only a small establishment, also sells things like Coca-Cola, soft drinks and what have you. I have to go to Woolworths to buy these supplies because my wholesaler is dearer, by about 14c a bottle, than Woolies. In other words, because of Woolworths's buying power, I cannot buy it wholesale as cheaply as you can buy it off the shelf in Woolworths. That sounds very little, but if I am trying to sell something out of my Coke fridge, or anything at all, people say, 'Oh, Terry, you can get this at Woolworths for 54c.' I have to pay, in some cases, 92c or 93c for the same product.

Woolworths sells at retail and I buy at wholesale. I find that very difficult to stomach because our local people, and even tourists, feel fleeced—as if they are being had. After all, if something costs 50c at Woolies retail, how come I sell it for \$1.50 or \$2 in my place? They feel that I am making an enormous amount of profit. That is not right. I have spoken to Coca-Cola about it, and they said there is nothing they can do about it. Woolworths has greater buying power; therefore they get the products cheaper. That is just one instance.

I came to town four years ago from Sydney. I had a business in Avalon, near Palm Beach, similar to what I have now, and Cooma was really attractive. There were lovely wholesalers—very eager to please and help. I found the place magical and decided to stay. Since then, unfortunately, we have had a major impact from McDonald's. In our establishment, that is a swear word. One does not mention it. The major impact was because PDF has taken over a wholesaler called Bellmac, which means we are now restricted to various items. You cannot get some items any more. I made a point of shopping locally. I used to say, 'I make my money here in Cooma, basically from our local people, and I would

like to use the wholesalers here—the greengrocer from Bellmac, Monaro and the Caterer's Shed—because then the money goes around.' Now I am forced to get some of my supplies from Canberra because I am not able to get what I need and what I was able to get prior to all these takeovers.

Instead of having four suppliers, we now have two in the grocery department. Consequently, prices have risen and things are not so easy any more. As far as I am concerned, for the little greengrocer or the little grocery store down the road—it is a pity; I know times have changed—it is very difficult. Woolworths have made such an enormous impact since they have taken over. I do not know if you are aware of this but we now have two Woolies and the prices are now the Woolworths price; in other words, it does not matter what an article costs, it is this price or you do not get it. There are no more specials for the ordinary housewife, for the ordinary person. It is simply a monopoly, and monopolies are bad—in my book.

Mr NAIRN—The four wholesalers that you mentioned predominantly serviced shops, hotels, motels and those sorts of organisations, didn't they? There was Bellmac, Caterer's Shed, Monaro, and what was the fourth?

Mrs Edwards—The fourth one was a small one—I cannot remember the name—that came by truck. It was initially in the beginning Cold Seas.

Mr NAIRN—Can you access a wholesaler like AIW?

Mrs Edwards—I may be able to; I have not tried it. As I said before, they are no longer locals. Even though I might still buy at Caterer's Shed or at PDF, it is not really local any more but at least they employ local people. It is just that the service and the availability of what you would like to have is no longer there—not to the same extent. It is a bit like with Woolworths: you take what we have or you do not get it. Woolworths in particular have taken so many items off their list. You might not notice this but, for instance, feminine things are no longer available nor are continental things. I am from Holland and I like continental food. It is no longer stocked. When you ask about a lot of these things, 'Why is this not available?' they say, 'We don't do this any more.' One is dominated in what you eat, what you drink and what you use in toilet soap and laundry powder by what they wish to stock.

Mr NAIRN—So you believe that since Woolworths took over Cannons they have actually reduced the range of products because there is not the competition there any more?

Mrs Edwards—Yes, there is no competition at all.

Mrs ELSON—Did you say there are no weekly specials at either Woolworths?

Mrs Edwards—There are still so-called weekly specials. But one day I had to go and see a doctor in Canberra and, before I went to Canberra, I went to Woolies for something that I needed. Then when I was in Canberra after the appointment I went to a Woolies in Canberra. I was amazed at two things: one, the prices were so much lower; and, two, the variety was so much bigger. It was only a shopping centre in one of the suburbs.

The other thing that was even more amazing was that Woolies petrol was cheaper in Canberra than in Cooma. It should be equal. It is just not right. I have a coffee shop, and there are 27 other places in Cooma where you can get coffee. So my prices have to be more or less competitive with everybody else and my quality has to be better or equal to everybody else because there is only a limited market, and we all want to catch a little bit of the market. So you have to be on your toes. I cannot say, 'I don't feel like cooking today. I'm not putting anything on,' because next door, across the road or down the road a bit further, there are others who do have the energy and who do care. So they will put the specials or the whatever on and they will get the customers, and I will lose them.

Woolies does not have that, because we have to go about 100 kilometres to go to Canberra, which costs a lot in petrol. So what you tend to do is stay here and put up with it—grumble. I am very pleased that you are here, and maybe you can do something about it. There should be competition. Competition is healthy—but not killing the competition, not killing the small business, because small business employs a lot of people overall. I think that is very important.

Senator FORSHAW—When you had your coffee shop in Avalon, you would have been selling Coca-Cola presumably at a higher price than what it could be purchased for in the supermarket?

Mrs Edwards—No, actually.

Senator FORSHAW—You were not?

Mrs Edwards—No. First, I have to tell you that at the time I did not sell a lot of soft drinks. I do not do that now either. Coke have given me a fridge, and I have to stock it with 80 per cent of their goods. Coke knows that I do not buy my Coke from them, and I have told them I cannot afford it because their prices are too high. In Sydney—in Avalon and in Manly where I had a business—I did not have a Coke fridge; I had my own fridges. Therefore I was free to buy wherever I wanted.

Senator FORSHAW—It is just that I am from Sydney and I am often amazed that on some days you can go into a supermarket—admittedly the Coke is not cold, not chilled—and buy two dozen cans of coke—

Mrs Edwards—For \$14 or \$15, yes, I know.

Senator FORSHAW—In some cases even less. But, if you go to the milk bar, it is \$1.30 or \$1.40 a can. But that is what people expect to pay. I now understand the point you are making that there is no way you can get a price from Coca-Cola.

Mrs Edwards—No, I tried that. It is the same for Schweppes by the way and the others. I no longer stock these drinks, but you cannot buy as well as they can.

Senator FORSHAW—I suppose the only point I would make is that that is not something that is only found in the country. You could go to any suburb in Sydney and find that situation, because the Woolworths and the Coles can, at times, sell cans of Coca-Cola at

such a ridiculously low price. I know the local bread shop in my suburb can duck around to Franklins and buy it, stick it back in the fridge and make a real good killing—but it is not their key business anyway.

Mrs Edwards—No.

ACTING CHAIR—If there are no other questions, Terry, can I thank you very much for giving us your time and for coming here and giving us your comments. To all of those that have appeared before us from Cooma and the surrounding region, on behalf of the committee I thank you very much for what you have shared with us in helping to give us a rural perspective on some of the issues that are before us. Before I hand back the reins to the chair when we reconvene in Dubbo, can I thank my colleagues, the committee staff and Hansard for their cooperation in today's adventure.

Mrs Edwards—Thank you for being here and listening to us.

Committee adjourned at 6.04 p.m.

