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JOINT COMMITTEE ON THE RETAILING SECTOR

Reference: Industry Concentration in Retailing Sector

WEDNESDAY, 7 JULY 1999

DUBBO

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JOINT SELECT COMMITTEE ON THE RETAILING SECTOR

Wednesday, 7 July 1999

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

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

Terms of reference for the inquiry:

To inquire into:

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

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Committee met at 9.00 a.m.

BAKER, Dr Robert Graham, Senior Lecturer, University of New England

CHAIR—I declare open this hearing of the Joint Select Committee on the Retailing Sector and I welcome all witnesses appearing before us today. Today's hearing in Dubbo is part of the committee's inquiry into the industry concentration in the retail sector and is the fourth of our public hearings in rural and regional Australia. Following Dubbo, the committee is travelling to Bundaberg and Kingaroy.

I welcome Dr Robert Baker. The committee prefers all evidence to be given in public. However, if you wish to go in camera at any time, you can make the request to the committee and we will consider that request, but I do warn you that some time in the future we may decide to make that evidence public. The committee has submission No. 231A before it. Are there any alterations or additions you wish to make to the submission at this stage?

Dr Baker—Is this the revised submission that I submitted?

CHAIR—Yes. The submission has not been authorised for publication because of some confidential appendices. Is it your wish to have the whole submission published after your evidence minus the confidential appendices?

Dr Baker—Yes.

CHAIR—I now invite you to make an opening statement of five to 10 minutes and then we will proceed with questions. We have your formal submission here and I am sure all of us have read it—I certainly have—so we look forward to what we can deduce at question time. I invite you now to make a statement.

Dr Baker—I thank members of the joint select committee for coming here to Dubbo and to regional Australia. I will do my best. I have further information, but I am aware of your time constraints. I think this inquiry represents the last chance to address the serious structural problems facing the Australian retail sector. I often talk about 'Store Wars' to my students. It came out of the UK with the problems that are perceived there—how the 'Empire' represented small business, who were the lords of time and space, whether they are the supermarkets, the 'death stars', et cetera. That sort of analogy is more than just a fantasy; it is a reality.

I got involved in this position in relation to trading hours. I pointed out in my submission that there is a fundamental relationship between trading hours and the problems we face now. Both Coles and Woolworths, from different sources, acknowledge the importance of trading hours in their market growth strategies. Therefore, in this market growth or market concentration inquiry, that is critical.

In my calculations from the work I did for the Queensland government, new trade with the extended hours, including Sunday trading, is worth an extra \$3 billion a year to the three major supermarkets in New South Wales. It came from public policy. It did not come from

Coles or Woolworths being clever; it came from public policy, from the New South Wales government. That fact has been cross examined, so it could be contested by the supermarkets but it has not been because Woolworths in the *Financial Review* admitted that share. I have that in my submission. That translates into losses of full-time jobs. I calculated about 26,000 full-time jobs lost in New South Wales—that includes owner operators of small business—for a net gain of only 2,500 part-time and casual jobs.

Support for my position came through the growth in vacant shops. How do I know this is happening? I have a whole list—and I know I have only been given 10 minutes, which is a shame—of vacant shops, so you get a feeling that what I am saying is true, and I put my reputation on the line.

I will quickly go through some of the list. Bendigo has 30 vacant shops; Taree, 49 vacant shops. That was last year. This year it is the same—52 in Taree, and they have spent \$2 million trying to fix the problem. Mayfield had 16 in 1997; it was still 15 in 1998. In Rockhampton, before extended hours they had eight vacant shops in the CBD; in 1996, there were 27; and in 1999, there were 35. It is even interesting there that the vacant shops are located particularly in neighbourhood centres. The Northside Plaza had eight out of 24 vacant shops, and even they and others have good anchors like Coles, K-Mart and Big W. I could keep going through the list. Coffs Harbour is a tourist centre with a three per cent population growth, yet it has 39 vacant shops in its main core CBD. Even Park Beach Plaza, a subregional, had 13 vacant shops according to the count. So there are serious problems of vacant shops right through South-East Australia. If you go to Perth, and I was there last week, the problem does not exist.

CHAIR—Dr Baker, when you say the problem does not exist, which problem does not exist?

Dr Baker—The vacant shop problem.

CHAIR—They have no vacant shops in Perth?

Dr Baker—No. Nought to five per cent is normal market practice; five to 10 per cent, marginal; over 10 per cent, you start to worry; and over 20 per cent, there is a big problem. In Perth, I would say it is less than five per cent in terms of neighbourhood shops, but when you go to the east coast—

CHAIR—This is based on hard statistics, is it?

Dr Baker—Yes. I have a time constraint, but I have in my report—

Senator FERRIS—You have an hour, but if you take half of it we will not have time to ask questions.

Dr Baker—That is my problem; that is what I am saying.

Senator MURRAY—Behind the chairman's question is why would Perth be different, and the reason it is different is that—

Dr Baker—They still have restricted hours.

Senator MURRAY—Yes, that is right. Deregulated hours have not happened yet.

Dr Baker—No, not yet. How I got into this was with a model in 1993 which I did my PhD on. It had trading hours as a constant in Sydney. All I did was look at what happened when you extended the trading hours in Sydney, and I saw there were big structural changes. I reported that in my submission and it went to the *Age* in a press release in November 1993.

What really annoys me is that Coles at that time actually agreed privately with me. When they first rang me after the *Age* article, they said that they were moving K-Mart's out of the main streets and into planned centres for the very reasons I was saying. Yet they commissioned the Keil and Haberkern report to neutralise my position, and that report keeps coming up right to this present day. They said that because I use mathematics and supposedly model consumers as atoms, I am not to be believed. But I put my reputation on the line. I said there would be big structural changes, less local shopping and vacant shops. So my position in terms of the retail science is substantiated. In academic terms my model was hailed as a brilliant piece of work overseas but, in Australia, I find I have this ongoing orchestrated campaign by the major supermarkets.

Moving on, in terms of market share, we have a problem. After this campaign, I said, 'Why do the supermarkets behave like that?' because I was an innocent academic then. In terms of Woolworths they are starting to move the goalposts around: in their annual report they say it is 35 per cent. They announced to shareholders their market share; for them to then come and say something different, I find is a bit bewildering. Using the Coles submission in terms of their MM measure, we win the silver medal in the global market concentration olympics. In packaged groceries, we win the bronze. Whatever, we have a concentrated market.

If you use the USA index, their Herfindahl-Hirschman index, we come out at 2,330, and over 2,000 is a highly concentrated market. In oligopoly theory, we do have certain characteristics and I listed those. There are certain characteristics I have investigated to see whether this is ivory tower economics; is it a reality or is it in the clouds somewhere? That is where my research on market segmentation in Sydney becomes apparent.

When I read *Retail World*, I found it a big surprise that Coles and Woolworths were competing together in some centre in Queensland, and I said, 'Let's have a look.' I found that in Sydney not only were they not competing in any of the planned centres at that time but they had what appeared to be territories. The literature talks about tacit collusion or avoidance or whatever.

I went to Bankstown Square and was told that Bankstown Square, to their credit, were trying to get Coles and Woolworths together in the food court to have a competitive environment, but Coles said no, and actually quit the centre. That made me say, 'Hello.' Then when I found further on that at West Ryde they actually swapped supermarkets within a month to reinforce these territories, the whole idea of chance diminished. When you look at why Sydney has such expensive groceries, it is all relative. Australia might have cheap

groceries because we are a primary producer of many food items. When you look at it relatively, you would expect Sydney to have the cheapest prices but they do not. You would expect Adelaide with the highest CPI to have the most expensive, but they do not. I could say more about that. Coles sent me a letter over that.

It is interesting that Sweden, which won the MM gold medal, supposedly in global market concentration, have found a similar pattern. I have an article here about a similar problem emerging in Sweden about the locational avoidance of major retail chains as they call it, in the mid-eighties. So it is not just an Australian phenomena.

You can do the same thing and look at the location of the supermarkets, say, in the Hunter Valley. Are these big clusters of Coles supermarkets to the south and Woolworths to the north just chance? Is this just chance, avoidance or whatever? As an academic, my job is to ask questions—that is what I am paid for—independent of whether it suits people or not.

What disappoints me is that the ACCC—and I have their reaction there in my submission—appear not to be interested in this case. If you look overseas—and once again, unfortunately, I do not have time—they say this geographic segmentation in the USA is so obvious in terms of the Sherman Anti-trust Act that it does not happen. Here we have it, yet the whole idea of parallel minds and understandings—which is in section 45, I think—is there. The USA have deregulation but they have a strong regulatory organisation who will take on cases in terms of justice rather than cases that they will win. We have adopted the deregulation but we have not got the teeth or the commitment towards that.

We have segmentation in Sydney. There is an ACCC inquiry coming up on milk deregulation. Here is another example of the failure of Hilmer in terms of what was supposed to produce competition by removing regulated zoning. Getting rid of that, we find that for Woolworths—with their exclusive supplier relationship with National Foods, getting rid of small business, getting rid of the milk vendor—their margin increased from 16 cents to 26 cents a litre on milk. Also, they are pressuring the food manufacturer. We would expect significant savings to consumers.

My data, which comes from press releases from dairy farmers, says that the price of milk in New South Wales increased by 2.6 per cent within two months of the deregulation from July 1998. Where you would expect to find consumers would benefit, we have the market failure again—the problems of the supermarkets in terms of their market concentration—and we have the opposite to Hilmer. We have this exclusive arrangement, less choice, higher prices, shedding of full-time jobs and loss of profitability for food producers. One thing I have considered is whether people in Australia have looked at the profitability of manufacturers of food in actually having to deal with the major supermarkets. It is something that the committee should consider because it seems to me that it goes from both ends.

I have presented evidence in my submission about illegal trading on Sunday and some of the problems. I have submitted dockets. I have crosschecked those with other sources. I have even got Coles data off their web page and, unfortunately, they have not changed since 1997. Supposedly, from my information, they should have traded from 10 to 4 on Sunday up to 1997, when it went from 8 to 8. I tried to get confirmation from the Coles Productivity

Commission submission to get their hours, but they say that it is 10 to 5 on Sunday on that page. Really, they were not much help.

I have evidence there that there was a complaint from Hunter Small Business in 1996 to NSW Industrial Relations and they said that the managers were not aware of the set hours. They were told. They were put on notice, but they continued. The response from Woolworths was that they no longer stated their hours on Sunday. They just said 'Open Sundays'. Coles is interesting. If you look at their webpage, you will see that the only centres that trade 10 to four are Toronto and Waratah. Those centres are the ones here, all through the Hunter Valley where the complaint was lodged. Really they just toed the hours where the complaint was made and happily went along elsewhere with whatever hours suited them.

So what? What is the point? The point is that I have to obey the law; you have to obey the law. They have had warnings and they do not obey the law. They could have received an exemption. I could be corrected here and I am quite happy to be corrected. They could have received some exemption which no-one else knows about from NSW Industrial Relations.

It is interesting that in my survey in 1996, after no action was taken, Franklins to my knowledge—looking at my figures—then started trading beyond 4 o'clock on Sunday. The research assistant who worked for me said that she overheard someone telling the respondent that they open at 9 a.m., but they are not allowed to advertise it because it was against the law. That is the point. They are a law unto themselves.

This whole thing worries me, because I have been personally involved. I discovered an equation which I call the supermarket equation. You might say, 'That is very clever, Robert,' but wherever my name is mentioned this report of Coles appears. In terms of the Hunter Valley inquiry, what really annoys me is that I was vetoed on funding and was not involved. Then the Hunter Valley Research Foundation turned around and did this job on me by just replicating the Coles position on my research.

Why do the premiers of New South Wales and Victoria turn up in regional centres concerning Sunday trading and personally announce policy? Why did they do it in Armidale when we voted for a six-month trial and it turned into a two-year trial? The community said, 'Okay, we will trial Sundays.' Why? Why did it turn into a two-year trial? No-one has ever provided this information. Why under the act in New South Wales can supermarkets appeal against Sunday trading but small business do not? Where is the sense of fairness and justice there?

Senator MURRAY—Did you say supermarkets can appeal but small business do not?

Dr Baker—No, they don't.

Senator MURRAY—Do you mean 'don't' or 'can't'?

Dr Baker—Under the act they cannot. That is something that I have raised with the minister and it is going to be looked at during this term of parliament, or whatever, but it is there. I have seen a lot made of the Bendigo referendum. The council actually ran

advertisements using information from Coles and were publicly quoting that Sunday trading helps employment. It does. It creates part-time jobs, but the full-time job losses are never stated. It is always on half truth. This is why they lose the cases when it goes to court, like in Queensland and also in the Tamworth appeal in New South Wales. They lost because of the half truths, and when they are actually cross-examined they fall apart. In terms of the Bendigo referendum, the media and the advertising, it does. I could go on and on about that.

It is a real problem. That is why I said at the start that this is the last chance because state governments have been shown to be a failure, inactive or whatever when it comes to policing supermarkets. We need to have the Trade Practices Act and people who are willing to commit to it, whether they win or lose. If we are going down this deregulation path, we have a big problem, like with the deregulation of milk in New South Wales. In other states where milk deregulation has occurred, milk prices have risen, but this exclusive arrangement only happened in New South Wales.

Why? In Brisbane or Adelaide why do the supermarkets compete on a state basis and in Sydney they do not? It is a mystery, whether it is the state company leadership or whatever. The one good thing that has happened under the Coles leadership is that they are actually now competing again with their Coles Express v. Woolworths Metro. If you look at Woolworths fresh food strategy in the late 1980s, that was a great strategy. Apart from Tasmania, there was never a problem with them. Once again, it gets back to the leadership of the companies as well as being important in terms of how they behave in the market. I am sorry I have taken up a little bit more time and I could have said a lot more.

CHAIR—You will have a chance to say a lot more. Questions will provide you with an opportunity to expand your views. Can I kick off the questions. You are a geographer, not an economist. Is that right?

Dr Baker—I am a mathematician who works in spatial science. I work in a geography department and in a planning department.

CHAIR—It seems as though you have established one issue, which was the subject of your PhD as the key variable in terms of the decline of small business. The deregulation of shopping hours is the area you have predominantly fixed on.

Dr Baker—Originally but also going into why they behave and looking at oligopoly structures. I published a paper about what happened in Sydney. I am also on the Regional Science International Editorial Board with Economists and I have a paper coming out there.

CHAIR—For example, Western Australia is the fastest growing economy in Australia, or was until the last downturn in mining, and that could add to it. You have fixed on one thing and said that there must be a relationship, but perhaps you need to separate out some of the variables.

Dr Baker—Of course, you have to look at a whole range of variables. This is why in Adelaide we looked at the CPI. Woolworths put out previously that it was cheaper to live in Adelaide and, therefore, grocery prices and rents were cheaper. When you actually looked at the CPI—and I used publicly available statistics—it is not. Yes, I am asking questions. The

mathematics and the empirical relationships—and I am an empiricist, not an ideologue; I look at the facts—support my position of 1993. I am as big a critic as anyone else of my work, because I have an international reputation to maintain.

What I am saying is that, if you have floor space and you add extended trading hours to that, you are actually increasing the market penetration of a supermarket or planned shopping centre. That is the equivalent of a bigger supermarket centre. Time is actually substituting for floor space. That is all I am saying. Therefore, people are less likely to shop locally and more likely to shop regionally at big centres, big supermarkets or whatever.

CHAIR—I see that you have recommended that the whole issue of the deregulation of shopping hours should come under unconscionable conduct in section 51. You have not actually looked at the question of consumers and the changes in demography in the Australian marketplace with the participation of women in the work force and the extended hours which people work. Many consumers actually like to shop at night. If they are out at work all day, they may prefer to go down at nine o'clock at night and do their shopping. Do you think they should be prevented from doing so?

Dr Baker—My position has never been that. My position—and I could actually work out hours based on consumer demand—is that there should be a balance. Mine is empirically driven, not ideologically—not 24 hours, seven days a week. My position is that you actually adjust the hours to suit the consumer demand. In my 1994 paper I recognise that society has changed, but consumers have never pushed for deregulated hours in the 1990s.

CHAIR—They have never pushed?

Dr Baker—No way. You have had the Freedom to Shop campaign in Western Australia, but I strongly suspect that Coles Myer organised it.

CHAIR—But if the stores were not being patronised at these hours, then they would not be viable to continue, because there are not only the supermarkets but also smaller shops. If you look at New South Wales, that was where a lot of the pressure occurred by all these small stores all over Sydney that were opening up on Sundays, weekends and after hours. The pressure was on them. The campaigns and inspectors were looking at their hours. If they did not have people to actually patronise the stores, then they would not find it worth while. So it is not as if they do it in abstract.

Dr Baker—But we are in such a concentrated market that any turnover to the supermarkets, because they are turnover driven, is very important. Originally, in Melbourne, in the surveys that were done for the Queensland Sunday Trading Inquiry, there was only seven per cent of turnover on Sunday. Sunday was not really the preferred day of grocery shopping, yet to the supermarkets seven per cent of a turnover is worth over a billion or whatever. We lost 24 hour trading in Armidale after Sunday trading came with the trial. There has not been one letter in the *Armidale Express* from consumers complaining about it. Consumers will readjust their strategies according to the boundaries that are set.

CHAIR—But shouldn't they have the choice? If someone wants to go to the supermarket at 9 or 10 p.m., it seems as though you are taking the side of the regulators by

saying, 'Let's restrict shopping hours.' Why shouldn't people have the choice to shop when they want?

Dr Baker—Because, in the end, they pay for the choice. An example is Taree.

CHAIR—But what if they choose to do so?

Dr Baker—In Taree, for example, the Marketplace shopping centre there is open seven days a week, which is a great convenience. The land was sold, according to my sources, for \$1 to Woolworths. There is now a vacant shop problem. There are 50 vacant shops in the main street. Council have actually spent \$2 million. Who paid the \$2 million? The community. The problem is still there. There are still vacant shops in Taree's main street. There are some positive signs there, but who pays? Yes, you get a choice, but you pay for it. The people who use the extended hours are the affluent, time poor families. They are minority families. They have got cars. They have got access. They will go out at night. They will drive. The policy has been geared to the marginal consumer—that is, the affluent time poor—versus the average consumer who still shops in the hours they always did, and yet the higher prices are spread out over everyone. So the pensioner still pays the same as the person who demands the convenience at 10 o'clock at night.

CHAIR—Let us take the average working woman working in a factory. Working five days a week in a factory, how is she supposed to be able to shop within the normal constraints of regulated hours?

Dr Baker—You are making a mistake. You are saying that I want to go back to the old days. I do not. You are saying that I want to go five days a week shutting at 5.30 p.m. My position is not that. My position is that you do have late-night shopping—maybe Thursday, Friday and Saturday. So you do actually look after those consumers.

CHAIR—But why should you make the decision as to which nights it should be open? Perhaps for various reasons, they want to shop on Monday or Tuesday.

Dr Baker—Why then in terms of the vacant shops should I as a ratepayer have to pay for a revitalisation that is not going to work for someone who can do their shopping on the Thursday and Friday late-night shopping periods? Why can't there be a balance? Why is it left to the market when there is market failure, when there is an oligopoly which clearly, in terms of Sydney prices, we pay for, and in terms of milk deregulation we pay for. They are obvious market failures, if you take the economists' view.

I talk in spatial science about vacant shops, but in terms of economics we are having higher prices relatively. Why, in terms of this convenience, when we could reorganise our shopping, in terms of a balance, in terms of the community rather than individuals? What are we going to do with vacant shops in neighbourhood centres? Do we have to rezone them? We are having a supermarket becoming a property developer and wanting to go wherever it wants to go in terms of out of town sites.

The thing in terms of regional areas is draft retail policy—and I am in it, using some of my work at Richmond. Why does it only apply to metropolitan areas? What Woolworths did

was switch to regional areas. There was no directive from the government in terms of what they were doing in regional areas. No wonder regional areas are cynical about this whole exercise. In the UK where they have a revised planning policy guideline to reinforce town centres, et cetera, it applied to the whole country; yet in New South Wales it only applies to metropolitan areas. Of course you cannot blame the supermarkets because they are just going where the regulators say they can. So they are going all through Wagga or the Raymond Terrace region building their marketplaces. It is not the supermarkets' fault. It is the regulators. This is the difference between the USA and Australia. The regulators in the USA are prepared to intervene where it is necessary in terms of—

CHAIR—Tell me—I am sure the other members of the panel would like to ask questions—where in the US they restrict shopping hours.

Dr Baker—In the US, in terms of Sunday, a lot of centres open at 12 o'clock. There is some compromise there in terms of church attendance. In fact, there is a strategy where you actually trade long hours to get rid of the competition, and then you phase back. I was surprised they said at the retail conference I went to last year that in the USA between 70 and 80 hours of week were the average hours traded for supermarkets, not 168. Certainly there are convenience stores and centres which trade seven days a week. We already have that. In the USA, they do not have the market concentration problem. In terms of policy, we are not recognising that we have a market concentration problem. The USA does not have that problem. They have dominance in regions, but if someone misbehaves (1) they can get source from other regions and (2) they have a regulator who sees it as their duty to intervene, like they took on Bill Gates.

CHAIR—Thank you. I will invite Senator Ferris to ask a question.

Senator FERRIS—I have only got one question. If we can get away from adversarial stuff and turn to page 6 of your report where you mention a national retail tribunal, as far as I have been able to see the only other reference to it is on page 7 where you talk about what could be one of its functions. If we were to accept your recommendation and establish a national retail tribunal, what would it do, what sort of people would staff it and how would it benefit the small retailers?

Dr Baker—A big problem is what to do. We recognise there is a problem. I have agonised over this as probably you have agonised over it. In terms of Hilmer, where there is a clause where we actually review regulation, there has to be some process where we also review what is happening in the retail sector. That is a fair extension of Hilmer, if in terms of prices competition can be demonstrated, and I think it can be in the retail sector.

CHAIR—In terms of prices?

Dr Baker—Yes, in terms of prices—the example I used with Sydney and also the milk in New South Wales.

Senator FERRIS—That is the retail tribunal. How will it work?

Dr Baker—Once again, if you have a problem, you have to deal with the states and local government, as different areas of the problem are in different levels of government. How you deal with those relationships is not my area of expertise, but you need a mechanism where every three or five years there is a review and the onus should be on the supermarkets to demonstrate that they are fulfilling the requirements of Hilmer—that they are delivering cheaper prices and delivering the goods, so to speak. I would therefore say that, in terms of a time period, this has to be a regular review to ensure that the supermarkets and their grievances can be presented. The other problem is that, if you have a grievance, you suffer. In my work, I have suffered substantially in terms of consulting and whatever because of the orchestration that has gone on.

Senator FERRIS—I want to keep you focused on what you recommended: the role and function of this retail tribunal and how it would help the person who, for example, came before us yesterday at Cooma to tell us about the difficulties in operating his small business in a town near Cooma because Woolworths is the dominant supermarket in Cooma. So I want to keep you focused on the role and function of the tribunal—is it attached to the ACCC and does it act as an arbitral body? Your submission is probably the biggest that we have received and there is a mass of stuff here, but I am looking for the answers.

CHAIR—That is apart from Coles, Woolworths, Myers and Franklins.

Senator FERRIS—I am looking for an answer, not more problems. We know the problem.

Senator FORSHAW—Relatively speaking.

Dr Baker—The USA are also having problems in how to enforce this. In terms of the ACCC, you have to look at the Trade Practices Act. There is a small business section—I am not sure about the ACCC—but you would have to see whether or not their role is expanded. I have not really considered this. If you want me to seriously consider this and get back to you—

Senator FERRIS—I felt that was what you were looking at.

Dr Baker—But then again, in terms of legalities, you have had a High Court decision in the last couple of weeks.

CHAIR—This panel is particularly interested in the solutions as well. You have thrown out all the problems—that is why this inquiry was established; we have identified a lot of the problems and there certainly are problems, as you have rightly identified—and we are interested in some of the solutions that you would want to put forward. That is why I support Senator Ferris's question.

Senator FERRIS—You talk about what seems to me to be quite a commonsense idea—that is, a retail census of Australia, including a national audit of vacant shops, and you say that this could be a function of the tribunal. But I cannot find anywhere in this submission any development of recommendation 1 where you say 'a retail tribunal'. It surprises me, if you do not mind my saying so, that, while you have been involved in this area since the

early nineties and are clearly well developed in your arguments on it—and we know the case too, although probably not as well as you do, in terms of the years that you have spent on it—nowhere have you actually come up with an answer. That is what we are trying to find.

Dr Baker—It might be what we call a ‘wicked problem’, an insoluble problem—the more you try to solve it, the more problems you create.

Senator FERRIS—If we tried to use the word ‘wicked’ to come up with a report here, I think the adjective would be applied to us in terms of what it has cost taxpayers to do this inquiry.

Dr Baker—You know the problems. We have state governments—other countries do not have these—and part of their jurisdiction is part of the problem. So, if you say, ‘Okay, we will set up this national tribunal,’ what are the powers that it can exert on state governments? Is there an area where small business can appeal federally rather than to a state government. It is not that I have not thought about the problem. I have worked in other areas of mathematics and I think this is one of the most difficult problems to solve because you cannot model politics.

Senator FERRIS—We know that.

Dr Baker—I am saying that, in terms of how you would deal with the states in terms of the tribunal, you would have to change the mechanism in terms of the Trade Practices Act. In terms of trading hours, what is small business going to do about illegal Sunday trading or what I perceive as such? I could be corrected. Do they take a class action against a supermarket? Do they take it into their own hands?

Senator FERRIS—Or is this the role of the tribunal? That is the question I am asking. Have you thought through, say, the six principal criteria that that would address? In our evidence we have got some suggestions about what this might address. Clearly, an arbitral body where people can complain about predatory pricing is one. I will not take any more of your time because I think I have made the point.

Dr Baker—I would dearly love to tell you how to do it, but as an empiricist in terms of the practicalities of dealing with the states and whether you are going to have federal intervention to overrule the states. This is a real problem. I am a realist; I am not an ideologue.

Senator FORSHAW—You are not a legislator either, Dr Baker, whilst I take the point it would be handy to have a little bit more flesh on the bones in terms of a retail tribunal.

Dr Baker—I will think about it.

Senator FORSHAW—I want to clarify something. You have talked about the number of vacant shop premises in each of those locations. Are they the total for a year or are they shops that remain vacant for a certain period of time because the figure could be distorted? It may not really undermine your argument—I do not think it does—but they could be vacant

for a short time as new businesses come in. It may be that the businesses fail for a whole range of reasons as small businesses do. Can you clarify those figures?

Dr Baker—This year we did a survey in Cessnock and went back a month later. The vacant shops had changed. What happens is that, if a shop in a prime site becomes vacant, you get people from the margins move in because the rents fall and you get a whole lot of relocations going on. Over time we are tracking Mayfield, Newcastle and Cessnock. What really worries me—and this is what the conference was about that I went to in Italy last year—is that there are long-term vacancy problems in the USA. It is not a short-term problem. Therefore, whereas everything changes, people come in and people come out, people move to the prime sites and leave the arcades at the margins, the rate is still over 10 to 20 per cent. I am not picking on tattooists, but when they move into the main street it is a sign of decay of a retail precinct. I am not just saying, ‘These are vacant shops.’ I am looking at it over time. It is like a pack of cards. There is a lot of shuffling.

Senator FORSHAW—I accept that some of the numbers you have given us are disturbing in themselves. If you are talking about two or three, that is fine, but you are talking about 30 and 40. The second issue—just to clarify again something that we have heard constantly—is that the concentration in Australia is 70 per cent or 80 per cent. That is the figure that is used, although Woolworths argue about the definitions. In your paper you talk about the position in the US and the UK which is 17 per cent or 43 per cent or whatever.

Dr Baker—Whatever. You wanted to know the goalposts.

Senator FORSHAW—I have raised this before. In Australia we do not have the 50 million population of the UK or the 250 million in the US and we have a population very confined to the coastal regions. Just as we only have four banks or four petrol retailers—and they have declined from eight over the years—that 17 million or 18 million spread across three retail chains is not out of kilter with what might exist in those other countries where their share of the market in terms of individuals is six million, seven million or eight million people. I understand people saying they are very concerned that three supermarket chains can have 80 per cent and it has grown from here to here, but at the same time the nature of a lot of economic activity in this country is far fewer manufacturers and retailers, be they in cars, banking or supermarkets. How do you factor that in?

Dr Baker—I agree we do have a unique retail environment. Supermarkets are major anchors of our planned shopping centres, which is not the case overseas. Therefore, having supermarkets is a big plus in terms of drawing people to those centres for their regular shopping patterns on a multipurpose trip. The UK are also having an inquiry, and they have—whatever goalposts you raise—even less concentration than we do and more people. In terms of the whole Aldi rumour, and I do not know whether it is—

CHAIR—It is not a rumour; it is happening.

Dr Baker—I am a bit more cynical after seeing some of the previous—

CHAIR—Two of the panel members have actually met with Aldi, so we know that they are here and are coming.

Senator FORSHAW—So were the marching bands, but go on.

Dr Baker—I am cynical in terms of it, but let us suppose that they are coming. In terms of market concentration, this would be an excellent test of all the things I have listed in terms of oligopoly theory—a new entrant to the market. This would be a very important test because, if they can set up 100 plus supermarkets throughout Australia or whatever that would therefore tell me that we still have a competitive market. A similar thing happened when Cosco—I think it was Cosco; I am not sure—tried to come in to Britain. The other players banded against them and tried to stop them by acting as an oligopoly in terms of a new entrant. But we do not know what is going to happen here.

I remember going to a conference where they looked at Wal-Mart coming to Australia. They had a global survey of all of these big overseas chains, and Australia ranked poorly because of the market concentration and the set-up costs and was not considered. Wal-Mart will go to Hong Kong, but it will not come to Australia. So, in terms of seeing if there is a problem, if they can come and set up successfully, that would be a good indicator that we still have a competitive market.

Senator MURRAY—Dr Baker, this committee is going to come up with recommendations as to whether the law will be changed or not. I really want to get the flavour of what kind of law changes you would agree with. Yesterday I put this proposition to one of the witnesses. Simply and crudely put, the proponents for much more regulation are calling for an arbitrary line to be drawn. They are saying, ‘Cap it, pick a percentage—we don’t care if it is arbitrary—but stop what is going on.’ In other words, it is black-letter hard law that they are asking for.

The option that faces us is either to go that route, very precisely just drawing lines, or to simply provide the ACCC with more teeth, more regulatory powers—be they antitrust powers or anything else—that would allow them to flexibly assess individual market situations: local monopolies, regional monopolies, concentration, matters of competition. In terms of your perspective on all of this, where does your bias fall—towards hard black-letter law or towards regulatory authorities being given more powers to be used on a discretionary and flexible basis?

Dr Baker—We have adopted a US deregulation type model—24-hour trading, and so on. In terms of a hard line, in terms of statistics, you have standard deviations. I thought that Woolworths’ neutralisation by changing the goalposts and saying, ‘We can’t have a cap,’ was partly successful because of the press that came out. The USA actually have an index—the Herfindahl-Hirschman index—in terms of mergers, in terms of getting the percentages of, say, packaged groceries and working out ranges in terms of the situation, say in terms of market concentration. There is no fixed boundary, but there are ranges that advise that there is a problem that has to be looked at. In terms of the ACCC and the Trade Practices Act, firstly, you have to give it teeth and, secondly, you have to change the culture to one where they are proactive in terms of all perceived cases of where the market has seemed to fail. That is not happening. In America that culture has grown up since early in the century.

Senator MURRAY—Let me return to my question. Are you saying to us you want the ACCC to be given more teeth in the sense of precise defined law—no more than such and such a percentage, no more than so many competitors, et cetera—or do you want a flexible approach whereby they make judgments according to the market situation?

Dr Baker—As I said, in terms of boundaries there is a problem in determining what is 80 per cent of packaged groceries. I am more in favour of flexibility, but you actually have to have measures. You might not agree with the index America has in terms of merger tests, but there is an index to guide them as to whether there is a problem. In terms of these creeping acquisitions, for example, that is another strategy that is being used, and that is an area to look at. This is where I differ from the small business groups.

I have always been independent, contrary to what is being put out in the marketplace—that is a lot of rubbish. Therefore, in terms of dealing realistically with the problem—I am a realist; practical—you do need these empirical guidelines and maybe these ranges. But then you need teeth. In New South Wales there has never been a state inquiry into trading hours. You need a democratic tribunal where people can air their grievances. You need the ACCC to have teeth. You need a change of culture in the ACCC. You also need some benchmarks to guide, to highlight or to focus where there are particular problems, such as the milk deregulation problems.

Senator MURRAY—At the nub of your argument is basic monopolistic theory; at the nub of your argument is your view that excessive market concentration in this country has actually decreased competition, decreased range, decreased full-time jobs and increased prices, even if it is relative. That is what I discern in everything you have said and in everything you have written. That is classic monopolistic theory. Given that, and given the real power that the state governments have, do you think that, realistically, the federal parliament is almost helpless in the face of the public policy forces against it, because nearly all of what you are discussing has been driven by state governments, not by the federal government, although the Hilmer report and the Hilmer directions were a Commonwealth initiative? Do you think this inquiry and the consequences of it have a real chance of turning the tide against the oligopolisation of our society?

Dr Baker—I think it is the last chance. It is going to take courage. That is getting back to my tribunal. That is the problem, to deal with the state governments. In terms of Hilmer, in terms of competition policy, I argue that, because of market failures in trading hours, that is deemed not part of Hilmer because Hilmer is dealing with a competitive market. You can at the periphery drop that deregulation provision. You can say that in terms of 2000 compliance, in terms of trading hours or whatever, but the power that supermarkets can exert on state governments is enormous. They can threaten to go to other states or whatever. It is a really difficult problem.

CHAIR—I must remind Dr Baker that we are running out of time.

Senator MURRAY—This is my last question. It is to do with the so-called consumer demand for longer hours. Effectively in our society you now have 24-hour, seven-day trading in some retail sectors. You certainly have seven-day trading in many retail sectors. You have factories that operate seven days a week and always have, hotels are open, et cetera. Why is

it that it has only been developed in those areas and there has not been the same demand for offices to be open seven days a week, for government services to be open seven days a week—for every sector of society to be seven days a week? Why is it that people selfishly say, ‘I want to shop on Sundays but please don’t make my office, my job, open on a Sunday’? Have you ever explored that area of choice?

Dr Baker—Yes. I said that for this whole thing to work you need to deregulate school hours so that, instead of Monday to Friday, we have school seven days a week. I think everybody has a right to have a day with their family. That is the bottom line.

Senator MURRAY—Why do people want that right for themselves but they will not give it to others?

Dr Baker—You have to look at society. We apparently now have an underclass. The girl working in the local deli in the supermarket in Armidale, when they announced she had to work Sunday, could never plan her life because she did not know when she was going to be called up to work. That is a young person 18 or whatever. So I see the human side of it, beyond the statistics, and some of the social problems, knowing small business personally. It is as if we want an underclass of people who will be there to serve us. I am part of the time a professional who loves to shop at whatever time, but in terms of convenience we are demanding an underclass of people. If we are going to deregulate, deregulate school hours. Let us get into it so that everybody has that. But that is not happening.

Mr NAIRN—You talked about the deregulation of milk and the example of Woolworths doing a deal with National Foods and providing only one type of milk as an example of market failure. Are you aware of what happened in the ACT when they tried to do the same thing? I would put it to you that we had a classic case of the market working superbly well. Basically, the people said, ‘If you are not going to stock Canberra Milk as well, we are not going to shop in your shop,’ and they did not. Woolworths lasted about three weeks, at the most. What did they do? They put alternative supplies back in the shop. To me, that was an example of the power of the people and how competition can work. The milk vendors advertised and said, ‘Give Woolworths a big miss. Buy your milk from me.’ All of a sudden we had this wonderful sort of competition happening.

Dr Baker—That has happened in New South Wales. But it is like with Sunday trading hours: when the Hunter Valley complained about going beyond 4 o’clock, they stopped trading in that locality. Everywhere else, if you did not complain, if you were not informed, it did not happen. So there is a market failure in terms of the information that is put out. I am all for that. It has happened in Nowra and Tamworth, I think. The problem is that it does not happen throughout New South Wales. That is a problem of the information part of it.

Mr NAIRN—But it still is an example of how the people themselves can force competition. In my view, you have real market failure only when the people do not have that ability.

Dr Baker—Or have that information. That is where the media come into it.

Mr NAIRN—You mentioned Bendigo in your submission as one of the locations with vacant shops and various things like that. We had evidence yesterday morning in Bendigo from non-supermarket type people of praise for the Sunday trading and what it has done to their business. A furniture retailer, for instance, competing with some of the big guys, said how his business had grown. He has put on more people and his turnover has increased. Do you start to say, ‘Okay, restricted hours should apply to the supermarkets but not to the furniture shop or not to the baker’s shop’? Where do you start and stop? We had clear evidence of where small business has grown superbly as a result of those deregulated hours.

Dr Baker—They are not competing with the two big retailers—

Mr NAIRN—They were competing with Harvey Norman; that was their major competitor.

Dr Baker—There is a Coles Myer and a Woolworths. They are not competing with them. Yes, I would agree that there are some businesses which do prosper from weekend shopping, but they are not the ones competing against the major retail corporations like Coles Myer and Woolworths. But I will say this. I notice that they were offering TV sets in Woolworths in Armidale. They will try whatever high turnover item they can put on their floor space and they will compete with anyone. It is not just packaged groceries; it is what else they are putting on their floor space and competing with a majority of other retailers in the main precincts. That is the problem. I agree that it is not a blanket effect. You can argue that furniture and electrical appliances do very well on a weekend or a Sunday, from the figures. But there are others who are in direct competition with the two majors who are not.

Mr NAIRN—I just do not know how you apply the laws.

Mr JENKINS—What you are really saying is that the narrowly defined supermarket portion of the retail sector is the only area you would have concern about, not the total retail sector.

Dr Baker—I am also concerned about things like the Home Depot concept in the USA coming to Australia through the Bunnings hardware houses, where they are actually locating on the edge of town with seven days a week trading and whatever in order to compete with non-food retailers. The supermarket sector has been identified as a major problem, but there are other retailing forces that are coming which are of concern and use the same strategies that the supermarkets do.

CHAIR—A brief concluding question from Mrs Elson.

Mrs ELSON—On your chart, you showed us that you believe they are working out territories—

Dr Baker—In the Hunter Valley.

Mrs ELSON—Yes. Could you lift it up again? You showed the blue and red down the bottom, the Coles and Woolworths, where they are not competing against each other. Is that because they are small towns where you could not have two stores?

Dr Baker—Tuggerah Lakes is there. I do not know—

Mrs ELSON—That is what I am asking, whether the reason why they are not competing is not that they are working out territories but they were the first in the smaller towns to buy up the independent grocers and they are the main supplier in town.

Dr Baker—It could be. I am just looking at the patterns. I have done every capital city and the Hunter Valley. The point is that where they are both competitive, as at Kotara, we have great prices. It is good if we get them competitive.

Mrs ELSON—That is what I was trying to work out, whether those places were remote, so that the prices went up because of the transport costs.

Dr Baker—No, transport costs are not the reason.

Mrs ELSON—That is what I would like to know more of: whether they are not competing because there is not enough room in town for two majors rather than the fact that they had worked out territories.

Dr Baker—Not necessarily. They are quite happy to compete with Franklins but not with each other. That is in Sydney. Once again, this is the pattern. Where you actually have them competing head to head, it is great for consumers. This is what we want to have in Sydney: head to head competition with the two majors.

Mrs ELSON—On one of the other theories about trying to breed underlings as far as part-time work goes, we have seen in a lot of evidence here—especially in Bendigo, where they have universities and TAFEs and a lot of schools—that the part-time workers are actually university students.

Dr Baker—I will accept that that is important, but they leave the town. What do we do with the young people—

Mrs ELSON—That is what they were saying. The weekend trade has brought more work for the young ones to stay in town. That is just another theory.

Dr Baker—I accept that, but then I would say, what happens to the people who are not university students who want a full-time job in the retail sector?

CHAIR—Thanks, Dr Baker. That was very interesting. Thank you for your paper. It is obviously an area you have done an enormous amount of work on. You may want to think about the solutions, because in a very short space of time we have got to present a report to the parliament on how these problems may be solved, which is not all that easy. I was also particularly interested in the number of vacant shops. That is something that has not been brought out before in the submissions to us, and I find that particularly interesting. Thank you for your work. Thank you for your submission. We find it interesting because of the whole range of this inquiry. I appreciate your coming today. Thanks very much.

Senator FERRIS—If you are able to think through the retail tribunal to any greater extent, I am sure the committee would appreciate any ideas.

Dr Baker—I will.

CHAIR—We are into solutions.

[10.07 a.m.]

BROOKS, Mr Raymond Lindsay, Councillor, Dubbo City Council

McGRANE, Councillor Anthony Michael, Mayor, Dubbo City Council

CHAIR—I welcome Mr Tony McGrane and Mr Ray Brooks. Mr McGrane is the Independent member for Dubbo and also the Lord Mayor. I remember well Dubbo's contribution to the Olympic bid in terms of assistance with Mongolian horses, which are thriving in Ulan Bator. We may not have won without that one vote from Mongolia, so thank you to Dubbo.

The committee prefers all evidence to be given in public, but at some stage you may wish to have part of your evidence or all of it taken in camera. If that is the case, a request can be made to the committee and we will consider it, but I should warn you that at some time in the future the Senate may decide to make it public. The committee does not have a submission before it, but we appreciate your coming here today and sharing your views on the issue. I now invite you to make an opening statement. At the conclusion of your remarks, we shall proceed to questions.

Mayor McGrane—Thank you, Mr Chairman, and thank you for the remarks with regard to the Olympics. We were running quite well in our input there until something happened in the papers. The local member at the time and I decided we should back off at one vote. Again, we thought we had played our part in that great win.

CHAIR—You certainly did.

Mayor McGrane—Mr Chairman, members of the Joint Select Committee on the Retailing Sector, Dubbo City Council has resolved not to support Sunday trading. The topic of Sunday trading in Dubbo has been considered by the council many times over the last five years. During this time, council has always sought advice from the Dubbo Chamber of Commerce and Industry in an effort to form an opinion or policy on this matter. In 1996 council gave consideration to making an application to the New South Wales Department of Industry Relations that would allow all shops in the area to trade on Sundays during school holidays. However, at the time this met with considerable objections from the local retailing sector and council did not continue with this proposal.

It was council's, and the chamber's, belief at the time, and it remains so, that Dubbo would qualify as a major holiday resort, as it is the major stopover point on the Newell Highway and home to the Western Plains Zoo, which attracts over a quarter of a million visitors per annum. Council considered that there would be a significant economic advantage in Dubbo having limited Sunday trading, but also was mindful of the burden Sunday trading would place on many independent retailers if it undertook all-year trading. At that time, students enrolled in the advanced management course at the Orana Community College undertook, as a major project, a research study into this issue. This study, known as Mac 96, shows clearly support from shoppers and retailers for Sunday trading.

Throughout council's consultations and consideration, there has been no definite outcome for or against the issue of Sunday trading. As you may be aware, there are a Coles supermarket, two Woolworths supermarkets and two Franklins supermarkets operating in Dubbo. Additionally, there are two smaller independent neighbourhood type supermarkets operating. One of the small independent supermarkets, known as Pay Less Dubbo, has made application to the Department of Industry Relations to open on Sundays, and accordingly the department has requested council's comments on this application. Since council began to make consideration on this application, which incidentally was supported by the Dubbo Chamber of Commerce and Industry, it has been inundated by some 1,300 individual letters in regard to supporting this application.

The big three supermarkets, Coles, Woolworths and Franklins, are an integral part, and certainly an extremely important part, of the retailing sector of Dubbo and indeed of this region. They are a major contributing factor in attracting regional shopping to Dubbo, and Dubbo certainly welcomes their presence. However, it is council's belief that these large supermarkets should not be allowed to take over. It is also council's belief that the smaller independent neighbourhood type supermarkets are also extremely important to the retailing needs of the residents of Dubbo. The two independent supermarkets are what I consider to be a neighbourhood type shop. They, possibly because of their unique locations—one in south Dubbo and the other in west Dubbo—and because of their service provision to a certain localised clientele, certainly operate very successfully. By no stretch of the imagination can these independent supermarkets be categorised with the big three. They are basically neighbourhood shops. They operate away from the major retail precincts of Dubbo and provide a service to a specialised clientele.

The distinction between the two types of supermarkets in Dubbo appears very obvious. Each type provides a service to a separate buyers' market. I do not believe Dubbo is unique in this situation, and accordingly I believe that the definition of a general shop under the Factories, Shops and Industries Act 1992 needs to be redefined to appropriately reflect the specialised services by each and allow each the opportunities to trade and to meet their customers' requirements. It is the belief of council that this redefinition is required to allow the continued coexistence of the services provided by each and to enable particularly the two independent supermarkets to continue to be allowed to provide a unique trade and service to the people of the city of Dubbo.

CHAIR—Mr Brooks, did you want to make any comments?

Mr Brooks—Basically, that is the thrust of our submission as a council. Just adding to some of those points I would like to state that there is a need for small business in the form of small business supermarkets and also the larger supermarkets to coexist. However, there is not the need for the one to exist at the expense of the other and both of them are necessary for the growth of not only regional centres like Dubbo but also the region which surrounds Dubbo. If the larger supermarkets are allowed to trade seven days a week, 24 hours a day, then it is going to adversely affect the smaller regional centres around Dubbo.

I know it has been stated that if a larger centre grows then the small centres will grow with them but it has been shown that that is not the case now—that if a larger centre like Dubbo is to grow then it needs to support the smaller centres surrounding it for them to

grow with Dubbo. If unrestricted trading is allowed to take place, then Dubbo is going to grow at the expense of the smaller centres in the region and also it may or may not grow at the expense of small business in Dubbo.

As we all know, figures are being bandied around that small business is 20 per cent of business in Australia and it supplies 80 per cent of the work force. The larger corporations have 80 per cent of the business and 20 per cent of the work force and we do not want to see that ratio weakened any more. So I would just like to add those few points in relation to our council submission.

CHAIR—Thank you very much. I think that the relationship of Dubbo and the satellite centres is particularly interesting also.

Mr NAIRN—Mr McGrane, are the larger supermarkets in Dubbo—Coles, Woolies—stand-alone supermarkets or are they in complexes?

Mayor McGrane—They are in the CBD and also in the larger regional shopping centre, and there are adjacent shops to the Woolworths and Franklins as well. It is in a shopping mall. It is a large one; it is the only one in the city of that type. The other ones are in the main street of the CBD.

Mr NAIRN—Has the development of any of those in recent years required rezoning by the Dubbo Council?

Mayor McGrane—The Orana Mall area—and that is the one outside the CBD precincts—is an area of land that was owned and sold by council at the time, some years ago, before either Councillor Brooks and I were on council. At the time it was felt that it was outside what was normally the city limits—Wheelers Lane is adjacent to that and it is on the eastern side of that. But the city has grown that way and it is near the centre of the city now. I think it has worked quite well having a large mall outside the CBD, but you would not want more.

Mr NAIRN—This is something that has been raised in quite a bit of the evidence—that there is enormous pressure put on councils to rezone land or allow development of major supermarket areas, which is causing some of the difficulties with the smaller ones, and I am just trying to get a feel of how things have developed here. Currently, what sorts of shops can open on a Sunday in Dubbo?

Mayor McGrane—As per the regulations under the act in New South Wales, those smaller shops can open. The shops that do not open are the mall and also a lot of shops in the main street. But they could open if they wished.

Mr NAIRN—They could open?

Mayor McGrane—Yes.

Mr NAIRN—Is there a grey area where you get to a point where you become a shop that is not allowed to open on a Sunday?

Mayor McGrane—There certainly is a grey area and that is why we have had this application by Pay Less to legalise what probably was happening in the past, which was taken for granted, that they had existing rights to trade on the Sunday. There has been an approach by the department to show cause why they are doing that now, and that is before the community at this stage.

Mr JENKINS—From council's point of view, the present planning requirements, I take it, are still based on a land use style of town planning and there is not really any economic or social impact to planning matters?

Mayor McGrane—At the present moment—and it will be considered this week—we have just gone through an extensive consultation with the community to bring in new planning instruments. The biggest bone of contention was the ratio of floor space between the Orana Mall area and the CBD. We have had lots of consultation with the CBD people and the owners and the operators in the Orana Mall. We have this floor space ratio that one is tied in to the other so we will not allow the open expansion of the Orana Mall. We have had this extensive consultation between the CBD owners, the retailers and the Orana Mall. We have this ratio in, which probably is one of the first to tie it into a planning instrument. Every six months it is under review in regards to floor space development in the CBD area and then that is tied in with the Orana Mall area. But there is not wholesale development of the Orana Mall area with regard to retail space. In other words, they cannot put another floor on their building.

Mr JENKINS—I was introduced to a new term yesterday in Cooma: the phenomenon of fractured CBDs and how this was unhealthy. Obviously, that is the intent of trying not to shift the centre of activity.

Mayor McGrane—In the sense, Dubbo is basically a large population—not just Dubbo. People come in hundreds of kilometres to shop in the city of Dubbo, and it is said that over 100,000 people can call Dubbo their city—it is a retail and commercial base—and mainly from the west and the north. I think the two operate quite well here, but three is a crowd. We do not need another Orana Mall anywhere else.

Mr Brooks—If I could just add to that. In any business or in any community, the lifeblood of the community is the CBD, and it is within everybody's interest to protect the CBD and to ensure that it remains a viable proposition in the town. Of course, the old traditional CBDs have always been a strip shopping centre. The shopping malls have taken over to a large extent from the strip shopping centres, and that has seen businesses close in the CBDs; it has seen a decrease in land values and so on. It is in everybody's interest to ensure that steps are also taken to ensure that you protect your CBD and your strip shopping centre as well.

Mayor McGrane—Can I just add a little bit further to that. In the CBD area we have two major malls. One has just been opened in the last month—something like a \$15 million to \$17 million development. The other is the city centre, which has just been sold for something like \$24 million. So we have two major malls in the CBD itself plus the Orana Mall.

Mr JENKINS—How has that affected smaller businesses which might have not only had the business but owned the freehold of where they were conducting their business from?

Mayor McGrane—That is what Councillor Brooks has said. Council considers the CBD as the lifeblood and the heart of the city. We tried to be totally fair in this but we try to make sure that we do protect the heart of our city, the CBD, which, in general, is owned by the owner operator or investors from outside the city of Dubbo and investors from within Dubbo who own the property and lease out. All the profits from the CBD basically come back into the community, except for the two major malls, of course, and they are owned by outside investors. The Orana Mall is owned by an outside investor, I might add too.

Senator FERRIS—Do you have a large employer in the town where shift work is an option at all? In the study you did that looked at Sunday trading, did you try to assess what are known as escape dollars—that is, shopping dollars, family expenditure dollars—that go out of the town because of your trading hours?

Mayor McGrane—With regard to shift work in the city of Dubbo, we have a major sheep meats abattoir which employs over 700 people and they work shifts. Our other major private employer is the big printery that employs between 250 and 300 people, and it works 24 hours a day. They are the two shift work operations in the city of Dubbo, apart from the hospital.

Senator FERRIS—Have you ever looked at where they do their shopping and how they manage the existing trading hours?

Mayor McGrane—We have not done any detailed analysis of that, no.

Senator FERRIS—And what about the escape dollars?

Mayor McGrane—All the other regions around Dubbo will say the opposite—that all the dollars come into Dubbo. I do not think many people go to Narromine or Gilgandra or Wellington to shop, quite frankly. A lot of people work in Dubbo and live in Narromine. We do not like to be called this but we are called the ‘soak’ by some people because things come to us, because we are the regional city, the regional centre. People come to the city to do professional work because of our situation, because of the size of our city and because of our air links with Sydney: we have between 10 and 12 airline services a day so professional people come out from Sydney to operate here for a day or a day and a half and then they go back to Sydney. So professional services are available here, similar to that in Sydney and of the same quality. When the people come in to do their professional work they shop of course.

Senator FERRIS—So you have Friday night trading and then Saturday until lunch time; is that right?

Mayor McGrane—We have Saturday trading until after lunch and then we have Thursday night trading but I think Councillor Brooks might be a more appropriate—

Mr Brooks—Also, the supermarkets trade until 10 o'clock every night and up until 10 o'clock on Saturday night—obviously, they are not open on Sundays. One of the major supermarkets, Coles, did a trial of 24-hour trading at one stage but they do not do it now so obviously it was not a success for them.

Dubbo is the regional shopping area. Dubbo has a population of 38,000 but it has a shopping population of 130,000 because it covers people out to the South Australian border and the Queensland border. They not only come to Dubbo to do their shopping but also to get their professional services here. If you look at the figures you will see that Dubbo is unusual in the number of retail outlets it has and also the amount of dollars that go through the retail trade here compared to other similar sized cities in Australia. That is simply because it provides these sorts of facilities to a large part of New South Wales, about a third.

Senator MURRAY—Yesterday in Bendigo we were faced with a chief executive officer of the council. He had previously been an economic consultant, had done work for the majors as well as minors, very much in that evaluative analytical kind of mould. His council and he were very strong supporters of Sunday trading and they had played a big role in getting Sunday trading in to Bendigo. An earlier witness today, Dr Baker, spoke about the leadership factor and how that altered the perception, depending on the state government, of who was in power and who was in council and so on. When you are dealing with these issues, what advice and assistance do you get? Does the state government, for instance, give you formats of yes and no cases and the arguments from the local government minister, or does your local government association provide you with input or is it almost entirely dependent upon your own resources, the instincts and the practical understanding of the councillors and the support staff in the council? What resources and what inputs do you get to help you arrive at these decisions?

Mayor McGrane—The state government allows local government to make its own decisions about issues to do with local government. So it does not give you much guidance at all. I accept that. I think the local council and the shires association are similar. Probably the shires association would have a policy that they would not favour Sunday trading but we are part of the Local Government Association and that association is made up of mainly city regional councils and the metropolitan councils of Sydney.

I do not think they have a policy in bold print but the vast majority of their members would certainly be in favour of Sunday trading. We are left to our own and that is why we consider that the Chamber of Commerce and Industry is the sounding board that we should be taking advice from, as a council. The Chamber of Commerce and Industry is made up of people in the community who are involved in business in the community and we feel they are the sounding board for us when making decisions on matters associated with trading hours.

Mr Brooks—We have consulted the Retail Traders Association and Dr Baker and the research he has done. We have also taken into account the history of what has happened in other regional centres where Sunday trading has been allowed to take place.

Mrs ELSON—During this inquiry we have heard that a lot of smaller country towns have problems when a major regional area similar to Dubbo takes business away from the

rural areas, especially when there is weekend trading. Is there a problem with your surrounding smaller rural towns?

Mayor McGrane—There would be if we had Sunday trading. Certainly people from Gilgandra, Wellington, Narromine and, say, Warren would come to Dubbo to shop if there was total Sunday trading in the city of Dubbo. The council is mindful of that. We are the largest council in the region but we want to work with other councils. We want to make sure that we all work together as a team. It is not good business to have everything in a big place and nothing in the outlying places. It is hard enough for these smaller council areas to survive with all the other pressures being brought to bear upon the people who live in those council areas. I think we have to be very mindful that we work together. I have said many times to the Woolworths people that we respect their presence here in the city, and they have been great for the city, but that they must learn to work with us. We can all have a fair share if we work together. We do not want a monopoly. We feel that there should be some control and that is why, at this stage, council has said that it is not in favour of Sunday trading.

Mrs ELSON—So you do not have major problems at the moment with your rural areas dying off?

Mayor McGrane—The population in the neighbouring council areas is pretty static. A lot of people who live in the closer communities to Dubbo—Narromine, Wellington and some in Gilgandra—work in the city of Dubbo, so that helps those communities to grow at a very slow rate compared with Dubbo. If everything centred on the city of Dubbo, I suggest it would not be good for those other regional council areas.

Mrs ELSON—So you do not have a high number of vacant shops in your surrounding rural towns?

Mayor McGrane—Before I was the Mayor of the city of Dubbo, I was the shire president of the neighbouring shire of Gilgandra for some 17 years, and I still own real estate in Gilgandra. They are having a battle out there. They are having more of a battle out there to survive than retailers in the city of Dubbo. I think the towns that are not on a main highway have a bigger battle because they have not got the throughput that comes from the travelling public.

Senator FORSHAW—What is the next major town or city to Dubbo? Is it Parkes?

Mayor McGrane—Yes. Parkes is a fair distance away. Parkes is now in the new electorate of Dubbo, and Parkes and Dubbo have always had some type of barrier between them. Parkes generally went to Forbes, to Cowra, to Orange. We, as a city, mainly serve the northern part of New South Wales and the western part of New South Wales and some way towards the east, towards Mudgee.

Senator FORSHAW—The reason I ask is that you said earlier you draw people to Dubbo from 100 kilometres around, for whatever reason. One of the proposals that has been put to us is that there should be a cap on the level of concentration of the three majors—75 per cent has been suggested—and that there should also be a limit on the share of the market of each of the majors at around 25 per cent each. It has also been suggested that that should,

in some cases, mean companies would have to divest themselves of stores. You have two Woolworths in Dubbo. How do you think the area would be affected if Woolworths were told that they had to sell one of their stores or shut it down or whatever?

Mayor McGrane—I do not think that would be a logical thing to do, quite frankly.

Senator FORSHAW—Let us for the moment assume that it is possible. It has been argued that it could create massive dislocation in towns. The town we were in yesterday, Cooma, has two Woolworths stores. Cooma is nowhere near as big as Dubbo but it has a monopoly. I think you said you have two Woolworths stores here.

Mayor McGrane—Yes.

Senator FORSHAW—How many Coles?

Mayor McGrane—One Coles, two Franklins.

Senator FORSHAW—Two Franklins?

Mayor McGrane—Yes.

Senator FORSHAW—If a perfect market situation existed and you had one of each, presumably it might have some big impact if the other two were told they had to get out.

Mayor McGrane—In our case, here in the city of Dubbo, I think it would have a negative impact if you decided to close one Woolworths and one Franklins, and that is shown by the property values. The city centre was recently sold for \$24 million. Some six or eight years ago it sold for \$16 million. The Orana Mall when it was built, from memory, was something like \$11 million or \$12 million. About \$10 million was spent on it eight years ago, so it has a value of \$22 million. I suggest that the pricing of retail has gone up, which probably shows the demand for those shops to be in those complexes, those malls.

Senator FORSHAW—Have any of the three majors purchased any other independent or other supermarkets in Dubbo or in the region? We have seen evidence of this—for instance, it happened in Cooma and it has happened in other areas. Has that happened up here?

Mr Brooks—It has not happened in Dubbo at all. There has always been the three majors plus the two independent supermarkets. There has not been any change of ownership of those supermarkets as long as I can remember.

Senator FORSHAW—Thank you.

CHAIR—Have you seen any evidence in Dubbo of the majors who are here, Coles and Franklins and Woolworths, pushing smaller retailers out—using their market power here in Dubbo to impact on small retailers? To a certain extent, this is the core of what we are about. We had to look at various regional centres and Dubbo was of interest for the reasons that you say, being a core regional centre with lots of shopping and lots of people coming from surrounding areas. In terms of regional Australia you are a very good example of where

it is at. Does the chamber of commerce, for example, complain about the activities of the majors here?

Mayor McGrane—I think we have learned to live together quite well. I do not think it would be the case that we would live together so well if they had Sunday trading. Of course, the majors want Sunday trading here and we have resisted that up to this stage. We have said right through in our address here today that we feel that we have to work together. There is a place for the major retailers in the city and there is a place for the smaller retailers, because they are the heart and soul of this city. It is a balancing act and we have been able to achieve that up to this point in time.

CHAIR—One of the things we have seen in the regional areas is the involvement of smaller retailers in community activities, such as football jumpers for the team, helping out the brownies and being involved in Rotary. Have you noticed if Coles, Woolworths or Franklins take part in the community?

Mr Brooks—Certainly not to the extent that the smaller retailers do. I was the owner of one of the smaller supermarkets up until 1994. Community groups and sporting groups were always coming to see me asking for sponsorship. You would donate goods for the school fete and, as you said, you would donate tops for touch football teams and that sort of thing, but you never see the big three sponsoring community groups that way. Of course, with small business the money stays in the community; with the big three it goes to Hong Kong, Sydney or somewhere else.

CHAIR—I am told that Coles Myer, for example, donates to the Australian Opera Company. How do you feel about that?

Mr Brooks—They can donate to the Australian Opera Company; that is their prerogative. But it would be good to see them also working at a local level within the local community to support them as well.

CHAIR—Do you ever see the Australian Opera Company out here in Dubbo?

Mr Brooks—No. We have not seen them as yet.

Mayor McGrane—We do get a few visits, but we are lacking some facilities.

CHAIR—Finally, unless I am wrong, you are the first mayor who has given evidence here. You heard the previous gentleman talking about the number of vacant shops around the various centres. To what extent do you think local government bears some of the responsibility for approving developments across-the-board without thinking through the implications of what it can mean?

Mayor McGrane—If your committee has time, and it probably has, it could look at our CBD and main street development. We spent between \$6.5 million and \$7 million.

CHAIR—It is excellent, too; beautiful.

Mayor McGrane—We aim to do some more in the CBD of that type of development, although not to that extent. We feel as a council that we should be the facilitator in getting growth in the CBD and stop having vacant shops. They are owned privately. We can do the beautification and the next thing is parking, of course. That is always an issue and that is the responsibility of council to make sure there is adequate parking for the retail sector.

CHAIR—It is more than that. Do you think that ad hoc approvals without considering the implications on other retailers are part of the problem? You mentioned the chamber of commerce. Do you think your liaison and work with the chamber of commerce may have prevented you from falling into the same trap here, or have you?

Mayor McGrane—Community consultation is part of the game in regard to local government and we have been doing that in this matter. In regard to our new LEP, we have had extraordinary consultation on that matter. When it came to the CBD, landowners, operators and the Orana Mall, there was a difference in regard to what the Orana Mall people wanted and what the CBD people thought, and we were able to work through that. It took a long time, but we were able to come up with a ratio of floor space from one to the other which is monitored. It is a new facet with regard to planning which is worthy of being looked at by other councils.

CHAIR—Thank you very much for coming. We really appreciate your evidence as both the mayor and Independent member. We had evidence from one Independent member in Launceston as well. We really appreciate your involvement.

Proceedings suspended from 10.45 a.m. to 11.01 a.m.

CAMERON, Mrs Jannifer Robin, Member, Catholic Social Welfare Committee

CHAIR—I welcome Mrs Jan Cameron. The committee prefers that all evidence be given in public. However, you may at any time request that the evidence you are giving be given in camera and, if so, the committee will consider such a request. The committee does not have a submission before it, but we look forward to your oral presentation. I now invite you to make an opening statement. At the conclusion of that, the committee will ask you questions.

Mrs Cameron—Thank you, Mr Chairman and members of the committee, for the opportunity to speak today to the Joint Select Committee on the Retailing Sector. I would like to present some of the social justice issues surrounding this inquiry. People were created by God not to live in isolation from each other but for the purpose of forming social unity. A person achieves his or her potential as a member of society where the needs and rights of others have to be respected. It is wrong to pursue one's own interests without regarding this fact. It is essential for the health of any society that most of its members have a moral commitment to work together to promote the common good.

As a consequence of the limits placed by social morality on the right to own and use property, there is a need to examine the morality of owning a large surplus of material goods while others lack the necessities of life. The Competition Principle Agreement seeks to ensure that competition is a means of improving living standards for the Australian community. The CPA explicitly provides for a range of social, environmental, regional and equity criteria to be taken into consideration when assessing the public interest, that is, the costs and benefits or the losers and the winners of reform.

I have lived in Dubbo all my life. My family are in small business. My parents commenced in business in 1952. I am one of seven children and all my brothers, except one, are in local business in Dubbo with their families. I am married to a local farmer and we run a mixed farm. One of our enterprises is to grow, process and market, so we are also involved in small business.

We have five children and the social implications for those children living in regional New South Wales are enormous. We have two children currently away at university in Sydney and three still living at home with us. Over the last 20 years on our farm, we have moved from employing staff, to having the kids around to help us, to doing the work mostly by ourselves. I think the way that we survive in small business today, because of competition, is that we eat away at our assets.

In my work with the Catholic Social Welfare Committee, which I guess qualifies me to speak here today, I have been involved with parents from a church and school level at a small local school of 160 students up to a state level where parents meet to discuss issues. This group involves in excess of 200,000 parents, spanning a time of 20 years. While the Competition Principle Agreement seeks to ensure that competition is a means of improving living standards for the Australian community, we in rural and regional areas of New South Wales are part of that community. I do not believe that living standards can or will be improved because of Sunday trading. Society today presents us with greater family

breakdown, increased drug abuse and addiction, poor parenting skills, poor health and much more.

I acknowledge that parents need to work to provide a comfortable living for their families—but sometimes at what expense? More and more children are being placed in child care or, worse still, being left at home on their own. Sunday trading could accentuate this situation. Because of the weekend work commitments of parents and/or the youth in families, there is a breakdown in the family unit. The opportunities are not present for the family to spend quality time together. We just need to observe the number of takeaway food outlets in Dubbo. Many of these are to facilitate working parents. We do not see the family mealtime as part of family daily living—as an important function and a time for families to even just catch up with each other.

Parenting skills are suffering, and extended trading hours and Sunday trading will contribute to this. Parents do not spend time together with their children and consequently are not a cohesive unit. We are running the huge risk of rearing a whole generation with very little or no parenting skills. In Dubbo alone in the last week the local press has reported two major drug busts. The incidence of drug dependence and/or addiction is on the increase, with many parents not even aware that their kids are drug dependent or drug addicts because they are not spending quality time with their families. Sundays were traditionally a day of worship and a day for family living. This does not seem to be the case any more.

I believe that in Dubbo many adults are unable to secure permanent employment status, even on a casual basis. This places undue pressure on families. They need to phone their casual workplace on a daily basis to find out if they have work on any given day. This places a strain on the family and presents families with stresses surrounding the security of whether they are in a situation to buy their own home, what type of car they can drive, their choices in educating their children and much more. Their whole standard of living is affected.

Governments have a responsibility to defend and promote civil structures as being both prior to and the necessary basis upon which to ensure the right of people to participate in the life of the community. The preceding requirement is for all community members to be assured through the processes of democracy, law and social administration of a minimal acceptable level of participation in community life. Many people cannot participate in community life because they do not have the income to facilitate this.

The greater the needs of a person, the greater the obligation on authorities and on those people who have plenty to find ways to promote and protect that person's human dignity. Pope Paul VI articulated the principle of the preferential option for the poor thus:

In teaching us charity, the Gospel instructs us in the preferential respect due to the poor and the special situation they have in society. The more fortunate should renounce some of their rights so as to place their goods more generously at the service of others.

This principle reflects the church's primary commitment to be at the service of the poor, the disadvantaged and the marginalised members of our community. In turn, the church has an expectation that authorities also share this commitment. Consideration of justice and equity

can at times demand that those in power pay more attention to the weaker members of society since these are at a disadvantage when it comes to defending their own rights and asserting their legitimate interests.

Good government is therefore concerned with more than just good financial management. The goals of public administration go beyond the goals of private management. Efficiency and private management usually equate to profit. In public administration, service of the common good is the mark of efficiency, not money saved. Any attempts to judge government on purely economic criteria thwarts the intended purpose of government to serve the common good. Wise government is concerned with maintaining social order through the implementation of a society's responsibility towards its citizenry.

Good government, then, is about seeking the development of a harmonious and equitable society in which the dignity of all is equally protected. Most people interact within the economic market to satisfy their needs. Where people are unable to satisfy their needs in this manner, the government is entrusted with the responsibility of protecting the human dignity and rights of these people. In Australia, this function is achieved in partnership with the churches and other non-government organisations committed to the development and delivery of community services. To view the existence of social services simply as a response to market failure is problematic on two counts. First, it is a negative perspective of welfare because it ignores the benefits to both the individual and society of encouraging social cohesion or social capital. Secondly, if welfare exists because the market has failed, it would seem somewhat irrational to attempt to apply the market principles of competition to the communitarian commitment operating within the social services sector and the community at large.

Australian governments have a leading responsibility to set the rules; to create, oversee and maintain conditions conducive to a fair and just society which enables access to resources for everyone. As our society works out its survival within the global economy, our federal and state governments have a key role in maintaining their social values in balance. Cultural and religious institutions such as the social service organisations of the churches are vital in ensuring that the practice and values of cooperation and mutual existence are maintained. Governments can never abdicate their part in the fostering of development to societal institutions, nor can governments expect churches or the non-government sector to build up social cohesion when the actions taken by government through competition policy, competitive tendering and contracting are contributing factors to the breakdown of local communities.

I guess I am urging this committee to not agree to Sunday trading—for us here in Dubbo especially. I know that that final decision for Dubbo is not yours alone, but I think that the impact on our family structure is enormous with family breakdowns, and the divorce rates are enormous. I urge you to consider that.

CHAIR—Thanks very much, Mrs Cameron. We appreciate your input. I think the committee would see that all the values you talk about are very important. It is important, however, to point out that this committee does not have the responsibility for the question of whether Sunday trading occurs in Dubbo or not. That is the responsibility of the parties who

came before: the Dubbo council and the mayor, who is also the Independent member, can make that decision.

Our quest relates to the concentration of market power in terms of the retailers in this area and the evidence that you might have. We are talking particularly about the concentration of power that Coles, Woolworths and Franklins may have and the impact that has on smaller retailers. While I hear what you are saying, that is our prime responsibility. Have any of the panel members questions to ask of Mrs Cameron?

Mrs ELSON—I wanted to ask if Mrs Cameron knew the unemployment rate in Dubbo. It is something I do not think we have found out.

CHAIR—It is probably appropriate that Mrs Elson asks this question, as she is a good model for family values with eight children and seven grandchildren.

Mrs ELSON—That is the reason I am sitting here. As I said, I agree with some of your moralistic attitudes. Governments can supply all the support under the sun but, unless you have good parenting, you will not make a difference. Any way, that is beside the point. Do you know the unemployment rate around here?

Mrs Cameron—No, I am sorry, I do not.

Mrs ELSON—That is okay.

Senator FORSHAW—This is something I omitted to ask the previous witness, but I think you could probably give us as good an answer in detail as anyone. We know that in Dubbo there are major chains—two Woolworths, two Franklins and one Coles—and a couple of independent supermarket retailers. What is the situation with the prices of household groceries, in terms of the difference in the weekly shopping prices between the various stores? It is generally argued and accepted that you can shop at Franklins, Coles and Woolworths and it is a bit cheaper. I do not want to sound like I am running an advertising line here, but you can shop at the majors and, overall, purchase your goods at a lower price than at the other stores, and this is why consumers like shopping in these big chains. Is that your experience here in Dubbo?

Mrs Cameron—My experience is that the big three are the cheapest, yes, if you are going for a weekly shop specifically. The smaller traders certainly have some very good specials from time to time, but that is in isolation, not as a general grocery shop.

Senator FORSHAW—Are they substantially cheaper, do you think?

Mrs Cameron—I would not say substantially, no.

Senator FORSHAW—One of the other features of the bigger retail chains is that they are increasingly able to offer a greater range of products besides just dry grocery goods—for example, seafood, meat and liquor outlets, although meat has been around for some time in these shops. Is that the case here? I assume that people can do a lot of their shopping in the one location.

Mrs Cameron—That is right, they can.

Senator FORSHAW—A question then arises from that. It is something that we have to confront as a committee, and it is not an easy question. How do you balance what consumers are looking for in terms of lower prices and convenience—and much of that may be due to the issues you have raised: for example, time pressures because of the changing nature of the work force and so on or family responsibilities—against what is put on the other side, that we do not want to see small businesses or other social activities lost because of economic rationalism, competition or whatever you want to call it? Do you have a comment to make about how we can balance the interests of the consumers who may want to shop on Sundays or who may want more flexible shopping hours? In some cases, I think it can be argued that shopping on Sundays might be a family experience as against what might happen during the week.

Mrs Cameron—I suppose you could look at it as a family experience, but I cannot imagine there would be much family cohesion if I took my family shopping on a Sunday. Because the smaller retailers have limited products—there are not all the frills and graces, so to speak—it is not going to be an all day event to go there. You go there just to get the necessities.

Senator FORSHAW—I come from Sydney, so my experiences are influenced by that.

Mr JENKINS—Metropolitan thinking.

Senator FORSHAW—Yes, but I am always trying to be broad-minded. My experience is that the big shopping centres—you have probably heard of them—like the Bankstown Squares and the Miranda Fairs—

Mrs Cameron—Yes, I am familiar with them.

Senator FORSHAW—They tend to operate between, say, 10 a.m. and 4 p.m., and they have become a Mecca, if you like, for shopping. That is what I meant by a family experience. We do not have that to the same extent of course in regional centres like Dubbo.

Mrs Cameron—No, not on Sundays. We have that during the week, especially during school holidays when there are lots of activities to attract mothers with their children for amusement and entertainment.

Senator FORSHAW—In all the other comments you have made, there is nothing that I can really ask you a question about or object to. I think you have painted a picture that a lot of us are concerned about, and it is a question of how we can address it.

Mrs Cameron—A question was asked of the last speakers about support for community groups looking for donations. I was involved with a function here at the Civic Centre last night—a major function for the city of Dubbo—and we sought donations from the business sector of Dubbo. The big three were all approached. Two of them did come forward with small donations, which we gratefully acknowledged. The third one responded that they had to send the application off to head office.

CHAIR—When you say the majors—

Mrs Cameron—Coles, Woolworths and Franklins.

CHAIR—So Coles and Woolworths said yes and Franklins said no—is that right?

Mrs Cameron—No, not quite. Coles did not say no, but they said they had to send the application off to head office. It has been my experience in the past when this has happened that it goes on for so long that you just do not bother any more. But the smaller business operators were extremely generous, and I believe that they are hounded every day of the week for donations.

CHAIR—We have got representatives of the chains up the back, so you should hover around the door.

Senator FORSHAW—There is one other question that I want to ask, and again it is probably one that could be put to other witnesses as well. It is argued that one of the advantages of having big chain stores in these centres is that they employ a lot of local labour and they are big purchasers of local products—particularly fruit, vegetables and meat if the district is one where those products are produced. Do you have any knowledge of that? It is then argued that, if you do not have those chain stores there, the local economy may not benefit as much.

Mrs Cameron—I do not think the local economy, for the producers, benefits in those situations. I know that it is not the farmer or the primary producer who is making the big dollars.

Senator FORSHAW—That is why I am asking you: you are a farmer.

Mrs Cameron—Yes, that is right. We are not making the big dollars. It is somewhere in the middle.

Senator FORSHAW—Do you have any contracts for supply to any of the major chains?

Mrs Cameron—No.

Senator FORSHAW—What products do you grow or produce?

Mrs Cameron—We have got sheep, so basically wool, fat lambs, cattle from time to time and seed.

Mr JENKINS—One of the things that I am interested in is that you as an individual and the group that you are here representing appear to find it difficult to get into the decision making process on a number of issues, whether it be Sunday trading or whether it be, for instance, the spatial relationship in the way shopping areas develop, which are, as you have put to us on the trading hours issues, important to the type of family and community values that you are championing. What ways do you think could be developed to ensure that your

voice gets a better hearing or so that these types of social issues have more of an impact on the decision making process?

Mrs Cameron—I guess educating people about the social issues, about family values. I think that, as parents, as a family unit, families need to want that quality time as a family. I think if that desire is not there, no-one can force it upon them.

Mr JENKINS—Do you think there is, in a way, a cultural thing about the way in which we approach problems?

Mrs Cameron—To a degree—yes, I do.

Mr JENKINS—The final question that I would like to ask is about the sense of community. It struck me in that example that you gave about the difficulty of getting donations out of what are basically local branches of the major supermarkets that it goes to the point that these ‘local branches’ do not necessarily connect with their community—they are there just for the retail element. But in lots of other sectors we have lost this local branch mentality. For instance, banks. Whilst this is sharing metropolitan thinking, it is exactly the same in rural Australia. We have gone from having local branches of banks where the bank manager was a prominent member of the local community, to now, to my observation, that not being as much the case. It has struck me as we go around Australia that if the managers of stores that are owned by the local majors actually ran as local entities and things like that it might be more helpful to this sense of community.

Mrs Cameron—Yes, I think that is right. My experience with seeking donations for different groups is that when a manager of a store has been around for a while and is familiar with the people, they are more inclined to be more generous because they are part of that community.

CHAIR—Thank you. I want to thank you very much for your presentation today and for reminding us of some of those values. As secretary of the Parliamentary Christian Fellowship, I am always glad to hear those values coming forward. Thank you for what you have said today, and we look forward to hearing from the community in the future.

Mrs Cameron—Thank you very much.

[11.29 a.m.]

KELLY, Mr John Macadam, Chairman, Dubbo District Council, New South Wales Farmers Association

LANGFORD, Mrs Rosemary Ann, Vice-Chairman, Dubbo District Council, New South Wales Farmers Association

CHAIR—The committee prefers all evidence to be given in public, but at some stage you may wish to go in camera. If that is the case, you should make your request formally to the committee and we will consider that. The committee has before it submission No. 216, which was the submission presented by the New South Wales Farmers Association during their evidence to the committee's public hearing in Sydney on 15 April. It was a particularly interesting submission, and so we did find it particularly helpful at the time. Do you have any comments to make on the capacity in which you appear?

Mrs Langford—I am here as a member of the New South Wales Farmers Association, but I am also speaking on my own behalf as a beef producer.

CHAIR—I would now like to invite you to make some opening comments, and then we will follow that up with questions. Thank you very much.

Mrs Langford—I commend the parliamentary initiative in bringing this inquiry to some regional centres so that information can be sourced appropriately—thank you—and decisions made not only on data based on city criteria. I believe that all the stakeholders in rural Australia are part of the whole and, as such, are entitled to equal recognition, especially in economic terms.

From the viewpoint of primary producers, I basically agree with the facts and recommendations presented in the New South Wales Farmers Association submission, which I understand you have already accessed. There are two statements in this submission which I would especially like to bring to your attention. The first one is that the more limited the market outlets available, the more difficult the position of the supplier. This logical statement gives the reason why simply the dominant position of supermarket purchasing from primary producers of all products—except limes; I can tell you that story later—can be subjected to the unfair negotiating practices specifically mentioned in the submission, and why the return to the farm gate has diminished over a recent period and the price to the consumer has not noticeably decreased. The relevant statistics are on pages 20 and 21 of the submission. They are very clearly stated there for you, proving this point based on proper empirical research. Whilst supermarket efficiency in food supply areas is admitted, it does not follow that exclusive access to low cost inputs can be seen as the same thing. In relation to overall business efficiency, profit margins could be seen to be based on unusually cheap sources in some cases.

Secondly, a most important issue for farmers and the community is the development in overseas markets of genetically modified organisms and intellectual property rights. The concept of a chemical supplier or retailer in the food marketing chain owning the proprietary rights to specific species—which they already do in many cases—and the licensing of

farmers to use them and supply them back to the retailer is already a reality in some markets. Such closed loop marketing systems raise fundamental issues about market transparency and exercise of monopoly power, especially where food retailing is heavily concentrated. It has the potential to reduce the position of the farmer to that of a serf. In view of these two realities, I respectfully ask the select committee to focus on this development which is already with us and will certainly enhance the power of dominant retailers.

From the regional community point of view—and I would like to say that I have been a member of this community for over 50 years—the results of aggressive marketing and the low pricing structures used by dominant retailers to force smaller operators out of business are affecting the property values in rural towns and cities. For example, in Dubbo the CBD valuations have gone down and there are also 33 vacant shops in our CBD. This also depletes the choice available to the customer. The effect on the community is that of slow disintegration and, in the end, the opportunity for major markets to charge what they wish. Mr Corbett's comments in his January interview in the *Sydney Morning Herald* when he was appointed Woolworths CEO are pertinent in this context. He stated that Wal-Mart USA is his mentor in retailing and that he has invited one of their executives to Australia to advise him. Suffice to comment that while Wal-Mart's activities as a retailer are aggressive—and some would say ruthless—they have been devastating to some of the smaller country towns in the USA.

I believe that it is essential for supermarket retailing to continue but to have limits in place which curb the detrimental activities that affect the community in the ways I have mentioned. Trading hours should be restricted, and I believe Sunday trading, as our previous speaker said, has great effect in these smaller areas. It disadvantages small business and in the social context there is no appreciable benefit to the customer. Shopping time is not quality time in what should be family leisure time. I would like to think that the retail areas—such as pharmacies, newsagents, florists, nurseries, private butchers, et cetera, who are unable to compete on a satisfactory level—are not allowed to be damaged any further by other retailers taking up the profitable lines and leaving the less profitable specialist areas to those remaining in their original business.

We need to be less naive in accepting the business practices which have evolved in Europe and the USA. These countries have enormous populations and, in many cases, much less distance over which retailers operate. Australia is one of the largest landmasses in the world and one of the least populated. As a civilised society it is unique in this way and, as such, I do not feel ashamed to say we should have different rules to the high density areas. We need to keep our regional communities intact and growing. I am sure that the major political parties would acknowledge their constituencies would be affected by a further diminution of prosperity in the population of rural Australia. After all, small business is the generator of full-time jobs, so should be encouraged to continue.

I will conclude by saying that in the *Sydney Morning Herald* of 5 July had a report on multifunctionality, which I think is extremely interesting in the context of this inquiry. The principle of multifunctionality won official endorsement in a communique issued by the OECD ministerial directors meeting in May. It could be defined as protecting certain aspects of our society which have an economic importance beyond raw output. The contribution

extends to the environment, to other industries like tourism and to the maintenance of rural communities and customs. The wings of change are beginning to blow through the fog of imperative money making. We would do well to place a value on our regional areas that is distinguished by a clear vision of what future we really want for our country. Thank you.

CHAIR—Thanks very much. Mr Kelly, do you want to make any opening comments?

Mr Kelly—I would just like to add a few examples which emanate from farmer concerns and to outline what some of them have attempted to pursue. At a meeting of lamb producers three or four years ago, after marketing was discussed at length I put the proposal that perhaps eventually there will only be two buyers in the market. Those farmers at that meeting were numbed into silence for a few seconds just in contemplation and in horror at that prospect.

My involvement in marketing is centred on the lamb industry. I believe the lamb industry in some respects has led some other primary producers into innovative marketing set-ups. Various producer groups around the countryside are forming alliances with a processor. Some 30 or 40 farmers seems to be the ideal number of producers to form an alliance with a processor. The one I am personally involved with is a processor-exporter.

There are two of these types of organisations running quite well in New South Wales. One is the Tooraweenah lamb marketing group of some 65 producers who have an arrangement with a processor at the Mudgee abattoirs, and that particular processor is an exporter. Another group in the southern part of the state is centred around the Grenfell area. Those 30 to 40 producers supply a processor in Canberra who supplies some 20 to 30 per cent of the Canberra market. We feel we have achieved something. The result of this initiative is that we have created more competition in the marketplace. We have made sure that two organisations away from the majors have been able to survive.

On top of that, we have been able to find a niche market in the top end of the market. We have been able to supply a product to some of the top meat markets—we do not call them butchers any more, we call them meat markets—whereas we find that the supermarkets are left to supply the bottom end of the market. That is an area that the producers must pursue.

From my own experience, a few years ago I thought I would set up my own marketing organisation on a local basis. I would like to relate some of the problems we had with the supermarket at that time. I arranged study tours of various meat markets and wholesale outlets in the Sydney area as well as high profile catering organisations, and even Qantas catering itself. Some 20 producers formed a marketing group.

We got some quotes off about six different processors at that time, and Woolworths provided the highest quote. A trial consignment was supplied. Their specifications seemed very loose—even I was aghast to know. I tried to warn them that there may be trouble with that but they said, ‘She will be right, let them in.’ We were told, ‘We treat them with honesty and we expect the same from them. We do not need contracts, we will do everything on a handshake.’ So it seemed to be pretty easy to get into this arrangement with Woolworths at this particular time.

But once I had the product, there seemed to be everything wrong with it. As producers—as we saw them slaughtered that morning—we were pretty dissatisfied with the mode of operations in that particular abattoir. As a matter of interest, that abattoir closed down about three years later and a couple of times since then. The point I am making is that it was easy to get into this arrangement but once we had the carcass on the chain there was everything wrong with them.

I tried my best with my limited experience at that time to renegotiate a second shipment with the national manager for Woolworths livestock, but he told me that there was no second chance—I did the wrong them by them, so he did not want anything more to do with us. I was quite disappointed with my effort to get involved in innovative marketing. That is another example of why as producers we must foster as best we can arrangements with other exporters to maintain the competition in the marketplace.

I tried hard to get another family involved who have processed their own grain for some five years—I cannot disclose the type of grain because it may help to identify the particular family involved. They have done a lot to develop a market with Woolworths over some time but they have had a lot of trouble with Woolworths. As an example, it was agreed they would supply a regular consignment, a pallet load of whatever it may have been on a regular basis. When inquiring about the invoice or whatever on the last consignment, they were told, ‘We don’t use yours any more, we get it from somebody else.’ So there it was with the last consignment left in the loading dock at the transport depot. The communications was all right when they wanted the product but, when they do not want it, they do not bother telling you not to send any more.

Since then this particular family has renegotiated with Woolworths to supply that product through an agent. They were not prepared to be here today to state that case far better than I could have for fear of repercussion from the supermarket chain. I find it quite disappointing that is the case. I suggested that they could have met you in private. But they were still fearful that it would get out and their market would be jeopardised further.

I have another example that is not a lot to do with farming, but we have a trailer and caravan accessory business in Dubbo that supplies parts. He makes sure that the parts and accessories that he supplies are of superior quality and that he gives good service. It is his experience that people can always buy similar articles at Woolworths for \$1 cheaper in this case, and it always gets back to him: ‘Why are yours dearer?’ With a particular set of accessories, the consumer buys them cheaper at the supermarket. But, whether the quality is there, you find that out after. The end result of that particular episode is that the Australian factory that produces the superior article in this particular area closes down and then imports the inferior product. At the end of the day, the consumer is left with no choice but only the inferior imported product. Thank you.

CHAIR—Thanks very much. That was very interesting from both of you, and I am sure the panel found it very interesting too.

Mr NAIRN—Mr Kelly and Mrs Langford, to either one of you or both of you: do you have many members here in the region who are involved in direct supply contracts with any of the majors?

Mrs Langford—We used to be involved in selling through the saleyards to the majors. But now they access them through a middle person, a feedlotter, so that has changed. If I have your permission to add one further thing: in Dubbo, for example, there are two liquor outlets which are controlled by Woolworths and Coles-Myer; there are also fast food outlets which are owned by that group; and the Grace Bros store here is Coles-Myer. When you are looking at major retailers, I think it would be well to bear in mind that it is not just the supermarket.

CHAIR—We are aware of that.

Mrs Langford—Consequently—there is at least one other person I know who has a private liquor outlet—you can imagine that it is quite hard for them to compete against the buying power of that.

As far as selling on contract, I was told on good authority that it was very hard for the farmers association to even get anyone—in fact, they said one person was retired and one person was bankrupt—to give evidence under their own name because they are fearful of retribution.

Mr NAIRN—The New South Wales farmers did acknowledge that there were members who were very happy with the contractual arrangements that they have in, as much as it allowed them to borrow and invest and grow because of the nature of long-term contracts. That is why I asked whether there was anybody in this region that falls into those categories.

Mrs Langford—I cannot answer that question. I think they are very fortunate indeed if they have satisfactory long-term contracts.

Mr Kelly—Are you referring to contracts with the majors or with the other parties?

Mr NAIRN—No, with the majors.

Mr Kelly—It is only hearsay but, from what I have been told, it is quite difficult to obtain that. I can only speak for livestock. They did not want contracts as I have already stated. They take it on a handshake and, if there is something wrong, they just go away.

Mr NAIRN—I think some of the longer term contracts are probably more in the fruit and veg area.

Senator MURRAY—In this inquiry we have heard a lot about predatory pricing, but you are really discussing predatory buying with us where the consequence is that the price and the nature of your goods are affected by the buying practices of the majors to such an extent that you start to have to cut back on costs, your margins are shrunk, you can no longer employ the numbers you used to and you have to change your farming practices because your cash flows, your income, is affected. The economists will argue that is good because you will get lower prices as a result. The social planners say it is bad because you will reduce employment, land values and other things.

The question we face is whether we could or should do anything about it. We either try to interfere in a black letter sense to prohibit certain practices or just give much more power to a regulatory authority to interact on those matters. I wonder if, in the enunciation of the problems, you have thought through to the solutions and to what route you would suggest we go down, how we should deal with these practices.

CHAIR—I think that is particularly interesting; that was going to be my question as well. We have heard the problems. If you were on this side of table—we have to report to parliament at the end of next month—how would you propose to fix the problems that you have outlined?

Mr Kelly—I believe the auction system for our product is probably the worst thing that farmers have been lumbered with. It was brought to a head when the cotton industry stated that a bale of cotton had never been auctioned. We will find that the products that are auctioned—from vegetables to wool; the whole bit—had problems in having any sort of price stability. There is no such thing. The farmers would begrudgingly accept the auction system, providing there were some sorts of standards placed across the way in which auctions were carried out.

We all have heard about cartels and the legislation to ensure that they do not develop. As farmers, we are all aware of the fact that there are arrangements between various buyers to buy for three or four different processors—for example, buying one day and someone else buying the next lot. All of these sorts of arrangements are there between the buyers, obviously, to depress the market. Those are the sorts of issues that we feel powerless to address within the auction system, in particular.

Senator MURRAY—If I can pursue my question a little further, we have just been handed—and we have not had the chance to read it—the New South Wales Farmers' confidential submission. They have a number of recommendations in there. Broadly speaking, they have recommended that the regulatory authority be given more powers. They refer to a fair trading authority and fair trading tribunal, but I am not convinced that that will necessarily address the problem that you outlined, which is that particular buying practices which result in benefits to the chains and, presumably or possibly, benefits the consumer as well—chains make more profits and consumers get lower prices—have the effect of lowering your prices and lowering jobs and opportunities in your sector. Really, at the heart of my question is how do we build back into the equation the social aspects as well as the economic aspects?

Mrs Langford—May I speak?

CHAIR—Please feel free, Mrs Langford. One of the advantages is that you can speak your mind here. You can say what you like, and you are totally protected by parliamentary privilege. So you can even malign somebody here and be protected, but we hope you do not do that.

Mrs Langford—I do not wish to malign anyone. I would like to point out that, historically, from the time of the Magna Carta, either church or state has felt empowered to take steps to protect those less able to protect themselves. So I do not think that it is wrong

for us to expect our government to do something to correct things that are wrong. Yes, I appreciate the problems that you have, Senator Murray, with how to correct this situation or make it more practical in the sense of a better return for the producers and of curbing their marketing power where it becomes a monopoly, but I think that it is quite appropriate that government feels empowered to put, for example, more laws in place that do address these situations. I am not a legislator. That is what we have you people there for. I think that it is quite important that you actually have to think your way through how you are going to do this and address the problems that we are bringing to you. I suggest that you probably need to access some of the best accountants in Australia to give you advice on this situation. I really mean that, because I am not certain that other people in business have very good accountants to advise them on how to deal with the legislation.

Senator MURRAY—Let me outline, if I may, for you our problem. In Launceston we had a confidential submission in camera, so I am not going to deal with it in detail, but in broad their submissions to the ACCC, which is the regulatory authority, were very difficult to pursue, because the ACCC requires in law evidence, and evidence in fact requires somebody to go in, get discovery, look at the books, have a look at the contracts and all of that sort of thing. Small businesses have expressed to us the difficulty of raising a problem which they know instinctively is a problem—they know the price is not right; the contract does not smell right—but which ends up as an allegation. It is very difficult for the regulatory authority to take that allegation and turn it into a court case, a punishment, a penalty or something of that sort. I ask you that question because you are practical people. How do we get over the problem of evidence in these matters? Lots and lots of it, as Mr Kelly said earlier, is allegation, is hearsay.

Mrs Langford—Price transparency would be one thing. You could legislate more along the lines of the United States, which has brought in very stringent rules about that. So, if price transparency were enforced in a practical way, I think that would give the ACCC the opportunity to pursue inquiries when allegations are made. I certainly believe that it is very difficult for people to singly bring actions, because of the cost and the time involved. Therefore, I think there must be paths brought in by which cases can be brought jointly and perhaps heard, or there could be some government support for people who are not backed by great shareholdings in a very big company.

Senator MURRAY—Do you mean something like legal aid for commercial purposes?

Mrs Langford—Yes, I hardly dare use that term, but you know what I mean. I think it could be appropriate in some cases. I do think there should be some sort of caveat put on just how far, as I said in my submission, small businesses such as pharmacies—and I am sure you are going to hear from a pharmacist later on how he is being affected—can have certain of their sales taken away from them and yet be left to produce scripts, specialised drugs, and provide a service in small communities, not necessarily in Dubbo. There may be a doctor, but if there is no pharmacist, where does that leave people? They are really not well off at all.

CHAIR—Further to your point on transparency—one of the issues that has come up—what is your understanding of transparency?

Mrs Langford—You would want to have an absolutely clear idea of what the article was purchased for, of what it cost to process it through to where it was presented to the public, and then of what it was sold for.

CHAIR—Does that include buying from your property? Would you be happy for everyone to know what price you got?

Mrs Langford—By all means. I have to tell you that in many areas that is common knowledge practically before you sign the contract. That would be correct, wouldn't it John?

Mr Kelly—Yes.

Mrs Langford—I do not think there is any problem with that; I think the problem comes in the cost of preparing that article for being sold in the marketplace. In the case of vegetable growers and so forth, I would think there is not as much preparation. For example, an animal has to be slaughtered, so that is a cost, and has to be transported to the retailer, whereas many vegetable growers go to a central market and deliver, or they may even deliver to the retailer. It alters with the product. Although it may be cumbersome, I do not think it would be impossible to implement. Then, of course, you would see what the final price was for the sale.

I have not made a study of antitrust laws, but I am quite certain that some other people have. I know that the farmers addressed it in their submission to you. Therefore, I think I am probably going over their ground when I get into this. Certainly, I have not the access to be able to do it as thoroughly as they have done. Does that answer your question?

Senator MURRAY—It is very helpful. I might have misled you. When I saw this being put across the table, I assumed it was an update, but it is actually one that we have already received. I am aware of this.

Mr Kelly—Can I add from the farmers' perspective that we are at a bit of a loss to know where competition policies protect us. We are not frightened of competition. There are 30,000 of us out there are producing the products, but we get disenchanted buyers. There are about five people buying it, and even then we wonder sometimes what they claim they gain by being competitive.

CHAIR—Competition policy tries to make us more competitive as a nation. Rather interestingly, I was in Tokyo at the weekend at an APEC conference and the Japanese foreign minister and the head of Fuji Xerox were complimenting Australia on the changes to its structure in terms of—under their government which is the local government—floating the dollar, allowing foreign banks in and some of the other things which they have not done. That does not mean that we should not look at individual areas and say, 'That might be market policy, but does this constitute market failure?' That is what we are interested in. While there is an overall national agenda, there are nevertheless items within it where we should ask if we have problems with this open, free market situation that we have with supermarkets. I know Senator Ferris has some questions for you.

Senator FERRIS—I have a question for Mr Kelly. Perhaps before I ask the question, I should make the statement that the antitrust laws in the United States, considered as they are to solve some of these problems, in fact have allowed four major processors to control the US beef processing market. I do not think the answer is necessarily there either.

I am interested to explore a couple of points made by the South Australian Farmers Federation in their submission to us from my home state of South Australia. They talked about the way contracts are now manipulated so as to be very intrusive into farmers' business arrangements. They gave us a very interesting example of a contract that was negotiated with a major supplier and that contract involved a slightly different sets of arrangements for ISO, quarantining and marketing of the product which meant that, if something went wrong with that contract, those requirements were so individual they made that product unsuitable for negotiation with any other major group.

I was interested in your example of contracting into the Canberra meat market. When you supply that market, it is on the basis of the ISO which applies to Coles or Woolworths or is it an individual contract that would make it very difficult to sell that product to any of the other majors?

Mr Kelly—We can answer your question. The goodwill between the producer and the processor has been quite exceptional, at least in rural areas. We are quite flattered to think that we can have such a good working relationship. We usually work on grids, where the pricing of our particular product as far as livestock is concerned can all be placed in a grid. Those animals that fit the grid will obviously create a premium; those that do not, have a slight discount. Both parties are well aware of that arrangement before the animal is supplied and, as producers, we are becoming ever more skilled at ensuring that we are producing the right animal in the first place.

Senator FERRIS—You do not have any examples of where Q&A has been used in a way that makes the order so individual as to exclude it from being available to other markets if something happened to that contract?

Mr Kelly—I am not aware of any great problems in that area, but I am talking about producers who are made well aware of these problems in the first place, and then ensure that they provide the right product in the right condition.

Mr JENKINS—This is not too scientific, but it has been put to us that the supermarkets have codes of conduct about the way in which their buyers should act. Another of the things that has been put to us is that certain codes of conduct, if they were agreed between two parties, might gain some form of legislative regulatory backing. In the case of these codes of conduct that the supermarkets have, there would have to be another step involved where suppliers, or representative groups on behalf of suppliers, have an opportunity to peruse those documents and agree to the standards set out by the code of conduct. Then there would be the opportunity to have those codes of conduct agreed either voluntarily or otherwise. Would that be a mechanism that may have some advantage for the type of people you are representing here today, that there would be an agreed set of rules and behaviour?

Mr Kelly—With the products we are referring to, obviously we cannot return them. We feel at some disadvantage, certainly with livestock; it is not so bad with grain. But, with livestock, once it is slaughtered and the specifications are not up to it, we have little redress at that stage. There have been instances of producers who have followed their product through and found some irregularities. It is quite difficult from the producers' perspective to pursue every animal through the chain.

There are even some areas of substitution. I am not going to lay the blame there, but the product can get mixed up with others, for example, and the wrong producer can get blamed for the bad specification. There are problems there, because of the nature of the business. Obviously, the animal cannot be returned to its origin.

Mr JENKINS—What if there were mechanisms of dispute resolution?

Mr Kelly—That could be quite useful, yes. Obviously, that is not in place.

CHAIR—Like an ombudsman?

Mr Kelly—That is right, yes. The experience I have had is that the departmental officers in New South Wales Agriculture are quite switched on and have done a lot of work in market development, which you may not be aware of, particularly in regard to lamb and beef.

Mrs Langford—I would like to say that I think that that does have some relevance, and you could build on that. I also think you would need to do it perhaps in conjunction with giving the ACCC, or some other regulatory body, much more teeth to act on what was happening. If possible, the whole process should be slimmed down, as it were, so that it is more direct in accessing the real problem, rather than getting lost in a lot of side issues.

CHAIR—It would be interesting to go back to Wendy Craik from the National Farmers Federation and talk about that so that she could have discussions with us regarding potential solutions. We are interested in your response to some things like codes of conduct, an ombudsman, the strengthening of the ACCC, et cetera so that we know what your thinking is on this. Maybe you want to cap, I do not know. We will see.

Mrs Langford—A cap will be really difficult to enforce in some ways. But, on the other hand, if you extrapolate one scenario where you get three majors and they totally own the market, you then get the situation where there is very little that can be done about the prices that are charged to the consumer anyway, unless you then take some really radical steps, and I mean you as the government. It is much better if you can come up with some solutions now before it reaches that stage.

I am asking you to think quite seriously, too, about my point. I do not think that it is wrong that we should perhaps have some different sets of regulations for areas out here and not in the high density coastal regions. I really think it is important for you to think about that.

CHAIR—We understand there are different factors. That is why we visited the cities first and then the regional areas. This is not only a visit to Dubbo, but you represent a whole lot of regional centres around Australia, because we only have limited time. We do bear that in mind. Often the solutions are not straightforward. Thank you for coming today. We really appreciate it. Thank you for your contribution and the thought that you have given to it.

[12.11 p.m.]

BERNARDI, Mr David Antonio (Private capacity)

CHAIR—Do you have any comments to make about the capacity in which you appear?

Mr Bernardi—I am a supermarket proprietor. I represent myself and other independent retailers who could not be here today.

CHAIR—The committee prefers all evidence to be given in public, but if you prefer at any time you can request that we go in camera and the committee will take that request on board. The committee does not have a submission before it, but I understand you are going to make a verbal presentation. I invite you to make your presentation, and the committee will follow that up with questions.

Mr Bernardi—Being a proprietor of an independent supermarket I have a very keen interest in these proceedings, and I thank you for taking the time to listen. I apologise for reading from my notes. As I said, I am a supermarket proprietor, not a public speaker.

CHAIR—Most people do, so feel relaxed.

Mr Bernardi—I was not going to, then I thought I would.

CHAIR—My first speech in parliament was absolutely word for word.

Mr Bernardi—I have been interested to read some recent statements in the press from CEOs of the chains. ‘Small retailers are actually growing, and it is a myth that they are in decline. This inquiry is great, because it shows that the chains are really only small fry in the grocery industry.’ This quote is attributed to Mr Roger Corbett, CEO of Woolworths, one of Australia’s largest listed companies. Sir Humphrey Appleby would be proud of Mr Corbett’s creative use of statistics to suit his own agenda. Yet, to Woolworths shareholders he can produce figures demonstrating their stranglehold on the Australian grocery market, which is obviously the truth of the matter.

I note that Mr Alan Williams of Coles is not so thrilled about all this though, believing some hurtful things are being said about the chains. His concern is understandable. He would rather keep it quiet that his company, along with Woolworths and Franklins, regularly and effectively use predatory pricing to oust their independent competitors from targeted areas. In Forbes we have a Woolworths, and we are their main competitors. There is another fairly strong independent as well. In the town of Cowra, which is an hour away, there is a Woolworths, and their only competitor in that town is Bi-Lo, which is owned by Coles Myer. In Parkes, which is just up the road from us again, there is a Woolworths. Its major competitor is Franklins.

These are three very similarly sized towns. Which of the three Woolworths stores mentioned would you guess to be the cheapest priced? Surprise, it is in fact Forbes. Yet Cowra and Parkes Woolworths stores have a turnover almost double, if not double, their Forbes store, the largest price differences being in fresh fruit and vegetable prices. Why has

Forbes Woolies got the cheapest prices, you ask? Do they think it is not worth taking on a competitor that can fight back? Are the Cowra and Parkes Woolworths stores subsidising their Forbes store? We know the prices because we have been doing prices surveys and because some company representatives have done unofficial price surveys. I was actually quite surprised at the amount of difference.

Today I was brought along an advertisement placed by Woolworths in our local paper, the *Forbes Advocate*. As well, I have the identical advertisement that was placed in the *Daily Telegraph* in that same week for state-wide distribution—except that the ads are not identical; there is a big difference in the humble *Forbes Advocate*, the difference being the prices.

CHAIR—Is it the wish of the committee to table that document? There being no objection, it is so ordered. Why don't you give us a couple of examples of what you are talking about? We have had people commenting before in other locations about the differences.

Mr Bernardi—I will run through them all—it will be a bit monotonous. Yoplait yoghurt is 99c in Forbes; in the *Daily Telegraph* it is \$1.37. McCain's pizzas are \$1.99 in Forbes; in the *Daily Telegraph* they are \$2.95. Coca-cola is \$1.19 in Forbes; in the *Daily Telegraph* it is \$1.27. One kilo of Drive is \$3.69 in Forbes; in the Sydney paper it is \$3.99. Kleenex four-pack toilet paper is \$2.69 in Forbes; in the Sydney paper it is \$2.97. In the Forbes paper rump steak is \$6.99; in the Sydney paper it is \$7.99. The easy-carve leg ham is \$9.99 a kilo; in the *Daily Telegraph* it is \$10.99. Chicken breast fillets are \$7.99 in Forbes; in the *Daily Telegraph* they are \$8.99. Lamb four-quarter chops are \$2.79 in Forbes; in the *Daily Telegraph* they are \$8.99. Legs of lamb are \$3.99 in Forbes; in the *Daily Telegraph* they are \$4.79. Four litres of XLD Valvoline motor oil is \$8.99 in Forbes; in the *Daily Telegraph* it is \$9.99.

Mr NAIRN—We will all do our shopping in Forbes.

Mr Bernardi—Yes. I rang a lot of suppliers. I have been in the grocery industry for 20 years and I know what the prices are and what the deals are around the place, and they could not believe the prices. I said, 'I want the same deal.' They said, 'Look, we all know what is going on. We are just not offering those deals. They are not buying that from us at that price. We are not giving them those deals.' The *Daily Telegraph* prices were the official ones.

What is so special about Forbes that Woolworths chooses to bestow its cheaper prices in that town? I wonder whether the prices would be the same if a good independent supermarket was not present. Surely one would expect, if anything, the cheapest prices for Woolworths products to be in the metropolitan areas where the chains are much more likely to be competing with each other, with a much higher turnover, with profit margins unfettered by the freight component that the country cousins in Forbes would be burdened with.

A while ago, I was able to purchase a leading brand of margarine, Meadow Lea margarine, at an exceptionally cheap price from a wholesaler who had just opened his doors. It was an introductory super-duper price. I did not buy it directly from the manufacturer. We

advertised it at this fantastic price. The Franklins store in Parkes complained to their head office about the price at which we were able to sell the margarine. It was a great special for our customers. Franklins head office then made it known to the manufacturer that this should not happen again. After all, Franklins can use their considerable market share to apply pressure that an independent cannot.

I know this because the representative for our area from that company rang me and said, 'What are you doing to me? I've just been raked over the coals.' I said, 'You've got nothing to worry about.' We had not done a deal with them directly; it was something that had happened outside the normal negotiations. Yet Mr Fraser, Franklins' chairman, says that it is quite wrong to regulate the marketplace when they themselves feel it is quite okay to regulate, or should I say manipulate, the marketplace by using their considerable power, power that I do not possess. I do believe that their standover tactics would even make the Godfather blush.

Surely there are checks and balances in place for almost every sector in our community which are there to provide a framework for a fair go for everyone and to prevent unhealthy monopolies such as those that exist in the Australian grocery market. How often do the chains exert similar pressure on our suppliers? I know it is very often. This is not freedom of choice for Australian consumers. On many occasions we could and would sell goods at cheaper prices, but we do not as it brings trouble down on both ourselves and our suppliers. This kind of power is surely unhealthy, but they do not hesitate to wield it. And if I had that power I would probably do the same.

I speak to a lot of suppliers who come through the doors. Sometimes we get people quite high up in the company come through, and it is a hot topic in our office all the time. They would all like to stand up and say that they hate it, that it is no good, but they all agree that there is no way that they can because of the repercussions. They virtually have only three choices left. Eight out of 10 sales are now in the three chains. I was listening to the problems of some of the people from the National Farmers Federation who were speaking before. A lot of those problems would not need regulating if they had a greater choice of markets instead of being concentrated in three.

I was fairly hesitant to appear here today for fear of retaliation at store level from those whom I speak about today, and there are a lot of other retailers who would feel the same. The fact is that the huge market share controlled by the chains gives them an almost unlimited power to wipe out the remaining independents. They finance their repayments in advance with loans at three per cent better than an independent can get. By acquiring prime sites, they can and do offer irresistible inducements to local councils who cave in at the expense of private enterprise. They identify profitable, successful independents and buy them out, if necessary, well above market prices.

Which successful independent can stand their ground when approached by one of the three multibillion dollar corporations to sell or see them build in the same area, practising well-focused predatory pricing until the independent is forced to close its doors? This is child's play for the chains and cannot in any way reflect poorly on the independent operator. Chains are unstoppable. Is that what we really want to let happen—a rural sector cloned with multinationals, who have absolutely no interest or concern for the community from which

they suck their profits and ship their wealth out of the town as fast as they can, probably in a multinational Armaguard truck, bypassing the local financial institutions to the detriment of local jobs or possibly the closure of another bank?

This brings me to the most urgent problem facing the small rural communities: the gradual and continual drift of the population to larger towns and cities. For decades, the problem of decentralisation has exercised the minds of politicians at all levels of government. We all know that very many schemes and a lot of money have been directed to this very vexing problem. Undoubtedly, the continual expansion of the chains is rapidly accelerating the movement of people to larger centres as small businesses are devoured at a bewildering pace.

The insatiable appetite of the chains is swallowing butchers, bakers, florists, pharmacists, service station operators, newsagents, liquor stores and now banking services. It is, therefore, self-evident that a healthy independent sector is vital to the very survival of rural Australia and is highly recommended for urban Australia. Most independent supermarkets are family owned and operated, their profits generated and reinvested locally rather than directed away from the area. It was very interesting to hear that Coles has made a donation to the Australian Opera Company. That is fantastic.

CHAIR—Plus other things as well.

Mr Bernardi—Yes. But in our town I cannot think of a cent that our chain store has contributed to the local community. There are a lot of other things that we do: we sponsor three junior local soccer teams—we pay for their shirts; we have donated a spa bath to the local hospital; we sponsor junior rugby league, senior rugby league, junior netball and softball; we donate to the Forbes Cancer Assistance Society, school fetes, hospital fetes, Camp Quality; there was carpathon; sportsperson of the year. I did not go through and list them all out; they were just some of the things that came to mind.

Proprietors of independent supermarkets, such as I, obviously have vested interests in their locality and are usually quite prominent in civic affairs, local institutions, schools, churches, clubs and the like. They are well represented in local chambers of commerce and provide the lifeblood for local charities. The chains have no positive input into these vital organisations. Indeed, they contribute nothing except for the barest minimum, such as wages, rates and rent—probably paid to investors who do not live locally.

It even comes down to a simple thing like using local freight companies instead of contracting out to more multinationals or using their own trucks. The chains, once established in a rural area, having shut down the local independent, would then—without realising it perhaps—make the local carrier's position very tenuous. Without shipping the groceries from the metropolitan area warehouses to the independent supermarket, the mainstay of his operation has ceased. Therefore, quite probably, his business would either be drastically cut back with the resulting spin-off in losses to other sectors of the fragile rural community by way of reductions for his employees, mechanics, fuel depots, shops, accountants, banks, et cetera, even down to fewer people living in the community, affecting schools, housing and maybe even fewer customers for the supermarket. The worst scenario is that the carrier, having lost the bulk of his business, closes. This then really isolates the

community who have lost their rail service some time back. It is a vicious circle—one that the chains do not help but in fact make all the worse.

There is some real concern over the chains threatening to close doors, as was discussed with the Dubbo mayor about what would happen if there were a market cap and one of the majors had to close one of their stores in town. There is no need to close them. I would give an undertaking to buy that supermarket, if it is a viable supermarket, at a fair price. I am also able to give a guarantee that Mr Andrew Rietzer, the CEO of Davids Ltd, would do the same. What undertakings to help the rural sector do we hear from the chains underlying their lack of commitment to the communities they purport to serve?

The most urgent crisis facing the independent sector is the accelerating loss of critical mass market share, which is essential to maintain our wholesale infrastructure. The chains often state that they are not interested in small, unprofitable communities which are often in very isolated locations. After they control all the more profitable areas, there will be insufficient critical mass of trade to support the independent supply infrastructure of these small businesses, and they will be lost to the communities that they have faithfully served. Will the chains give a commitment to service these areas if the independent critical mass is lost?

As for the succession in the independent sector, it would be brave parents who train their children to plan for their future in the family supermarket in this present climate of fear and uncertainty. We have been in the business for 30 years—my father, me and two younger brothers. We run an excellent supermarket and we are proud of it. I also have two sons and five nephews and we are looking to the future, but what future? Can we risk investing perhaps millions of dollars in a playing field that is very far from level?

At the end of the day, all we are pleading for is a cap of 80 per cent. Is that not enough for them? It seems very generous. It is already late in the day. We are arguing for our very survival. We cannot take this much longer. If we lose any more market share, our whole infrastructure will no longer be viable. A monopoly cannot be good for Australia. Mr Reith purports to be the minister for small business. He will never have a better chance to demonstrate his sincerity in his portfolio. If he fails here, he is in fact the minister for big business.

CHAIR—Mr Reith does not have the responsibility for the recommendations of this committee. We are totally autonomous.

Mr Bernardi—Okay. Thank you, ladies and gentlemen. I look forward to any questions you may have.

CHAIR—Thank you very much. You capitulated a lot of the issues.

Mrs ELSON—Could you give us a run-down of your business—the size of it? Could you give us a picture of how you are competing against the bigger ones?

Mr Bernardi—As against the little ones?

Mrs ELSON—You are an independent grocery chain, aren't you?

Mr Bernardi—I am an independent supermarket, yes.

Mrs ELSON—Are you under a banner?

Mr Bernardi—We are under the Davids wholesale supply. How do we compete against the chains or the smaller stores?

Mrs ELSON—How are you competing at the moment?

Mr Bernardi—In Forbes, I actually do not have Woolworths figures, but I would be pretty confident in saying that we actually out-trade Woolworths in our town.

Mrs ELSON—Do you compete with their prices or try to?

Mr Bernardi—Absolutely. Yes, we do.

Mrs ELSON—Do you have any evidence of predatory pricing from the big chain against you?

Mr Bernardi—They ran that advertising campaign for about eight weeks. Apart from that, in our town, no. That is the only thing I have seen.

Mrs ELSON—Did it affect your turnover?

Mr Bernardi—It actually didn't. The suppliers were very helpful and they said, 'Look, we know what is going on. It does not cost us very much to help you. We want to see you guys survive.' So we matched most of their prices. But the power that they potentially have—there is nothing to stop them from dropping everything to half price until we are gone. That is the worrying thing.

Mrs ELSON—Just to clarify a point, are you under Davids banner or are you another grocery chain?

Mr Bernardi—We buy our groceries from Davids.

Mrs ELSON—Okay. You are not one of their banners.

Mr Bernardi—No. We are independently owned.

Mrs ELSON—And is that the only wholesale supplier?

Mr Bernardi—That we buy from?

Mrs ELSON—No. Are there others in the market that you could buy from?

Mr Bernardi—The only other one now is one that is owned by Woolworths, which I would not buy from.

Mrs ELSON—Okay. Thank you.

Mr JENKINS—You operate as an IGA store?

Mr Bernardi—That is correct.

Mr JENKINS—Besides your objection to AIW because it is owned by Woolworths, have you ever looked at what they offer?

Mr Bernardi—Yes.

Mr JENKINS—So there are other reasons besides ownership?

Mr Bernardi—That is a pretty big one. There would not have been much difference from what I saw. Even if I had to pay a small percentage more, I would have still gone with Davids rather than be a customer of a chain. To answer your question, no, I did not think it was better.

Mr JENKINS—Besides the lines that you are supplied by Davids, how many other suppliers do you deal with?

Mr Bernardi—Hundreds—I have got filing cabinets full of them. I do not know—quite a few. Groceries?

Mr JENKINS—Yes, all lines probably.

Mr Bernardi—Everything in total—meat and everything?

Mr JENKINS—Yes.

Mr Bernardi—Hundreds and hundreds.

Mr JENKINS—What is the state of play with business with those individual suppliers? Is it becoming harder for you to negotiate a price or to get the service? What is the competition from majors—

Mr Bernardi—I think in general there are fewer and fewer suppliers because their customer base is shrinking—the independents are disappearing and the chains do not buy from any of those people. I think they are gradually becoming fewer and fewer.

Mr JENKINS—Davids assisted you in this pricing war—or whatever else we might label it—by helping you to match price.

Mr Bernardi—Davids did not, no.

Mr JENKINS—Davids did not?

Mr Bernardi—No. The suppliers did. In general we do not buy something from, say, Heinz. The Heinz representative will come to us and say, ‘We have a new product. We have a deal.’ It comes through Davids and every carton you buy you might pay a dollar or whatever the case may be. That is the way it works. So I can actually buy something from Davids and they might give me the deal, the money.

Mr JENKINS—So it is directly from the manufacturers?

Mr Bernardi—Yes.

Mr JENKINS—In this circumstance, did you contemplate referring it to the ACCC?

Mr Bernardi—No. We were a bit scared about doing it.

Mr JENKINS—Right. Take me through the mind-set that led you not to do anything, because it is very helpful for us to have an understanding.

Mr Bernardi—Actually this happened a while ago. It did not happen in 1999; this happened in 1998. There have been other examples. This is just one I kept. I had a heap of things, but I threw them out in the end. What was the question again?

Mr JENKINS—There are certain mechanisms that are available to small businesses in situations like this, but you are not on your lonesome that you decided not to take action.

Mr Bernardi—With the margarine example, what would I have been able to prove? Would Meadow Lea say, ‘Yes, we put pressure on them,’ or would Franklins say, ‘Yes, we put pressure on them’? The rep was not prepared to come forward because he would have lost his job. No-one is prepared to say anything because of the pressure, the control—

Mr JENKINS—So it is the difficulty of gathering the evidence?

Mr Bernardi—No-one wants to come forward—even meat growers. I have not heard anybody that I speak to say, ‘Yes, this is great. The chains are gaining a market share—fantastic.’ I have yet to come across somebody who says it is great, apart from Franklins, Woolworths and Coles. No-one likes what is happening because of the concentration of power and the obvious power they can wield.

Mr JENKINS—Having said that and having given examples of people’s fear, what do you think was different when these manufacturers were able to help you?

Mr Bernardi—Very quietly and unofficially. They do not want anybody to know about it.

Mr JENKINS—We will keep it quiet then, all right.

Mr Bernardi—I have not mentioned any of the manufacturers, really. Do you understand?

Mr JENKINS—Yes.

Mr Bernardi—It is crazy. I cannot remember who said it, but there was talk about Sunday trading in Dubbo and it not being fair for the consumer because they could not get the goods cheaper at the independent. They were saying, 'It's not fair for the consumer because the chains are cheaper. Why only allow the independent operators to open on Sunday in Dubbo?' I do not think they are comparing apples with apples. They inferred that the independents were dearer. It depends if you are talking about a corner store or about someone that is our size that has got a proper supermarket. I have got nothing I can show you here today that our costs for buying goods from most of the suppliers are dearer—again, because of this control they have. But, as far as competing and offering the public competitive prices is concerned, I do not think that is an issue.

I think the independents can compete very well on price. They can be a lot more efficient in the way they run their businesses. If you have a business with a hundred branches and you have got managers running them, the controls in place and the costs of running those controls would be horrific, even as far as freight is concerned. I mentioned freight before. The Woolworths grocery truck that comes to our town, comes to Forbes, costs us for a load of groceries maybe \$700 or \$800 for a full semitrailer load. Our local carrier always goes back to Sydney full when he can. The Woolworths truck goes back empty; they do not take anything back. They are not that efficient. I am sure they can show you that they are, but I think the main point where they are beating us is in being able to get better prices at the beginning.

CHAIR—You have not done too badly yourself. Considering that you are dealing with the mafia and predatory pricing, you have still got a bigger market share.

Mr Bernardi—We are half Italian.

CHAIR—Is it basically that you have matched prices—is that the key thing—or that you have undercut?

Mr Bernardi—Sorry?

CHAIR—So what is the basis on which you believe you have been able to establish your market?

Mr Bernardi—We can compete on price in a fair marketplace. If you go and spend \$100 today in Woolworths in Forbes, you might have saved a dollar in Woolworths; tomorrow it might be Bernardis—it just depends. If they drop the price we will go straight with them, if we have to, to compete. But the problem is that, if they want to get rid of Bernardis in Forbes, they have the power to do so. They have the money that we do not have. They can continually drop their prices. They have not done it altogether. I am wondering why they haven't.

CHAIR—If they consistently undercut all their prices to force you out of business, then of course under current legislation you could take it to the ACCC.

Mr Bernardi—I am not right up with all of that. They have got a lot of power.

CHAIR—How would you solve this situation?

Mr Bernardi—It is not easy, but obviously the market cap would be great.

CHAIR—Have you thought through the market cap, though?

Mr Bernardi—Tell me.

CHAIR—If there is a market cap put on, the chances are that the price for your supermarket would suddenly plummet.

Mr Bernardi—The price of?

CHAIR—Your supermarket.

Mr Bernardi—It would go up in value—

CHAIR—But if the cap was there?

Mr Bernardi—because the chain would not be prepared—

CHAIR—The chain would not be a potential buyer. What if the chains are taken out?

Mr Bernardi—Righto. I would say that it is very hard to speculate on what might happen. We want to go into another supermarket business but there is no way we are going to under the present operating conditions. We have the money in place. We can afford to spend a bit of money if we need to. I do not think that is a concern for us. We want to expand, we do not want to sell. But I understand the people that want to sell. I think the price of independent supermarkets might even go up because there would be a lot more independent people in the market for the supermarkets.

CHAIR—It could include people like Aldis—the German people.

Mr Bernardi—It could, yes. I do not know what the game is. I know that you said that they are here—I am sure they are—but I will be very surprised if they come in and open 100 stores.

CHAIR—Let me tell you: in terms of the discussions that I had two weeks ago, the managing director arrived a month ago. He has got his family here. They have moved. They have a warehouse site.

Mr Bernardi—They bought a house somewhere. I read that.

CHAIR—They have got an office. They are moving in at Castle Hill. They approached my office as recently as yesterday, and they want assistance with visas to bring out, I think, 20 to 30 Germans into the marketplace. I think they are planning to be here. It is not a myth.

Mr Bernardi—I am still surprised because Woolworths, Coles and Franklins are combing the countryside looking for sites and, if they have not found them, I do not know what special trick Aldi is going to pull. Also, the Australian marketplace is just not that big; it is only 20 million people. For them to come out and spend the money they are going to spend on infrastructure to get things up and rolling, they probably should buy some Woolworths or Coles shares and sit back and relax or something like that.

CHAIR—Whether they have got Forbes in mind may be another question.

Mr Bernardi—There is nothing wrong with competition, but unfair competition—

CHAIR—You seem to be doing pretty well out of competition.

Mr Bernardi—We work very hard, I can tell you. Very hard.

CHAIR—I understand. It is good. I congratulate you on it.

Mr Bernardi—I have been working for nearly 20 years, and I work 70-plus hours every week, as do my two brothers, as does my father. We can be successful and we can be profitable. We can be competitive on a level playing field. But that is certainly not what we have here—absolutely not.

Senator FERRIS—I would like to pick up this point of the cap. When we looked at the profile that delivers the 80 per cent figure which Davids Holdings and NARGA were running with, we found that it was based on supermarkets which were dry goods only supermarkets. If you take it as being a supermarket which sells dairy products, vegetables and so on, it is 40 per cent. So, when you argue for the cap, you want to be very aware that there is a difference of opinion between the ABS statistics and the NARGA statistics. If you accept the ABS statistics, then you would be arguing for a doubling of the market share of the major chains before the cap comes in.

Mr Bernardi—Yes, I understand. I am not an expert on that.

Senator FERRIS—It is just something to be very aware of.

Mr Bernardi—I understand that, but they have a lot of money to pay people. Anyone can make figures—

Senator FERRIS—Nobody can pay the ABS, let me tell you. The most important thing to remember is that the supermarket that you appear to operate—that is, one that sells a range of things and not just dry packaged goods—is not the profile of the supermarket which was used by NARGA to get the 80 per cent figure. When we had Davids Holdings before us in Melbourne we discovered that the typical client of Davids Holdings was a person like yourself, not a supermarket that sold only dry packaged goods. Therefore what they were

arguing for was effectively what could be seen as a doubling of the cap, not even using their own customer profile as a base. So it is very important to keep these things in perspective.

Mr NAIRN—I want to pick up on the discussion you had with Mr Jenkins when he asked what thought processes you went through as to whether you could take some sort of action.

Mr Bernardi—Action on what?

Mr NAIRN—In relation to the low pricing. If there was some sort of ombudsman or somebody like that within the ACCC who could specifically look at these sorts of matters, do you think that would encourage the smaller people to at least pursue this? We get the impression by talking to a lot of small businesses that, with the ACCC, they immediately think QCs and \$5,000 a day before they even pick up the phone and make an inquiry. That is a bit of a shame because that is not the case as it stands necessarily, even though I acknowledge there are some real barriers there. I guess that is one of the areas that this committee will look at, but I am talking about a more user-friendly service.

Mr Bernardi—It would help; it would not hurt. It is not going to show up some of the things that we cannot show. It is easy for me to say it, and you could say to me, 'Well, you're just saying it,' but, again, when a manufacturer has a product and Woolworths in New South Wales sells 35 per cent of it, imagine what is happening. It is not hard to work out, is it?

Mr NAIRN—Certainly that circumstance is most strange. If you look at some of the other products, and let us take fuel, for instance, one of the quite legitimate arguments that is put forward as to why fuel is dearer in regional and rural towns as opposed to the city is sheer volume. The freight side of it is actually quite small; it is only a few cents a litre. But the strongest argument is volume. The volume through a service station in the middle of Sydney is huge compared to the volume through a service station in a country town, so therefore the retailer can survive on a much smaller margin because of volume.

Mr Bernardi—In the city, yes.

Mr NAIRN—I would say that the same argument ought to be able to be run on grocery lines. The volume and the turnover of product in a major supermarket in the middle of the city would be, I would expect, significantly greater than the turnover in a supermarket in Forbes.

Mr Bernardi—Yes.

Mr NAIRN—So therefore you would expect to probably pay a little bit more because there is not that volume.

Mr Bernardi—In the independent and the chain in the same town?

Mr NAIRN—But, in the case you put forward, it is quite the reverse, which I think opens a lot of questions that need to be asked.

Senator MURRAY—It also confirms the proposition of Dr Baker who said that the effect of market concentration is in fact that prices are up, not down.

Mr Bernardi—Woolworths has opened a service station in Forbes. That is good actually. The prices came down, but if they can get rid of some of their competition, which I am not suggesting that they would or are trying to, the prices will definitely drift back up. I am not saying that this chain does this on purpose to manipulate the market but, because of their size, this is what happens. I have spoken to a few people in the fruit and vegetable markets at Flemington markets. What happens is that sometimes there is a glut of a product, be it carrots or apples or whatever it is, and a lot of the time you see in the paper late in the week fruit and vegetable specials. What they do is they go in and when it is ridiculously cheap—it is not their fault that there is an oversupply—there is some suggestion that they actually hold off buying.

CHAIR—I have heard that too.

Mr Bernardi—They then go in and, boom, they buy the lot in one morning. So this particular chain, who has the capacity to do that because they are so big and can sell it, goes in and buys up the whole lot. Once all of that has gone, the fruit and vegetable price of that product—because of supply and demand, and there is no product—goes up. I am not saying that they do that on purpose. Even if they do not, is that a good thing—that is, to have someone so big that can come in?

CHAIR—Is that only one of the chains that is doing that?

Mr Bernardi—I have one in mind. I do not know really. I could not answer that.

CHAIR—If you have firm evidence that there is one particular chain that does it more than others, we could go in camera and you could tell us. Going in camera means that we clear the room and you just tell us.

Mr Bernardi—It does not matter. It seems that it is Woolworths, but they are not prepared to come forward and say it in front of anybody. I am not saying that they are doing it on purpose. I am saying this: is it a good thing that they can have that great an impact on the market that they can do that? Whether they want to or whether they mean to or not, that is a different issue again.

CHAIR—Just to clarify those ads: there were the *Telegraph* ads which were uniform and uniformly high. Then was it a separate ad in the Forbes paper with the lower price, or was it the price in the supermarket?

Mr Bernardi—No, it was a separate ad. It was the same ad with different prices—exactly the same layout. Do you want me to show it to you?

CHAIR—No, I believe you.

Mr Bernardi—I would like you to have a look. Would you like to look now?

CHAIR—We will take a copy and then we will have that on board. I think we had better take a break. We would like to thank you very much, Mr Bernardi.

Mr Bernardi—Pleasure.

CHAIR—We would like to thank you very much for coming today. It was very interesting and very useful. I think it is an example of the concern that the committee has and, obviously, we would like to look at ways in which we can address that. Thank you for coming today.

Mr Bernardi—Thank you.

Senator MURRAY—And thank you for your courage.

CHAIR—That is right. Well done.

Proceedings suspended from 12.51 p.m. to 1.14 p.m.

Evidence was then taken in camera, but later resumed in public—

[3.37 p.m.]

BLOWES, Mr Warwick Stewart, Director, Blowes Menswear

GRADY, Mrs Janette Patricia, Chair, Dubbo CBD Marketing Group

MANNY, Mr John William, (Private capacity)

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Manny—I am appearing in a private capacity, representing myself as a regional pharmacy owner with a particular interest in regional and remote pharmacy.

CHAIR—Thank you very much.

Mr Blowes—I am representing myself as a menswear retailer with stores in Dubbo, Mudgee, Tamworth and Orange.

CHAIR—The committee prefers that all evidence be given in public, but if at any stage you wish to give your evidence in camera we certainly can put a request to the committee and they can determine whether they wish to grant that request, bearing in mind that at some future stage the Senate may decide to make the evidence public. The committee has no submission before it, so I believe it will be an oral presentation. I now invite you to make an opening statement, and at the conclusion of your remarks we will proceed to questions.

Mr Manny—Mr Chairman, thank you very much for the opportunity to speak to you. As I said, my intention is particularly to put the point of view of a regional pharmacist, keeping in mind the remote and isolated pharmacies that are closely associated with this area.

The big three groceries claim that consumers shop with their feet. In our field we also have to worry about people without feet and also those with only their feet for mobility. For example, the parents of the young; the elderly who do not drive any more, who cannot drive; those with disabilities; and also people who are in isolated areas well away from Dubbo. We, as a community, have a moral responsibility to ensure that their basic access to goods and services is always there and that they can live an independent life with dignity, preferably in their own home, for as long as they can. In my work, I see a lot of people who are forced to enter nursing homes, with obvious costs to government and the community and, more worrying, loss of quality of life to these people. As I said, our moral responsibility—it is the responsibility of everybody—is to make sure that this is not exacerbated.

We have a great deal of difficulty attracting pharmacists to the bush. It is not only doctors; it is pharmacists as well. You will also find that doctors do not like moving into a rural area if there is not a pharmacist to back them up. It is a very big problem and one that I am sure you in your political field are very much aware of. For example, in the small settlement of Tottenham, which claims to be in the dead centre of New South Wales, the

doctor there often calls me when he is in trouble. He cannot get supplies with ease. He is in a position where the people who would normally supply him with his emergency medications and so on have found it financial difficult to support him. We do not want to exacerbate this sort of problem. It is very real and it is happening now.

Here in Dubbo we cover our weekends and Sundays by using a roster system. As you are aware—or I hope you are aware—a pharmacy cannot remain open unless there is a qualified pharmacist in charge. I might just point out that last Friday I started work a little after 8 a.m. and I was called on to dispense an urgent script at 10.40 Friday night. That is a long day and one that I would not like to have to do frequently. I am fortunate. I do have a pharmacy assistant with me, but that is rather rare in the bush.

If Woolworths, Coles and Franklins were able to control the pharmacy completely itself, these difficulties would be exacerbated. We would have to work longer hours than we do at the moment and that introduces problems. A pharmacist must be mentally on the ball all the time. If you are working and you are fatigued, this leads to errors and problems, and it is something that we should avoid at all costs.

Might I just briefly point out that, if I was to remain viable and had to stay open seven days a week, fatigue would be one of my big problems. I cannot bring my young son, young nephew or a 16-year-old to look after the pharmacy for me so that I can have a bit of a break on Sunday morning. I have to be there. Be aware that, when you are looking at the whole problem, this little facet pharmacy—which is still a very important one—is deeply affected by the results of what these people do. Open slather on hours would further drive pharmacists into leaving country regional centres such as Dubbo.

I wonder whether, if we asked the big three for the minimum size of a town they would need before they would enter into business in that town and we got an honest answer from them, how many small towns west of Dubbo would be doomed. If their supporting distributors give the job away, as I can point out could happen, we would lose our Brewarrinas, Gilgandras, Narramines, Warrens and all these important towns if we cannot keep the services up to them.

In Australia, we have a health distribution system which is the envy of the world. The prices of the majority of our pharmaceuticals are extremely good. They are approximately 54 per cent to 56 per cent of the price that the public would pay in the United States. This is because we have a reasonably good working relationship between the government and pharmacists. Our distribution system, again, is the envy of the world. Can I point out to you that, if a pharmacist in Tennant Creek gets an urgent call for a rather odd antibiotic, he would have it overnight and at the same price as that of a pharmacist working in Pitt Street in Sydney. That is something that we should envy.

If we let the grocery group dictate to us, we would lose that ability. May I point out the scenario. If our distributors do not have a reasonable turnover, they cannot support that pharmacist in Tennant Creek, they cannot support the pharmacist at Warren, Brewarrina—if there is one there at the moment—and Bourke. Unless they have got that reasonable volume of business, they are out the back door and the pharmacist without that support cannot supply this urgent stuff as it is required.

What I am trying to get across is that, in my talking to our wholesale distributors, they have what they call their top 20 lines. Without that volume, they cannot survive and, quite frankly, neither can the majority of pharmacists. We need that volume to support our dispensing and our health supply thing. That is something the government should be very much aware of, because we have our prices at such a low level compared with world prices that this depends on our survival and our ability to keep going. I hope I have not made that too complicated.

Woolies and Coles for a long time have been making noises about taking over pharmacy. At the moment in Australia a pharmacy can be owned only—with a few exceptions that go back to the early part of the century—by a pharmacist. They were making noises about being able to take it over and run something like the American drugstores. This would be a giant leap backwards. You have an instance in Canada, I think it was, where a chain of drugstores was owned by a tobacco company, and they dictated what stock they could sell in that particular place. In other words, they were able to ban nicotine patches so that the pharmacist was unable to assist somebody who wanted to give up cigarette smoking. The last thing I would want would be for somebody on a remote board in Melbourne to tell me what I could sell and what I could not sell if I am looking after a patient. On top of that, there is the legal problem. If I do something wrong now, something illegal, I am answerable not only to the law but to a pharmacy board as a pharmacist. I would like it no other way. In other words, my professional integrity belongs within the profession.

If pharmacy was owned as open slather, you would then have the awkward position of somebody else dictating to you and, if you did not do what they wanted, you would then be replaced by somebody else or you could be replaced by somebody else. If I do something wrong now, I am out and that is the way it should be.

Just recently the CEO of Woolworths said that they did not want to own pharmacy. I think they have realised some of the problems. They have to deal with the government as far as pricing and the national health is concerned and they would prefer to set their own prices than have the government set them for them. They want our top 20, front-of-shop lines and, by doing that, they can upset the whole system. We have to protect the distributors of these lines who support us or else the little old lady who lives in south Dubbo now, whom I referred to when I started my talk who cannot get down to the big pharmacy in the main street, is isolated and left out. It is the same for the lady with the sick child who lives over in the housing commission section. She needs to be able to get to a pharmacy on the spot out near her.

I would now like to emphasise the need for maintaining some sort of drug laws which prevent Woolies and Coles from usurping more and more of the pharmacy section. You do not expect a 16 year-old casual girl to be able to advise somebody whether the cough mixture that they are taking will affect their blood pressure medication. You cannot expect that same girl to give proper advice to someone who is buying an analgesic and is trying to find out whether it will clash with the warfarin medication that she is taking. That is a pharmacist's job, but they would love to take our cough mixtures and analgesic market. Again, I emphasise a pharmacist, a qualified person, must be there on the spot all the time.

I suggest that the drug laws be made a national responsibility. At the moment we do have variations from state to state. This is something that can be done and advised on by this group. We should have national drug laws and, for heaven's sake, when they are being set up, make sure there is a rural pharmacist giving you advice on what should be done, and not just an academic who lives in the city.

CHAIR—My colleague Mr Jenkins has just said that there is a separate inquiry on that matter.

Mr JENKINS—On some of these issues there is the Warwick Wilkinson inquiry. Is that so?

Mr Manny—Yes, I heard Warwick Wilkinson was appointed in just the last couple of weeks. Is that right?

Mr JENKINS—Yes.

Mr Manny—Again, I am bringing to public attention here that it is vital that their decisions are well and truly thought out and weighed up. I do not think he is dealing with drug laws, is he?

Mr JENKINS—That might be on the edges of what he is doing.

Mr Manny—This is a recommendation that we really should follow up with national drug laws so that we can have some sort of control over this.

CHAIR—I do not want to restrict your time, but we do have limited time this afternoon and we do want to open up for questions.

Mr Manny—In conclusion, may I say that pharmacists should be in control of pharmacies. We do need national drug regulations. It should also be remembered that pharmacists in small and remote places cannot survive without the other small traders around them.

CHAIR—We will come back to you for questions.

Mrs Grady—I represent 350 retailers in the CBD Marketing Group and I feel sure that I do speak for a number of other retailers in Dubbo. I am going to speak about extended trading hours. The campaign for further extended trading in various locations throughout Australia has been instigated by major supermarket chains. It is clear that, for the major chains, extended trading is of vital importance and one need not wonder why. Their objective is increased market share. Its achievement requires the takeover of the bulk of retail trade in our own city.

They have managed to reach this goal almost everywhere, forcing many small retailers out of business. Further extended trading in Dubbo is the final hurdle before the chains' total domination of the local retail environment. I am speaking mainly on a local basis here. It is also the final hurdle before they can proceed to systematically dismantle locally owned

independent competitors until their businesses bleed to death. Please realise that independent retailers still keep a lid on prices and the cost of living. To all appearances, supermarket chains compete with each other, waging store wars from time to time. However, research shows that, once the independent retail sector has been eliminated, prices will rise.

One of the greatest evils in our society is youth unemployment. It has a significant connection with many social problems, including drug taking, alcohol abuse and crime. Supermarket chains claim to promote employment. The reality is entirely different. Research shows that market expansion of the major chains, including extended trading hours, causes a net loss of jobs to the community. These giant corporations employ mainly casual workers, many of whom are government subsidised juniors. Full-time job creation by the chains is minimal. For an equivalent amount of turnover, supermarket chains employ one person versus the independent traders who employ three. Job casualisation is fundamental to their profit making strategy. Casual wages create insecurity. For instance, casual employees have great difficulty securing finance even to buy a home.

Consideration of costs and benefits to Dubbo is an ongoing concern and the welfare of its citizens now and in the future must always come first for this area, that is, before consideration of the benefits to out-of-town big business operators who are hell bent on siphoning the commercial lifeblood out of our region. Be very aware that in the commercial conduct of their businesses the giant supermarket corporations are answerable to their shareholders. In that context, the major chain stores provide a service but also manipulate the market and the public and put pressure on governments—local, state and federal—to their shareholders' advantage.

CHAIR—Quite a lot of this general rhetoric we have heard on several occasions already.

Mrs Grady—Yes, I can cut to some of that.

CHAIR—We are more particularly interested in Dubbo and examples of what you are talking about right here in Dubbo.

Mrs Grady—Yes, I can do that.

CHAIR—Thank you. It is not that we do not agree with you or that we are making judgments.

Mrs Grady—No, not at all. I can give you some facts and figures. Yes, that is not a problem.

CHAIR—We can come back with questions.

Mrs Grady—I have little bit of that, anyway. According to recent information supplied by the State Valuation Office, property valuation levels in Macquarie and Talbragar Streets—which are our main CBD shopping strips—have dropped by up to 17.5 per cent in the four years between 1994 and 1998. Obviously, extended trading in Dubbo has accelerated the downward spiral in the CBD. We have 458 ground floor properties in the CBD and 52 are now vacant.

Vacancies have increased since the advent of extended trading hours, that is, the supermarkets actually started to stay open until 10 p.m. and have been open up until midnight on quite a number of occasions. The vacancies were actually running at 2.5 to three per cent only three years ago. We are now at 11.35 per cent, which is quite dramatic for the CBD. As a result, our property values have dropped and revenue generated from the rates by the CBD—which is Dubbo's greatest asset—will dwindle. We feel that the negative impact of unlimited trading will be felt for years to come unless something is done about the amount of unlimited trading in Dubbo.

Dubbo is one of the few large regional cities to have resisted the determined push for Sunday trading and market dominance by the major chains. We feel that has been one of the reasons why we have actually remained very strong. We do not have that extended trading on Sundays and, as a result, the areas around Dubbo have also managed to survive much better than some other areas in the state.

The big three supermarkets have five outlets in Dubbo. Their extended trading hours have started a decline, destroying our beautiful city's commercial heart, and we believe that increased permissible shopping hours to the majors is not the answer. This will only result in them gaining more market share, which would be disastrous. It is obvious to us that only a reduction in the operating hours allowed to the majors will stop their determined and well-planned bid to control Australia's retail sector. Thank you.

CHAIR—We will have the opportunity to follow it up with comments later.

Mr Blowes—I am a second generation clothier and we have been associated with country people in country towns since 1936. I do not have a lot of statistics to put before you, but what I do have is a gut feeling of my business and that things are not right, and particularly are not right in the bush. I think it needs to be made fairly clear that the retail climate in the country is vastly different to the city. Places like Dubbo, Orange and Tamworth have always been nothing but service centres which have little or no industry and survive because of the rural towns and communities around them.

You have no doubt heard today a graphic account of the cancerous effect on these smaller towns of the closure of banks, government instrumentalities and department stores, and how fragile the economic conditions are in these communities. I put the market share size of the majors and their incessant push for extended hours and Sunday trading in the same basket. The cost at the end of the day is a human one, when governments of all persuasions have shown an inability to handle the human residue problem. Dubbo, Orange and Tamworth do not need to get bigger and stronger at the expense of the smaller towns. The bigger centres stay strong because of the areas around them.

My major concern is for the long-term wellbeing of country communities and what sort of a retail industry we leave for our children. Our business is in the process of heading into the third generation now, which is the dangerous one, and we obviously look at this problem very seriously.

I believe one of the major problems started with one of Australia's worst corporate decisions, which was allowing the takeover of Myer by Coles. Governments have been

playing catch-up ever since, because the only way to even things up was to allow the other blokes to get as big as the other big bloke.

But you do not increase competition by buying your opposition out and selectively closing them down. The most graphic examples of this in the bush would be Grace Bros and Fosseys. In the past Wellington, Gilgandra, Narromine, Cowra and Goulburn all had Grace Bros department stores. I and my partner worked in Grace Bros in the 1970s and menswear in Orange and Dubbo was viable, the department taking on between five and seven permanent staff. It now looks like a supermarket with two casuals and is in big danger of becoming the next statistic in the closure of department stores. There are only four left in that chain now and they are in the major centres of Bathurst, Orange, Tamworth and Dubbo. Because they are geared on a supermarket shopping centre type of operation, where their rent and advertising is subsidised by small business, and because of their sheer size, they were able to dictate terms to lessors, manufacturers and suppliers. They have more political clout because of their representation on advisory bodies and industry organisations.

My major concern is most certainly with the outlying areas which this town and places like Orange and Dubbo survive on because these towns would die particularly if Sunday trading were allowed. Because we do not have an industry to employ these people once they start losing their grip on their town, these people go straight through to the coast and all of a sudden we have destroyed our own shopping population. I find that quite bizarre. Until we find an answer to the human problem, it is critical that we try and keep these places alive as long as we can. Thank you.

CHAIR—Thank you very much to all three of you. I would like to invite my colleagues to open with questions.

Mr NAIRN—Currently what is the situation with pharmaceuticals or related products that supermarkets are allowed to stock? From what I can understand, one of your major concerns is, if the top 20 items, percentages or whatever—a bit like the newsagent situation as well—go into supermarkets, that takes away a lot of your core product which puts at risk the other services that you supply.

Mr Manny—That is right.

Mr NAIRN—But what can they do now?

Mr Manny—It is obviously fairly open slather. But what they are pushing for is that items which are currently scheduled in New South Wales as schedule 2 and schedule 3 are the ones that they are looking for. That is what they would like. If they could grab those—

Mr NAIRN—What is an example of schedule 2 and schedule 3?

Mr Manny—Some of the more potent cough mixtures. The schedule 3s would be hydrocortisone creams for treating skin rashes and this type of thing. Ventolin sprays and asthma sprays, for instance, are available without a doctor's prescription at the moment. While they probably would shy away from that one, because there is a bit of responsibility

with it, it is that sort of turnover. If it is a big line, they are chasing it, but more particularly the cough mixtures, cold and cough preparations—that type of thing.

Mr NAIRN—What percentage of your turnover do those sorts of products make up?

Mr Manny—I cannot give you one off the top of my head. This would make it easier. It is probably 30 to 40 per cent of my staff and I have a staff of up to 12. So let us put it in human figures rather than in anything else.

Mr JENKINS—What is the legal requirement on you for the S2 and S3 drugs?

Mr Manny—The lesser requirement means that it can be sold only in a pharmacy. There are storage restrictions on it and it can range right through to only the pharmacist, not his assistant, actually handing the item out.

As you may know, we have put a lot of time into a quality assurance program, and this has been done nationally by the Pharmacy Guild. We have staff who are employed and educated to a very high standard, and this is being pursued at a national level so that we are obligated as pharmacists to make sure that our staff are fully trained and know when to refer a problem to a qualified pharmacist. Basically, it has to be under the direct supervision of a pharmacist—sometimes only a pharmacist. Of course, with our professional standards we do not go back to the old days. I can remember, when I was just starting in pharmacy, when supermarkets had great big stacks of Bex powders on display and the dreadful results—kidney/renal problems and so on—that that had. That was one case where governments did use their muscle and restricted the stuff. With the assistance of pharmacists in those days, we have now got that problem under control.

Mr JENKINS—The reality of community pharmacy is that the PBS would not work if you did not have your front of shop.

Mr Manny—Can I stress that, particularly for rural pharmacies, that would be the case.

CHAIR—Just to follow that up: does that mean that people who buy those products from you are actually subsidising the other activities of the store?

Mr Manny—I will put it this way. If I set up a pharmacy and went in for predatory pricing and said, ‘I’m going to keep only 20 lines,’ I could have a shot at a lot of people, I am quite sure, but I am expected to carry a lot more than that. I am expected to be able to treat everything from tinea to diarrhoea, and if the diarrhoea products were not big sellers I would not stock them—but that might make you a little uncomfortable at the weekend.

Senator FERRIS—I have not got a question on that—I do not think I would like to explore that any further—but I do have a question for Mr Blowes. It is not related to the evidence you have given. I have had an approach from a person who is in your business and has a difficulty, and I just want to see whether you have encountered it. It relates to minimum orders in the clothing business. The information I have is that a number of suppliers, wholesalers, particularly in the footwear and clothing areas, and particularly menswear, require minimum orders or a minimum value of order annually—for example,

\$5,000 spent annually for a particular product, such as jeans—otherwise they will not supply that brand. Have you ever encountered that in your business where, say, a shoe manufacturer says that unless you buy so many units per year they are not going to supply you?

Mr Blowes—There is a move in that direction, in that a lot of the trade is moving towards concept selling: for example, with R.M. Williams, where you take on the concept of carrying R.M.s. The aim is that the concept dealers will carry the range of products rather than carry one product and bastardise it—which does happen in that particular brand at the moment. I believe that Polo Ralph Lauren would do something like that too. It is geared towards carrying the total package rather than so much of one item.

Senator FERRIS—It has been put to me that one of the difficulties facing clothing stores in regional and remote Australia and keeping the business in the town is that, unless they are prepared to stock 100 pairs of jeans of a particular brand or 50 pairs of shoes of a particular brand, or a concept like you have mentioned, they cannot then get access to that product at all. Therefore, if your clientele want to buy that product, they are forced to go out of the town and they take those dollars with them. It has been put to me that retailers such as yourself are encountering this more and more, and they are unable, under the current trade practices legislation, to do anything about it. I am interested to know whether you have actually come across this within your group or within the colleagues you have in the industry, because it seems to me to be another form of monopoly trading—that is, you either carry a lot of the stock or you do not get any.

Mr Blowes—In some instances, I can see that as being fair game. I take R.M. Williams again as an example. Over the history of the company, which would be 100 years or whatever, every Tom, Dick and Harry on a property had an account and so on. The only way they sold was by mail order. Now the industry has progressed to the stage where it is retailed through shopfronts, and they have their own retail outlets as well. But they have still got the residue of that old mail order account system floating around, which I know they would dearly love to get rid of. There are a lot of outlets around that only want to carry one style of boot and only want to carry two pairs of it, three pairs, four pairs—whatever. That is a side of the trade that is up my nose at the moment, I can tell you, because we suffer badly from another side of it because we do carry the full range of the product.

Senator FERRIS—So you do agree that it is an emerging problem?

Mr Blowes—I think it is to a degree but because of that—because of the full product range. The complaint might be that, if that bloke only wants to carry one boot in one style and he is going to sell it for cost as a dragline to his mates, he is doing retail more damage than he is doing good. I would love to see him out of it, to be quite honest.

Senator MURRAY—I was just wondering whether the Trade Practices Act covered conditional selling, but it does not. Mr Manny, in Western Australia a pharmacist may not own more than two pharmacies—in other words, there is a cap. What is the restriction in New South Wales?

Mr Manny—It is pretty much the same. The only way you can own more pharmacies is by having more registered pharmacists as a partnership.

Senator MURRAY—But, as I understood it, five is the maximum.

Mr Manny—Yes, there is a cap on it. I have never wanted more troubles than I have got, so I have not worked out what the top figure is.

Senator MURRAY—Just a question on principle: if the cap in New South Wales was five and there was a country town where there were five pharmacies all owned by the same person in a partnership or same group of people—

Mr Manny—It has to be a partnership.

Senator MURRAY—Would you think that was right? Would you think that was a monopoly and should be broken up?

Mr Manny—I would be quite happy to see it broken up, yes, personally.

Senator MURRAY—Mrs Grady, along the same lines, the NARGA campaign on supermarkets essentially seeks a cap for supermarket numbers. It is their total volume that they are looking at, but I have not been sure how that could work. In Dubbo I understand there are five stores representing the three majors. I think there are four independents as well. Is that right?

Mrs Grady—I think so, yes.

Senator MURRAY—But, of course, the five versus the four. It would not be 55 per cent or 60 per cent; it probably is 70 per cent to 80 per cent by volume. Is it your view that in a defined market—which, I think, technically speaking, Dubbo could be classified as being in terms of the Trade Practices Act—if there was to be a cap, it should be by numbers or by value or by both? The reason I ask that question is that there are country towns where there are just two supermarkets—one independent and one major—and the major may in fact be 90 per cent and the other 10 per cent, although sometimes they are much more equivalent. I really want to know your reaction to the issue of market dominance in a country town like this.

Mrs Grady—I have not given that a great deal of thought as far as the independents and the majors in the smaller areas are concerned. I have always looked at it as a broader issue and talked about the market share, done a lot of research and looked at how things were managed in different countries as far as the market share is concerned. The market share overall in Australia is quite high compared to other countries. When it comes down to our little corner of the world—actually, may I speak to somebody here?

Senator MURRAY—It does not worry me. It is up to the chair.

CHAIR—You certainly can. While you are asking them, I might ask a question of Mr Manny. Isn't part of the problem with the supermarkets that you have become like supermarkets yourself? I do not know what yours looks like, but going in to the average chemist shop is like going into a supermarket. They have everything there. So, to a certain extent, you have taken on the majors at their own game. Therefore, it is the professional

image that your store had. By making yourself look like a supermarket, it is not surprising that people will then say, 'Let's go over and buy the things at the supermarket,' especially when there is a price differential.

Mr Manny—Mr Chairman, I will answer that quickly. When I started in pharmacy, we had what I would call a big margin on our national health dispensing. Successive governments have now got that down to 10 per cent, which Woolworths could not operate on, and even five per cent on some of the more expensive items. This has more or less forced us to keep our options open with other lines. It is a matter of survival.

CHAIR—I understand. The same thing also applies to assistance. You talked about professional assistance, but, gee, it is a long time since I went into a chemist store and got something, other than for a prescription, where I dealt with the pharmacist. Instead, the chemist is remote up there and you speak to a junior assistant and you get what you want.

Mr Manny—Mr Chairman, again, can I say we are not worried in particular about people of your intelligence and capability.

CHAIR—That is very flattering. I do not know whether my colleagues would agree with you.

Mr Manny—What I am getting at is this: if you still want to be concerned with the little old lady, and I see lots of them in my working week, these are the people that you have to be there for. You have to be there for them. I would hope, and I trust, that every pharmacy that you have been into where you may have been served by a younger member of staff, because we do have big training programs, as I mentioned earlier, that there is always professional advice there on the spot and available instantly.

CHAIR—I accept that.

Senator MURRAY—Just to return to my question, and so I can put it into perspective for you, again and again we have been told that the result of the concentration of market power in cities and country towns such as these is that there is a loss of jobs, there is a loss of commercial viability and there is a loss of community viability and property values fall, profit margins fall and all that sort of thing. So, really, if there is to be a restraint on market power, we need to be advised what kind of restraint.

If you are going to go after a cap, either you can go numbers, which is the pharmacy route, or you can go turnover, or you can try a combination of both. Numbers are easy because that is a planning thing. Turnover requires disclosure, and then you get into the privacy issues and all of that sort of thing.

Mrs Grady—We believe that extended hours—when I say 'extended hours' the supermarkets here do open a lot longer hours than the other independent stores—are detrimental because they give the majors more market share.

Senator MURRAY—But, as I understood it, the independents can open those same hours. The supermarkets are not given different opportunities.

Mrs Grady—But, being independents and a smaller business, they do not have the opportunity and the staying power to be there—

Senator MURRAY—We understand that. The evidence put to us on both extended trading hours and Sunday trading is that people want them brought back and not advanced. But, if you like to use that very overworked phrase, that is a level playing field because everybody can operate the same hours at present. But the issue that has been put to us is bringing them back. This committee cannot deal with trading hours. We can comment on it; it is a state issue. The issue that we can deal with is how we can restrain market power. The proposition put to us persistently by the independent grocers organisations is a cap. I want to know if you think that is realistic, if that is practical and how it would operate—as a practical person.

Mrs Grady—I really do not know how you are going to measure it, to be quite honest. It would have to go on population in the cities and in the regions. That would be the only way to do that, as far as I am concerned.

Senator MURRAY—And would it go in the market sense to the immediate catchment area, which is Dubbo, or would it go to the adjoining territories and towns?

Mrs Grady—It is more regional here. It is very much more of a regional situation on this side of the Blue Mountains.

Senator MURRAY—Given that you say it is a hard thing to come up with a solution—don't forget we have to come up with one—are you still saying to us that you believe that the government or the parliament through legislation should find a way of restraining the market power of the majors?

Mrs Grady—Yes, we do. And, if you do not know, I do not know how we are going to come up with an answer. We all know there is a problem. Because the majors have a huge dominance of the market, they are causing a lot of problems for independent businesses.

Senator MURRAY—My last question is this: there is a campaign known as 'truth in labelling', which is that the label of a product should reflect the contents so that consumers are properly advised. Do you think there should be truth in branding, namely, that stores which are owned by majors should be identified as being part of those groups so that people know who owns Katies, Liquorland and Red Rooster or whatever the chain is?

Mrs Grady—Absolutely, yes, because it is very difficult to know that they own all of those businesses. A lot of people would not realise that.

Senator MURRAY—How would you see that done—as a line in their advertisements, on their invoices, on their stationery?

Mrs Grady—'Part of the whatever chain'—yes.

Senator MURRAY—You would support that?

Mrs Grady—I would.

Senator MURRAY—Do you think the community in general would support that or they would not care?

Mrs Grady—I do not think it would be detrimental, but it would certainly make people aware that the profits from this particular chain may not be staying in this area to trickle down into the economy.

Senator MURRAY—That is a big theme in the country, isn't it, that the profits and the local economy is benefiting?

Mrs Grady—Yes, It is. If the money does not stay here and keep moving around the area, we all lose out. That is a major problem in these regions. Once you start taking huge amounts of money out of the area, which has happened in Dubbo, in this region, over the last 10 years, you see a breakdown of the community. The money is not staying here. The small businesses that used to put the buying power back into the communities, such as buying new cars, computers and whatever, are not there any more.

CHAIR—Thank you. I must close it off there.

Mr Blowes—Could I ask Mr Nairn a quick question on something he said this morning?

CHAIR—No, we ask the questions. Special dispensation! Is it hard?

Mr Blowes—No, very easy. You mentioned that Bendigo had taken on Sunday trading. As a major regional area, do you know (a) how long it has been going on and (b) whether there has been any inquiry done as to the effect on the outlying areas? I would imagine it would be similar to here where a large rural community is serviced.

Mr NAIRN—The evidence they gave us was that a couple of years ago they had a referendum in the town on whether there should be Sunday trading. Something like three-quarters of the people eligible to vote voted and over three-quarters of that three-quarters voted for that Sunday trading. So, even if you take into account the people who did not vote, a clear majority of the town wanted it. As I said, there was certainly evidence provided that strongly supported what they had done. It had been good for the region. The tourism association came and gave evidence and said it was crucial to their tourist industry that shops were open on Sunday. But then there was also a counter view put by some people that it did impact on some of the smaller business people.

Mr Blowes—The reason is that I am just wondering whether that situation can be revisited.

CHAIR—Bear in mind that our committee looks at competition policy. While we can make comments on the question of regulation of hours, we do not have the primary responsibility. That is the states area. Here you have both the mayor and the Independent member saying that the council is opposed to it. We are not the prime people responsible for

it. I really must cut it off there. But I thank you for your involvement, for your participation. We wish you well and we thank you for representing the Dubbo community.

[4.33 p.m.]

PENROSE, Mr Brian Stanley, Proprietor, Penrose Meats

SCOTT, Mr Peter Rex, Owner/Sole Director, Scott's Auto Centre

SHIELDS, Mr Earle William John, Managing Partner, Challenge Office Supplies

CHAIR—The committee prefers all evidence to be given in public, but if at any stage you wish to give your evidence in camera then please let us know and the committee will consider it. The committee has no submission before it, but we would like to invite you to present your case to us, and then we will follow it with questions.

Mr Shields—The environment for small business is getting tougher. There has been considerable pressure on margins for some years and that has had a severe impact on small business profitability. The problem is exacerbated by the available market contracting as larger organisations seek an ever increasing market share. If small business is, as has been quoted, the engine room of the economy then the fuel for the engine must be the marketplace. The fuel line from the fuel tank to the engine is either constricted or has a leak, and I think the latter is more likely the case. It is being leaked out to the larger organisations.

The playing field never has been and never will be level. The ability of smaller players to compete has always been due to the ability to operate more flexibly than the lumbering giants—the ability to open at different hours to offer services that the big organisations are unable or are unwilling to offer. But what happens is that the larger organisations operating on low margins and high turnover do so in order to establish a position in the market and a market share. They have at their disposal significant advertising budgets and they are able to utilise mass media very effectively. They use a legitimate and often used technique of running loss leaders of a popular product to get people in.

CHAIR—Can I just interrupt you there. You have evidence of where the majors have priced a product below what it cost them to buy?

Mr Shields—In some instances, yes. I am in the stationery and office products industry and, in general terms, you cannot buy ordinary copy paper for less than about \$4 a ream before sales tax, which is another 22 per cent on top of it. There are a number of major retailers out there selling copy paper at the moment at \$3.99 a ream and tax paid. The stationery and office products industry is now fairly dominated by four major American organisations that have arrived in Australia over the last four or probably five years, and you would have to say that their pricing is predatory.

To give a recent example, I was talking to a colleague in South Australia who had had a longstanding relationship with a customer in Adelaide. That customer was taken over by another organisation which had a national deal with one of these big American owned stationery retailers. The customer was then able to buy a simple highlighter—I notice Senator Ferris had one before—from this supplier at 37c whereas my colleague in South Australia could not buy them for less than 43c. There are rebates being offered by suppliers

but generally they are of the order of less than five per cent, so that does not account for the difference. What happens is you march in, you take the trade and then over time you gradually move your prices back upwards. In the meantime, the people that you have knocked out of the business have long since left. So then you have market power.

I had a recent situation here in Dubbo where I quoted to a public authority for laser toner cartridges for laser printers. I buy one of those at \$130. The landed price here in Dubbo from a Sydney supplier was \$134. You do not have to be a mathematical giant to work out that, if you take about \$1 off to ship it up here in the first place, \$3 out of \$130 is not a huge margin. What they are trading on is using the rebates they get from the suppliers to boost their gross profit margin. Because I am small, because I have a much smaller volume than they do, I do not even look like getting a rebate, but I still have to fight against that sort of predatory action out of Sydney into this market.

As large organisations encroach on the marketplace, it is becoming more and more difficult for small businesses to defend their position. If you said to me, 'You need to work 20 per cent harder,' that is physically almost impossible. I work week in, week out, 60 to 70 hours a week, six days a week. I cannot work 20 per cent harder without it having a terrible toll on the other roles that I have in life as a husband and as a father. One of the big issues in all of this is that we get bogged down in numbers, statistics and all the other things, but we forget what is happening to the people that are actually caught in the middle.

In the last financial year, my business traded on a gross profit margin of 27.7 per cent. That might not mean much to you, but if you just fiddle the numbers a bit and say it was 25 per cent that means for every \$1 of overhead—rent, insurance, telephone and wages—I have to sell \$4 just to cover it. When you are a small end retailer with lower volume, to find another \$100,000 of turnover, which in my case might give you \$27,700, is just a very difficult proposition.

If I wanted to employ an adult employee full time, and let us say that person was going to cost me \$25,000 in wages plus another \$5,000 for oncosts, you are looking at having to find another \$120,000 of turnover just to break even. If you divide that by 50, you are getting up towards \$2,500 a week just to support that additional person. These are the realities of small business and in the retail sector that I am in.

I also have to compete against the Commonwealth government, because the Commonwealth government solely owns Australia Post. Quite rightly, Australia Post made a good marketing decision to get into the office products part of the business. But it makes it very difficult when they have a monopoly on all of the postal services which they can use to subsidise how they sell office products. It makes life particularly difficult. They have moved into my part of the market for free. They saw the opportunity, went for it and did the business. But if I want to go and sell stamps, I have to enter a licensing arrangement and pay Australia Post money to do it. My sources in that industry tell me that they will very generously sell me 45c stamps for 43c, so I can make 2c every time I sell a stamp. Again, that is a five per cent mark-up. It is important that people understand the difference between margin and mark-up. The retail environment is very tight.

Senator MURRAY—And your gross profit and net profit.

Mr Shields—One of the big issues is that government tends to concentrate its assistance to business at the net profit level by changing things to do with fringe benefits tax or changing industrial relations laws or making things cheaper. But that is all below the top line. If small business is going to survive, it has to do something about its top line. That is where businesses survive or die—whether they have enough total revenue out of which to take their overhead costs.

CHAIR—Thank you.

Mr Scott—Thanks for the opportunity to say my bit about our business, which started some 50 years ago in the bush. Our core business is recycled auto parts where we employ 12 people. However, back in 1990 we made what we thought was going to be a good decision and bought the service station right next door. It was a good site, the first on the left coming in from Sydney. We were cruising along learning the business and trying to make ends meet until Woolworths came to town just up the road. Since that day our sales have dropped by 20 per cent, and we have in fact been losing \$1.26 for every \$100 we take at that site. That has been going on for three years.

CHAIR—They are selling petrol?

Mr Scott—Yes. Dubbo was the first of their planned 200 fuel retail outlets. So our volume has gone from two million litres a year back to 1.6 million litres a year. I do not have to talk to you about mark-up in fuel, but it in fact costs us 6c a litre to fill the customer's car up. We have been struggling along at 5c a litre.

Our accountant and our bank managers along the way have advised us to shut shop, but I am a determined bugger and I am living and hoping that things will turn around so that our kids can get some sort of start in life. As I said, next year we celebrate 50 years in Dubbo, and I often wonder how long we should continue to part with our hard-earned cash just to support our determination and trying to compete on this playing field which is not level.

Senator MURRAY—You mentioned profitability. What are the cash flow effects? Does the garage give you a positive cash flow?

Mr Scott—Yes, it does that. Since Woolworths moved to town retailing fuel, four service stations have closed and, as I said, we probably should have closed as well. I would think that, with those four service stations that have closed, maybe 20 full-time and part-time jobs have gone with them. In our case, we have two permanent employees and five casuals. So, in the event that we cannot continue to struggle on anymore, seven jobs would go with our site.

I often sit back and wonder what we can do to turn things around. I guess we could introduce more convenience lines into our site and capitalise on the additional service to our customers and tourists when the big guys are asleep. But, as my friend said, we have to sleep ourselves and there are other things that we need to do in life—with our wives and families and so on.

As we head towards the new millennium, I guess for me it is decision making time: do we hang in there and dig a deeper hole for the future of our children or do we just add our number to the other statistics and let the giants take all our hard-earned customers and walk us into the ground? It is not a happy future for us, as owners, or our seven employees who have families and financial commitments. My real concern, having said all that, is the social aspect of it all. If we cannot employ these kids, are they just going to end up on the street? We already have a big enough problem there. That is really what I wanted to come along and share with you today. It is just a real life story of how it is for us.

CHAIR—Thank you, Mr Scott. It is good to hear it, too.

Mr Penrose—I would like to start with the statement that it is not the supermarkets that provide the cheap prices—it is at the expense of the producers and the growers in Australia. That is one of the biggest things that should be taken into account with this inquiry.

I will cut quickly here to something that has happened in Tamworth. In late 1997, my father walked the main CBD of Tamworth and also the western side of town. He counted 79 vacant shops. That was simply by writing down the addresses where there were ‘for lease’ signs on the buildings. He did not count upstairs where he could not see. This is a very high amount. In 1998, Tamworth City Council refused an application by the owners of the Woolworths Big W complex. They knocked it back on the grounds of their LEP and also the impact it would have on the CBD. There were a lot of problems in town. And you have talked of referendums in Bendigo. The townspeople wanted the extra shopping centre—the extra floor space—and there were a lot of problems associated with that, but it was knocked back. Since then, with the mall being put in place, there is growth in the CBD of Tamworth. The confidence has been renewed, because people had confidence in the council’s LEP and their guidelines.

Senator MURRAY—What is LEP?

CHAIR—Local environment plan.

Mr Penrose—That is something that has happened in Tamworth and it is still growing at the moment. A couple of questions were asked this morning by the panel. One of them was: why can’t I shop when I want? We have been limited to time today. If you do not have a time limit, it goes over, you miss your plane and you do not get to Rockhampton. If you do not have boundaries as to where fishing boats can come into Australian waters, we lose our fishing supplies. If you tell a kid he can have a lolly when he wants, he will eat lollies all day long. You have to have a time limit. I feel we have to have a cap or whatever on trading hours, the size of supermarkets and their associated bits and pieces.

The auction system that was brought up today has failed in Australia, simply because all the major players have been taken out of the auction system and the end price to the producers is the result of there being no bidders. If you go to an auction intending to buy—it is only commonsense—the more people there are after a particular item the higher the price. So that is one of the problems we are faced with with the auction system. I am rushing through this, because I know you do not have much time.

Another point this morning was brought up. You asked the question: do supermarkets force people to shop out of hours? No, they do not directly, but indirectly—and we found this out in Tamworth—what they do is they only open a small number of checkouts. At any one time, out of the 24 checkouts at Tamworth Coles you will only ever see four open, and sometimes only two. At the most, if the queue gets long—and I mean eight customers—they will then open up another couple. But I have never counted more than eight to 10 checkouts open in a centre that has 24 available. As a result, people get into the habit of trying to find other hours to shop. In some ways they do force people to shop after hours.

Another problem we have in Australia—and we do not hear much about it these days—is price watch. We have created an atmosphere in Australia where everyone is out to beat the person down on price. All that has led to is making a product or a service to a price. It loses quality and in my business that has led to, with reduced margins, not being able to update our machinery. We cannot implement proper programs and staff safety is at risk. New laws are coming in at the moment in regard to workers comp and training programs. All this leads to a downward spiral in the whole business community.

As to the size of centres and trading hours, my suggestion is that a system be based on a floor area to population ratio. In regard to 24-hour trading, it should only be based on areas and the work hour demands of the population—and I mean shift workers—and governed either by local government or a state body to control it. I suggest that trading hours in country areas be limited from 7 to 7, and the same in smaller coastal towns. Thank you.

CHAIR—Thank you very much for that, and I would now like to ask my colleagues if they would like to ask some questions.

Mrs ELSON—Mr Penrose, is your butcher shop in a mall?

Mr Penrose—Yes, I am in a Coles shopping centre.

Mrs ELSON—Do you have any problems with predatory pricing or any pressure put on you to reduce or increase your prices?

Mr Penrose—No, I have taken a different direction. I do things that Coles cannot do. Coles are not the only competition in our game. There is McDonald's, Pizza Hut, et cetera—all those are our competition. So we have gone middle of the road. We do a lot of value added products that meet the middle of the road. Coles cannot do them.

Mrs ELSON—Mr Shields, in your stationery business, have you noticed a downturn in your turnover with Australia Post having stationery lines similar to yours?

Mr Shields—I set up my business after Australia Post set up its shop here. So what I have had to do is claw my position in the marketplace with them as a competitor. But there is no doubt that other established stationery retailers in the town have seen market share disappear to Australia Post.

Mrs ELSON—Have stationery shops closed down in the time you have been there's

Mr Shields—Yes, one closed about four years ago. There is one other major one in town and another smaller one, and I know the other smaller one is associated with a printing business and their stationery lines are only a convenience item for some customers. They really do not actively sell stationery and office products anymore.

Mrs ELSON—Thank you. I have one question to Mr Scott. Do you know how many people the Woolworths outlet that is selling petrol employ?

Mr Scott—Two, and sometimes just the one.

Mrs ELSON—But they have forced four service stations to close down since opening, did you say?

Mr Scott—Yes.

Senator FERRIS—Just following on from that, can you tell us what happened to the price of petrol? When Woolworths opened, what was the price of petrol? What is it now? Do you have a petrol war? What took out those four service stations?

Mr Scott—When Woolworths came to town, they came to town with a new price. So we all then had to operate on a skinnier margin.

Senator FERRIS—How much was it down?

Mr Scott—It was around 8c a litre at the time and now it is back to 5c or 5½.

Mr NAIRN—That is your margin?

Mr Scott—That is our margin.

Senator MURRAY—And you said you needed 6c to break even.

Mr Scott—We need 6c to break even, yes.

Senator FERRIS—How long was it before those four service stations disappeared?

Mr Scott—It was one after another. I suppose it took 12 months. There has to be numerous other ones out there struggling, because, as I referred to, our core business pays my wage. I do not draw anything from the service station. Whilst I spend a lot of time there keeping it operative, I do not draw anything from the service station. So that would only make our situation worse.

Mr JENKINS—Is the Woolworths site on a new site?

Mr Scott—Yes.

Mr JENKINS—So it is a greenfield site?

Mr Scott—Woolworths Plus petrol.

Mr JENKINS—So it came in when they did that?

Mr Scott—Yes.

Mr JENKINS—So it was part of a planning application for the whole site?

Mr Scott—I think it would have been in the original planning. What they offer is a 2c per litre discount if you purchase \$30 worth of groceries. So you go in and get your groceries, come out, fill up with fuel and away you go.

CHAIR—Like frequent flyer points.

Mr JENKINS—Mr Penrose, the notion of a floor area to population ratio: are you talking about the whole of retail?

Mr Penrose—If, for instance, someone wanted to build a new shopping centre in a town, guidelines would be put in place so that there is a clear understanding of what size shop can be put in that will not have a detrimental effect on the other businesses already established.

CHAIR—Who is going to decide that?

Mr Penrose—That is what I said. There are bodies for everything. Surely, there is some way it can be done.

CHAIR—People tell us they want to get governments out of their lives. You want to put them back in.

Mr Penrose—Yes. Local government could do it. I am sure these studies have been done. Canberra is a planned city. I do not know what it is like at the moment, but when I was there back in the early eighties it was very planned.

CHAIR—It is like the centre of Dubbo. The other comment you made was in relation to only having it on the coastal areas. What were you saying in terms of your recommendation, apart from the floor space ratios?

Mr Penrose—I was saying that it is mainly in country areas where we do not have the dense population of city areas. Coastal areas can be compared, I think, to country towns. Their population is seasonal—Coffs Harbour and those areas—so they probably operate on a different system to city areas.

CHAIR—You are talking about deregulation of shopping hours?

Mr Penrose—Yes.

Mr NAIRN—Following on, Mr Scott, on the Woolworths matter: you said that it was a greenfield site, but the Woolworths store was already there, wasn't it, and they added the service station to it?

Mr Scott—I have not heard of the term 'greenfield'.

Mr NAIRN—Sorry, it means a brand-new site—that they did not take over an existing service station or anything like that.

Mr Scott—No, they had their Woolworths site there.

Mr NAIRN—So the service station was added to the Woolworths store?

Mr Scott—Exactly.

Mr NAIRN—But it would have required planning approval, wouldn't it? Was there much debate within the community about that approval? Certainly, some of the other towns have refused those sorts of applications.

Mr Scott—I think there was plenty of objection to it. However, it was up and running before we—

CHAIR—So the council approved it?

Mr Scott—Yes.

CHAIR—Did you stand up at the council meeting and say 'This is going to put us all out of business'?

Mr Scott—No, I did not.

CHAIR—I think it highlights the fact that we are coming after the event to a certain extent. A lot of these things have happened because of people just standing by and letting them happen. It is the same as the Coles-Myer exercise. In retrospect—I think it has been said today—maybe they should not have been allowed to amalgamate, but where were the people objecting at the time? People thought that it was a good idea.

Mr NAIRN—Mr Shields, I certainly sympathise with you in having to compete with a government body. I competed with a Commonwealth government department for 15 years, but fortunately, after we got into government, we privatised it—that took it away. You mention a figure of gross profit. Everybody uses different figures in the way that they work these things out. By that, do you mean after your cost of articles but before your overheads?

Mr Shields—Gross profit is simply sales minus the cost of goods sold.

Mr NAIRN—Purely the cost of the goods?

Mr Shields—It is before you start thinking about your rent.

Mr NAIRN—Before your wages, electricity, rent and everything else?

Mr Shields—Yes. That is all overheads. That is what I call ‘below the line’.

Mr NAIRN—Compared to the way in which some organisations show their gross profit, that 27 per cent sounded pretty good.

Mr Shields—That would be a marvellous bottom line, I can tell you—I would be over the moon if I was doing that at the bottom line—but that figure is at what I call the top line.

Mr NAIRN—Have you done much comparison between some of the lines that Australia Post is running and your buying prices? I have certainly had newsagents in my electorate make representations that Australia Post is selling stationery which is above their buying price. Have you made any similar comparisons?

Mr Shields—There are two things I would say in answer to that. Lots of my customers constantly ask me how I compete against Big W, what my price is compared to Big W or Australia Post, and quite often my answer is that I do not know—because the more time I spend worrying about what they are up to the less time I spend really getting down to the hard work of running my own business. I go to the post office every day to collect my mail—or at least, if it is not me, it is my wife—and you cannot help but notice that there might be copy paper in there at a price 10c or 15c a ream more than I am paying for it.

If you are talking about a buying price on copy paper of anywhere between \$4 and \$5 and someone is marking it up by 15c, again you are talking margins that are down in the very low double figures. To put it into perspective, in the wonderful world of copy paper—and there is very little margin in paper these days—I can forget about selling paper to a school or a government authority if I think I am going to get a mark-up in double figures. Most of the time at the moment when quoting for that I am marking up either five per cent, or maybe 7½ per cent if I get really courageous, because you do not get a second bite. If you are off the pace, the order is gone.

Mr NAIRN—Copy paper particularly seems to be a real cutthroat business, I have noticed. Who controls that? Are there a number of wholesalers or are you buying direct?

Mr Shields—You do not buy direct from the mill, you buy from the merchants, and the merchants are either sourcing Australian paper or indenting an imported paper.

Mr NAIRN—There is a big difference in quality a lot of the time as well, is there not?

Mr Shields—Yes, there is a big difference in quality. What I try to do is satisfy myself that the quality of the paper I sell to my customers is going to do the job in their photocopiers and their printers, et cetera. I am occasionally rung and offered cheap paper. Basically, I refuse to buy it, because it is not the supplier’s reputation that goes out the window, it is mine. They are calling the photocopy service company and the photocopy service company is saying, ‘This paper is dusty,’ or it is this or it is that. So I have to be careful what I choose to run with.

CHAIR—Have you got Officeworks up here?

Mr Shields—No, Officeworks have not come.

CHAIR—I would have thought they were more of a threat to you than the supermarkets.

Mr Shields—Officeworks at the moment remain in the major metropolitan areas. Occasionally an ad is run on local regional television here for Officeworks. They have got one in Wollongong at Fig Tree or somewhere like that.

CHAIR—This is one of the things with putting a cap on the size of the supermarket, because if you do that then other things happen. You might have Aldi's, the German chain, coming out—and we know they are already here—or Wal-Mart, Officeworks, Harvey Norman and whatever.

Mr Shields—I am not sure that capping the marketplace can even be done. I sat here this morning—I had to leave because I have a business to run—and listened to the argument this morning. Everyone knows the problems, but the solutions are difficult. One of the issues in my industry—and I cannot speak for anyone else—is that I need to be able to convince particularly government to do business locally, because most of the government departments in this town, and most of them are state, are running off to Sydney to do their trade. You sit down, do the numbers and say, 'Well, even if I am 20 per cent higher on price, what is that going to do to that state government's budget?' and the answer is very little. They are so busy watching every last red cent.

Senator MURRAY—It is a national problem as well. The audit committee on which I sit has just produced a good report on that. Mr Shields, one of the things people are saying to us is that the concentration of market power and the domination of majors in every field—not just supermarkets—the oligopolisation of our society results in many fewer opportunities for capable Australians. There are fewer avenues for them to express innovation, ability and other things—people like you, for instance.

The contrary argument from the majors is that that is nonsense. They say that it has always been like this. People lose one set of jobs and they go off to another. They say that there are new jobs emerging in tourism, speciality shops are emerging and people are doing clever things with computers, the Internet and so on. We have almost got an age range here with people who have been in business a long time to people like you who have been in business for a short time. Just talking to the three of you, do you believe that the opportunities for innovative, capable Australians who want to get up and give it a go are actually decreasing because of the way in which our society has changed and the way in which the majors are dominating?

Mr Scott—I would like to answer that question simply by saying I think they are decreasing, because the bigger guys are getting into more. The bigger guys are starting to gobble up the pharmacies and the butcher shops. I refer to my core business which is recycled auto parts. I hope to God they do not get into that business. But, to answer your question, the opportunities are fewer because the bigger fellows are getting into more.

Senator MURRAY—So we are becoming a society of private sector bureaucrats, people who just work for majors.

Mr Scott—I hope my kids are not pushing shopping trolleys.

CHAIR—You were just saying in answer to Senator Murray that part of the problem is that those growth areas he nominated are basically all located in the cities with head offices and so on; so it does make it tougher.

Mr Scott—Yes, it does.

CHAIR—This is our last session—speaking on behalf of the region—and I know this is a bit of a hard call, but what do you think we should do? Can you each tell us in one minute?

Mr Shields—You have to look very seriously at the trading hours issue, and I understand that that is a state government issue. This committee needs to make a recommendation that the state governments look at it. Senator Murray made the comment before that theoretically we can all trade 10, 12 or 18 hours a day if we want to at the moment, but the physical capacity for small business to do that just is not there because we do not have the turnover to support it, and we are losing that turnover. The issue then is to look at ways of helping small business at the turnover level, and that may well be governments making a distinct decision to source from smaller businesses.

CHAIR—Which could mean that they would pay a higher price for their product which could increase taxes. Is that possible?

Mr Shields—Potentially it could. The question is that it might increase the taxes, but if they do not the government probably is going to be paying more social security money to support people who are no longer employed.

Mr Scott—You asked the question before about had I stood up and said my bit to council when Woolworths were coming and I did not.

CHAIR—You have a mayor who is also your local member, so he is particularly vulnerable, I thought.

Mr Scott—Maybe I should have, but I always feel that competition is healthy.

CHAIR—As long as it is fair.

Mr Scott—As long as it is fair, and that is the point.

CHAIR—And that is what this committee is about, making sure competition is fair. We all believe in competition, but when it becomes unfair then that is the time that people should look at it closely.

Mr Scott—Yes. I know what it costs to run my site, and all I ask is that I can sell my fuel and get a margin to do just that—continue to run it. I would like to think that maybe a margin is set so that Woolworths cannot sell below their cost or at their cost just to get the customers in the door to pick on the bones that have more fat on them. That is probably the best answer I can come up with.

CHAIR—Finally, Mr Penrose, you have already had one go at it before.

Mr Penrose—I suggest you research other countries and simply learn by the mistakes that they have made. I think you will find that a lot of the EU countries have had these same problems.

CHAIR—Thank you to the three of you and also to the other people who came from Dubbo. Mr Penrose, I know you came from Tamworth, and we appreciate your taking the effort because it is about finding out what regional Australia thinks. We could not get to Tamworth. We could not get to Armidale. We came to Dubbo. We appreciate it. To all of you who participated, thank you very much. Thank you for your welcome here in Dubbo. Thank you for your contribution today. We found it very useful and very interesting. It is, in some ways, different from going to the cities. It highlights some of the toughness in operating when you have such major retailers as Coles Myer, Woolworths and Franklins operating. But it was very useful today and thank you all very much.

Committee adjourned at 5.15 p.m.

