



COMMONWEALTH OF AUSTRALIA

# Proof Committee Hansard

JOINT SELECT COMMITTEE ON THE RETAILING  
SECTOR

**Reference: Industry concentration in the retailing sector**

THURSDAY, 8 JULY 1999

KINGAROY

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## JOINT SELECT COMMITTEE ON THE RETAILING SECTOR

Thursday, 8 July 1999

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

**Senators and members in attendance:** Senators Boswell, Ferris 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 1.47 p.m.**

**CHAIR**—I declare open this public hearing of the Joint Select Committee on the Retailing Sector. I welcome all witnesses appearing before us today. I welcome Cameron Thompson in absentia and also the local state member, Dorothy Pratt. It is nice to see you here taking an interest. Today's hearing in Kingaroy is part of the committee's inquiry in various parts of Australia. We have been to the major capital cities around Australia. We have been to a number of selected regional centres in Australia, and this is the last port of call before we return to Canberra and put the majors under review and questioning. I see someone here representing one of the majors. I apologise that we are only able to stay for a short time in Kingaroy but you can understand the pressures of getting around Australia and seeing a representative area of the Australian retail scene.

**DUGGAN, Mr Timothy Gerard, Proprietor, Mundubbera Butchering Co.**

**OTTO, Mr Colin Stanley, Co-owner, Shoppingworld Butchery**

**ROBERTSON, Mr Craig John, Owner/Operator, Jobhurst Pty Ltd, Mundubbera Foodmarket**

**CHAIR**—I welcome Mr Craig Robertson, Mr Tim Duggan and Mr Col Otto to this inquiry. The committee prefers all evidence to be given in public but if at any stage you feel you would like to have a confidential meeting—in other words, go in camera—then you can ask the committee for that privilege and we will then consider it. I would remind witnesses that giving false or misleading evidence may constitute a contempt of the parliament. The committee does not have a submission before it, but I understand you are going to make an oral presentation to the committee and we look forward to that. I invite Mr Robertson to start proceedings and then we will follow with questions.

**Mr Robertson**—You have probably heard what I have to say from others, but I will bring the issues forward again. Tim and I are here to represent the retailers and to give a small mention to the suppliers who supply to retailers who are also being squeezed by the domination of the chains.

A healthy rural industry helps to make a prosperous rural town. When the Asian market collapsed, the citrus industry had a huge downturn in income which meant development in these properties came to a standstill, meaning less jobs and less retail dollars. Tim will mention the grape producers. It has just come to our knowledge that they are being pushed by one of the chains. The downturn in the Asian market would happen again if the chains squeezed the producers of small crops to an unprofitable situation. The New South Wales Farmers Association is so concerned that it would like to see a fair trading tribunal put in place to monitor the actions of the big three. We have written evidence in a paper here.

**CHAIR**—They have presented a paper to us.

**Mr Robertson**—Okay. Local businesses are strong financial supporters of local schools, charities, sporting clubs, aged homes, hospitals and churches, et cetera. Do we see any of this support flowing from Coles, Woolworths or Franklins? Local businesses take phone orders and deliver to the elderly and the handicapped. Local businesses provide services to people who have had tragedy in their lives and carry credit in towns for people suffering drought and misfortunes. Who will serve these needs when the small businesses have closed and the town dies? Small businesses are good employers of school leavers who want to stay in the country areas.

When the chains move into the meat, baking, liquor and petrol retailing and also extended trading hours, we witness a large number of small businesses close, and we will see more close if the chains are allowed to become newsagents and pharmacists. I feel this is taking away the rights of ordinary Australians to own their own small business. Why are some people so greedy? It is also a worry to see the chains increasing their share of market

not by sales in existing stores but by buying out successful independent retailers who fear the opening of a chain supermarket next door.

I hope you understand from my short statement that I am concerned not only for our small business sector but also for our grape and citrus growers who generate a lot of jobs and dollars during the harvest season. A monopoly will lead only to higher costs to consumers and a lower return to producers. I do hope this committee can find a solution that will halt the aggression of the three chains and be of some help to the small hardworking businessman. Thank you.

**CHAIR**—Thanks, Mr Robertson. Mr Duggan.

**Mr Duggan**—I believe the problem with this retailing goes a little beyond the three supermarket chains. I think the effects of it have been felt in the meat industry as well. Recently, we have seen the closure of the Murgon Meatworks, which I think has been partly brought about by market manipulation. This market manipulation of these multinational companies seems to have been done with government approval and assistance. It has also been recently brought to my attention that one particular overseas meat processing company who is operating at a loss in Australia is allowed to offset those losses against the profits they make at home in America. That, I think, is unfair.

**CHAIR**—What is the name of the company?

**Mr Duggan**—AMH, which is a subsidiary of ConAgra.

**Senator BOSWELL**—There were about 500 people employed at the abattoirs at Murgon, which is about 40 miles out this way.

**Mr Duggan**—Also, I believe these chains are using pricing tactics which are directed at the immediate competition in set areas. They will sell at cost or below to squeeze or put extra pressure on whatever opposition is around. Craig touched on the hours of trade. Mundubbera is two hours from Bundaberg. There are a number of shopping centres in Bundaberg. Extended trading hours would allow people to spend a weekend over there shopping. The small town of Mundubbera would suffer.

A couple from Mundubbera retired recently to Bundaberg and they chose the house where they now live because there was a corner store and a butcher shop handy. Those two shops have since been closed which can only be attributed to the effect of the chains—they could not keep trading. Also, staff costs would prevent us from competing with them on a trading hours basis.

As far as butchers are concerned, the butchers employed in these chain stores do not have the qualifications of butchers working in butcher shops. The only time they do actual breaking down of beef is when they go away to do their block training at college. Other than that, they are merely meat slicers. In my particular set-up, the apprentices learn not only butchering but also slaughtering. They could leave there and go anywhere in the world and get a job in the meat industry. That happens in little butcher shops all over the place. That is something that the chains cannot offer.

Another thing that we do that the chains would not be able to offer is private kills. People who want to eat their own meat bring it to me. We hygienically kill it and process it and they take it away. If we were not there to do that, this would be done by mobile butchers. It is highly likely that no fees would be paid and there would be hygiene risk—the whole lot. We would lose this if the chains were to close down towns like Mundubbera.

As far as the stock that I put through my shop is concerned, sheep and lambs come from Chinchilla—there are none available in Mundubbera—and all the other stock is bought locally. The money stays locally. There is a fair price paid for the cattle and there is a fair price paid for the article over the counter—it all stays locally. Woolworths make a point that they like to buy cattle from Cattle Care approved properties. They recently ran a special in this town where they had whole rumps on special for \$3.99. These rumps were sourced from AMH. I will bet that there was no worry about Cattle Care approved properties in that one.

There are some importers here being put under pressure from one of the chains to import grapes from Chile. These Chilean grapes have a disease in them called phylloxera. I am not exactly sure that that is the name. There is a strain of it in Australia but not this particular strain. If these are allowed in it could wipe out the grape industry in Queensland.

**CHAIR**—Thank you, Mr Duggan. Mr Otto.

**Mr Otto**—Thank you. I would just like to mention a couple of things peculiar to our incidental position. We run a small retail butcher shop within a regional shopping centre. One of our big problems in surviving is our overhead costs. I suppose we are getting into specifics here that probably come under the auspices of the state government more than anything—the rentals which we pay compared to the majors per square metre of shop. I am also a certified practising valuer of real estate and the old rule of thumb 10 years ago was that majors rent 60 per cent of the space and pay 40 per cent of the rent. I suspect that has risen now to be more like 70:30. In other words, small retailers are subsidising the rentals per square metres of the major stores.

I would like to suggest the following as a possible solution—and, once again, it is more a state matter than a federal matter. If you sell a property in Queensland, New South Wales or anywhere else, the sale of that property is recorded by the Department of Natural Resources after it comes from the stamps and titles office and anyone can buy that information for the cost of \$6 or \$8—I am not sure exactly. I can even get it on a disk in bulk. So that is available. But if I want to find particulars of a lease, that is not available. Yet these leases are registered, and I believe they should be made available to the public or interested parties for the same type of cost for which I can purchase sales. Confidentiality in my opinion is not a concern in this because, if someone can find out how much I paid for my particular dwelling or farm or whatever, I cannot see any difference in details of the lease being made public. I think that would give small retailers a much better leverage and more argument to try to negotiate more suitable rentals—this is especially in shopping centres. The secrecy of these rentals under the name of ‘confidentiality’ is like trying to break into ASIO.

The other problem that I see with the majors compared to small tenants—and this is not restricted to butcher shops—is if a major store wants to start up an enterprise, for example, a



florist shop or an ice-cream shop or whatever it might be within their leased areas, they simply put up a shelf and they are in business. For anyone to compete with them, firstly, they would have to lease a shop, they would have to spend a lot of money on setting up the shop, they would have advertising, and we get back to this extra overhead expense all the time.

The other thing is that in small retail shops we are restricted in our leases to what we want to sell. For example, if you have a menswear shop in a shopping centre you would not be allowed to sell meat or whatever it might be. You are restricted to certain products, whereas the majors are not restricted or, if they are, there are certainly ways of getting around it.

Whilst we are on that issue, the other thing is employment. The majors are able to make use of a lot of junior labour, whereas for small businesses where you have two or three people employed it is nearly impossible. If a large business employs 100 people, for example, and 10 per cent can be juniors as opposed to 90 per cent seniors, if you have three people employed it is a bit hard to get 10 per cent juniors—you either have 30 per cent or you have none and very often it is none. With extended trading hours and everything else, it is usually the owner who does the work.

The other point I would make is on advertising and naming. I do not particularly pick on Franklins but they advertise themselves as Big Fresh. I have searched through their meat department especially and there is product in there that I would say was fairly well past what I would term the fresh stage. This image of ‘you beaut’ fresh produce is done in advertising. I do not know that it contravenes any laws but to me it borders on the morally dishonest.

The few points that I have made, as I say, are specific to my position. I do not expect that the government can legislate to fix all these things, but I would just like to bring to the committee’s attention these particular problems we have. Mostly, if I can emphasise, we have very little control over the fixed costs. Thank you.

**CHAIR**—Thank you very much. Can I just get the perspective in terms of the town which two of you live in? Is there a major there?

**Mr Robertson**—No.

**CHAIR**—There is no major, but there is always a threat for you, I suppose, of them coming in.

**Mr Robertson**—It is probably a long way down the track, if that will ever happen. But we are worried about the dollars shifting out of the town into the majors. If these stores do close down, they will not be replaced—they will be empty shells and that will be it. That is the big concern at this stage. Down the track as the area develops there might be room for a major to look at.

**CHAIR**—Mr Otto, you are based here in Kingaroy?

**Mr Otto**—Yes.

**CHAIR**—And you are in a shopping mall complex?

**Mr Otto**—Yes.

**CHAIR**—Who is the major supermarket there?

**Mr Otto**—Woolworths.

**CHAIR**—Do they come down and check your prices?

**Mr Otto**—I think occasionally.

**CHAIR**—Not in any obvious way.

**Mr Otto**—No. We have a very good relationship. We do not interfere in each other's business. The other point I should have made is, with all things being equal, we can compete with the majors unless they deliberately cut prices. We do not even try to compete with them on their specials. We virtually ignore them. We have our own specials. But, by and large, we can compete with them price-wise and still manage to make a small profit, but it is getting harder and harder. We have had the shop now for 12 years and it is getting harder.

**Mr JENKINS**—You have had your shop for 12 years. How old is the shopping centre?

**Mr Otto**—Fifteen years.

**Mr JENKINS**—And you have a prime site right opposite the front of Woolworths.

**Mr Otto**—Yes, we have.

**Mr JENKINS**—So you are an example of the classic theory—with Woolworths being the anchor tenant, the number of people who are going into Woolworths passing your shopfront gives you an opportunity to try to capture the trade.

**Mr Otto**—Yes.

**Mr JENKINS**—Would the suppliers that Woolworths have be similar to your suppliers or are we talking about different suppliers?

**Mr Otto**—I am not sure on that. All, except lamb and a bit of beef, is sourced locally—we buy local pigs, we buy local cattle.

**Senator BOSWELL**—Where do you get the kill from?

**Mr Otto**—Swickers is a small abattoir up the road. They kill our cattle for us. We buy pigs from them and they are local pigs.

**Mr JENKINS**—Has the retail mix of that shopping centre changed much since it first started?

**Mr Otto**—It was expanded about four or five years ago and more specialty shops were put in. No, it has not changed markedly. There are a couple of stores that have disappeared. Five years ago there was a sports store there; that has gone. There was a florist and gift shop; that has gone. But, no, the mix of it has not really changed a great deal.

**Mrs ELSON**—Mr Otto, Senator Ferris and I did go over to the shopping centre and had a look around and we were very impressed with your presentation and you had heaps of customers all around the front of the counter.

**Mr Otto**—I am glad.

**Mrs ELSON**—It was good to see. It was a good shop presentation. That is what I wanted to congratulate you on. Senator Ferris and I said that at the same time. How many other butcher shops are in town?

**Mr Otto**—Apart from Woolworths, there is ourselves, there is another main street butcher shop and then Swickers have a retail section at the abattoir.

**Mrs ELSON**—Were there more 10 years ago than there are now?

**Mr Otto**—Yes. If we go back a little bit further than that, say, 25 years ago, there were probably five or six butcher shops. For some unknown reason not so very long ago we were adding up the number of butchers who were employed. If we throw in those employed at Swickers, I think we came up with about a dozen butchers employed in the town, whereas 25 years ago the number was something like 35.

**Mrs ELSON**—Do you have a bigger market now than what you had 10 years ago?

**Mr Otto**—No. It has stayed fairly static.

**Mrs ELSON**—I did notice in Woolies that they have a very large florist display in the front of their shop. Did the florist close down because of Woolies?

**Mr Otto**—I am not sure about that.

**Mrs ELSON**—Someone at the back said yes. Thank you.

**Senator FERRIS**—I noticed as we came into the town that a petrol station had closed down and the taxi driver told us that it had closed in the last month or so. When we were in the shopping centre we noticed that Woolworths were offering 6c a litre off petrol if you spent \$100 in the shop. Is that characteristic of what Woolworths have been doing in relation to petrol? Are you aware of whether fuel retailing has been dramatically changed as a result of that marketing?

**Mr Otto**—It has been in vogue in Kingaroy only since the 28th of last month, so I do not know. The service station that has closed down is owned by Caltex. My son works for the people who operated it and they run a very successful business. But the lease came up

for renewal and they could not negotiate what they considered to be a suitable lease so they shifted premises.

**Senator FERRIS**—So it seems to be unrelated.

**Mr Otto**—That is unrelated, yes.

**Senator FERRIS**—We have had some evidence—I believe it was in Cooma—about the effect on local service stations of Woolworths undercutting the price of fuel.

**Mr Otto**—I have not really compared the price of fuel, but I have no doubt that it will have an effect on the local service stations for sure.

**Senator FERRIS**—We have had evidence in a number of other regional centres from local butchers who have been put out of business by one of the major chains being adjacent to or very nearby and undercutting prices and checking on the price of your meat, for example, and then cutting the price inside. Have you got any hints to share with the committee on how you have managed to survive right next door to Woolworths for 10 years?

**Mr Otto**—If you are talking about city butcher shops, the big problem there I think is the cost of rental. Whereas I suppose our rental, although I consider it to be excessive as a tenant, compared with shop rentals in Toowoomba and in Brisbane, is fairly reasonable. The other thing is it depends on the size of the shop that you have got because it is all worked on a square metre basis. You cannot really afford to be paying \$6,000 or \$7,000 or \$8,000 per square metre to use it for making sausages. I think you have to be fairly careful. It is very nice to have a large shop, but you have to have the turnover to utilise it. I might make the point that I am a great percentage man. For example, when we first bought the shop in 1988 our rental was about four per cent of our turnover; it is now approaching eight per cent. That is where we are falling into a hole.

**Senator FERRIS**—But the butchers I am talking about who came to give evidence to us—and we have had quite a few of them—talked about the inability to survive as a butcher when Woolworths were nearby. I just wonder whether it is your service or what you believe to be a superior quality of product or the way in which you market it that has enabled you to survive, if not prosper, for 10 years right alongside what would normally be seen as the means to an end of your profits.

**Mr Otto**—I think it is a combination of things. Firstly, our beef that we kill is sourced from one particular farm. It is grain fed. It is consistent quality. We do not stock inferior products. We do not stock cow meat. We stick to the better quality meat. I think our service is good. Also I think that in a town like Kingaroy with a population of 9,000, there is some sort of loyalty to local people.

**Mr NAIRN**—Mr Duggan and Mr Robertson, you obviously have some knowledge of the relationship between suppliers and the big chains from a couple of things you said earlier on. I thought you were going to elaborate further on that. We have received a variety of evidence in this inquiry about that relationship between suppliers and the chains. We are

ranging from suppliers feeling as if they have become price takers through to others who are quite happy with the sorts of contracts they have been able to negotiate long term which have allowed them to invest in their particular area, whether it be fruit and vegetable or meat, et cetera. Have you got something more you can tell us about that relationship?

**Mr Robertson**—I talk with a lot of small crop growers and they have the same sort of attitude that we have, that they are frightened that the chains are going to get dominance in that marketplace and be able to force prices down. I was just talking to a lady a couple of days ago and she was telling me about a case that happened with Coles in Melbourne. They are large asparagus growers. They sent a load of asparagus down to Coles. The next thing they had a phone call to say that it had been frozen. So she sent an agent from Melbourne around to check it and it just had little freeze marks on the outside where the windows are in the boxes. So Coles could not win on that one. Then Coles tried the sizing of the asparagus. They have the most modern gear in Australia in their shed. So Coles could not come at that one because the sizing was spot on.

As she went further into it, what it came back to was that the Victorian asparagus had just come on the market that week—they had just come out of their winter period, and the pricing was a lot less because of the freight and everything down there—and all Coles were trying to do was worm their way out of the price that they were paying. She refused to budge. She said to the Coles buyer or manager or whoever it was, ‘I am not worried about the dollars; I am worried about the principles because you said you would pay this and we sent it down at that price.’ That buyer said, ‘I think you should swallow some of your principles.’ She said, ‘Don’t worry about it. I’ll get on to my agents. They can come and pick the stuff up and sell it elsewhere.’ Coles finally took it but they tried every way to get that price down.

**Senator BOSWELL**—Did they refuse to buy any other product off her? Did they imply that they would never purchase from her again?

**Mr Robertson**—Not really. They only buy from up this end when the Victorian asparagus is not on stream down there in the cold winter months—that is when they start purchasing up here. They were caught with a deal owed and they wanted to worm their way out of it.

**CHAIR**—Instead of trying to renegotiate the price, they were trying to find a justification for dropping the price.

**Mr Robertson**—Yes. It is the same in the beef industry. We are very concerned about the beef industry with the closure of local butchers. I was at a field day at Proston, which is just up the road from here. I spoke to someone from Woolworths—he is not with them anymore—and he said that the chains had about 45 per cent of the meat trade and there was still 55 per cent out there and they were going out to grab it. Tim heard that there is a higher figure than that.

**Mr Duggan**—The meat association claimed that the share the supermarkets have got is closer to 60 per cent or over. There might be a discrepancy there between the chains and maybe all supermarkets.

**Mr NAIRN**—Have you come across a circumstance where the only people buying at a sale are the chains?

**Mr Robertson**—They do not actually buy out of saleyards; they usually have a company that lot-feeds for them. Coles have their own feedlot in the Brisbane Valley. But Woolworths contract to feedlots. Suppliers supply into the feedlot and then they sell on to Woolworths. They do not actually buy out of yards.

**Mr NAIRN**—I think we have had evidence elsewhere where they have bought at sales. It may be that in other states they do different things.

**Mr Robertson**—Yes. If they are short of supply they might. Another thing with Woolworths is that you have to be Cattle Care accredited to supply to Woolworths. That came in on 1 June. If we wanted to be in that market, if we wanted the extra dollars—they are floating a few extra dollars around at the moment—there are no extra dollars to become Cattle Care. If we go to the trouble of being Cattle Care and then if their supply becomes short, what are they going to do? They are going to buy away from those accredited people. They are not going to stop selling meat, are they? There are not that many Cattle Care people out there at this stage. It will gradually grow, I guess. They are forcing people into it. Yet I dare say when they get short of supply they will buy outside of that area.

**Mr NAIRN**—Tell me about the grapes. You made the comment that one of the chains was trying to pressure them to import grapes from Chile. So they currently do supply from their own source but when they do not have a local source—

**Mr Duggan**—A grape grower in Mundubbera has information that an importer has sought permission from AQIS to import these grapes from Chile. AQIS are currently studying as to whether they are going to allow this to happen. But these importers have been put under pressure from Woolworths to get these cheaper grapes in to sell.

**Senator MURRAY**—Table grapes.

**Mr Duggan**—Yes.

**Mr Robertson**—There is talk about the Californian grapes but they are not going to clash with the local grapes. The Chilean grapes will clash with the harvest of the local grapes. We cannot compete against the wages of Chile. It will be a cheaper grape and they are trying to bring them in. It is the same thing with the pork that we had from Canada. We did not have a great lot of pork come in but there was enough to fluctuate the price down. They can use it to lever the price down.

**Senator MURRAY**—Mr Otto, in relation to your lease views, you are talking about transparency of pricing. If you want to buy a house or a pair of shoes or a service of some sort, the price is known to the market, whereas when you go into a shopping centre it is secret. It is probably about the only sector which does have secret pricing of that sort. One view is simply that the square metre price—in other words, the landlord is selling square metre, essentially selling space—should be made known, which would vary according to the size of the place you take and the outgoings. Another view is the view you expressed

which is that the entire lease contract should be made known. Which is more important to you: that the price of the rent plus the outgoings is known or that the whole lease is known?

**Mr Otto**—I was not referring to the whole lease documents; I was referring to the price of the lease. Probably the price per square metreage is most important. The other thing that happens is that leases are made with a base rental plus a percentage of turnover. If that base rental is relatively low, it helps. In bad trading times, of course, the rent is lower. With a small specialty shop, there is no opportunity for this. The only time the turnover comes into it is when the rent is increased after you trade above a certain figure.

**Senator MURRAY**—Essentially, your proposition is that, whilst it is legitimate for the large store to get a better price per square metre than the small store, it is distorted and the small store is subsidising the large store.

**Mr Otto**—Yes.

**Senator MURRAY**—I understand that. Mr Duggan, we are discussing in this committee the question of market power of retail concentration. Simply put: for country towns the option is that somebody like the ACCC would interfere to make sure there is proper competition within a set market, say, Kingaroy town or Kingaroy district. That would mean, for instance, that if there were two pharmacies they could not be owned by the same person or if there were two supermarkets they could not be owned by the same person. So one proposition is to achieve diversity of competition.

The other proposition put to us by the supermarket industry in particular, but also by many other retailers in other retail sectors, is that the majors should be prevented from reaching more than a certain level of market share. We are looking for guidance from the people we are talking to as to how you think the concentration of market power by majors should be restricted. What methods do you think we should recommend be employed, whether it is black letter law which simply says, 'You have reached 80 per cent. That is it—you cannot go beyond that,' or whether it is discretionary and we ask the ACCC to look at the market circumstances which could vary? I would be interested in your reaction.

**Mr Duggan**—I do not believe that any particular company or anybody should have a dominant share of any market. There has to be competition. I think in all businesses there should be a cap on how much market share anyone should have.

**Senator MURRAY**—Let me question that. Do you mean cap by value or by units, because there could be 10 supermarkets and the five owned by majors could have 80 per cent of the market share even though they make up only half the numbers? Do you mean by units or by value or would you vary it depending on the market?

**Mr Duggan**—Probably by units, by dollar turnover. How you go about doing that is difficult. There seems to be a perception in this country that foreign investment is such a wonderful thing, but these foreign companies are coming in here and they are taking their profits out of the country.

**CHAIR**—I remind you that Woolworths and Coles are totally Australian owned. We are looking particularly at Woolworths and Coles. I think it is important to bear in mind. I know there is a whole different agenda about the ownership of various companies by overseas groups and so on, not the least of which was talked about today by Dick Smith.

**Senator FERRIS**—You are talking about AMH and ConAgra, are you?

**Mr Duggan**—Yes.

**Senator BOSWELL**—I think we are at cross purposes here. We are talking about retailing; you are talking about AMH. Can you just talk about retail?

**CHAIR**—Both Senator Boswell and I have interfered in the question. Can we go back to let Senator Murray lead the questioning?

**Senator MURRAY**—The point you make is a general point about power. If I said to you, ‘There should be naught per cent foreign ownership in this country,’ you would say, ‘Don’t be ridiculous.’ If I said to you, ‘There should be 100 per cent foreign ownership in this country,’ you would say, ‘Don’t be ridiculous.’ It is a balance. With regard to retail concentration, which is where so much of our small business lies, would you agree it is undesirable for two liquor stores or two newsagents or two pharmacies in a small town to be owned by one person? It is always better to have diversity.

**Mr Duggan**—I would agree with that, yes.

**Senator MURRAY**—Would you extend that principle then to the view that it is undesirable in a free market to allow the majors to end up with 100 per cent or near 100 per cent or 90 per cent of a particular market? If so, tell me why you feel that is wrong.

**Mr Duggan**—I think it is undesirable because they are not providing the service that small independent retailers do. In the scenario where there are two chemist shops in one town, if there is not enough room for two, one of them is going to fade away. If that is done through fair trading, that is fine. What these big companies are doing is that they are gaining market share but it is not through entirely fair trading.

**CHAIR**—Which companies are you talking about?

**Mr Duggan**—Woolworths and Coles will use price tactics to put pressure on the opposition. As to a particular figure of how big a share of the market they should have, maybe 20 per cent or 25 per cent of market share would be more than adequate.

**Senator MURRAY**—Would you suggest that the mechanism for controlling market power should be with a regulatory authority such as the ACCC rather than with the local council or a local body? Would you see it as the responsibility of somebody who develops expertise and can use the right kind of judgment depending on the market circumstances, or would you rather it be a local government issue and local government simply makes the decisions as to how much competition there should or should not be in a country town?



**Mr Duggan**—I think probably the ACCC would be the way to go with input from local governments. Again, having big brother looking over your shoulder saying you can or cannot do that is also not desirable. But there should be some regulatory body that controls the share of the market that these companies have.

**Mr Robertson**—The 80 per cent figure that is being tossed around is only on the dry grocery side. That is a figure that concerns me a bit. It does not stop them from having 100 per cent of the fresh fruit and vegies market or anything else. This is why I think we have to lean a lot on you people to come up with a solution of capping it fairly across the board. But I do not feel a cap of 80 per cent on dry groceries is the answer because it does not stop them from becoming dominant in other areas. I have spoken a fair bit to other retailers about it, and I can tell you honestly that we cannot come up with a solution of how you are going to do it. But I feel it has to be done some way.

**CHAIR**—It is not easy.

**Mr Robertson**—I know it is not easy.

**Senator MURRAY**—Mr Robertson, some independent small retailers are saying they are not too excited about a cap because the consequence of a cap is that if you wanted to sell your business you would now have nobody to sell it to but independents. You would not be able to sell it for the highest price, maybe an inflated price, to a major. There is concern that if you limit the market in some way the saleability of businesses will fall. How do you feel about that?

**Mr Robertson**—I can see that argument too. But I do feel that if you have a strong independent there and another independent can come in and buy that business and know that they cannot be pushed out the market value will stay there. But that is as long as they know they cannot be pushed out.

**Senator BOSWELL**—I presume you went into the shopping centre because Woolworths was acting as an attraction to bring people into that particular shopping centre. If you opened your butcher shop down the main street 500 yards away, would you attract the same customer flow as you have now?

**Mr Otto**—That would be hard to know. There is a small privately owned supermarket in Kingaroy. For many years we supplied meat to them. Over the years they selected other suppliers—we lost it and then we got it back. When we lost it our take returned to what it was, including what we were selling to them, within a month. So I think there is loyalty to product, especially in country towns. Yes, I think we would survive if we moved.

**Senator BOSWELL**—That was not my question. Would you do the same?

**Mr Otto**—No, I do not think you would do the same.

**Senator BOSWELL**—I agree with everything you guys have said. We have to sustain an independent sector out there for a number of reasons. One is that farmers have to have some countervailing power. Whether they be cattle producers or orchardists, they have to

have somewhere to sell their products. We cannot allow the market to generate into two retailers. Let's say we did cap. What would stop Aldi and Franklins coming in and doing a deal with Coles and Woolworths? Coles and Woolworths would have to walk out of some rural towns. They would obviously ring up Franklins and say, 'We have 35 sites across Australia. Please give us a deal on these.' Have you heard of this new mob Aldi coming in?

**Mr Otto**—No.

**Senator BOSWELL**—It is a German firm. Col is in a shopping centre. What would happen if you did not have Coles or Woolworths there? Would your business go down? What would happen to the real estate prices? All these things are going through my mind. How do you do this? I know the need is there to do it, but I can see the problems of going down that track. It may be necessary to do. Craig, we have had a number of people with stores like yours give evidence to us. Your store has probably got a bigger turnover than most. You will get this dichotomy: I want the right to sell my business to anyone I want, or I will be loyal to the cause.

One of the reasons that market power is shifting is that of chequebook acquisitions. We could solve this quite easily by giving the ACCC the power to stop chequebook acquisitions, but then that would stop people like you selling. You might want to retire, your kids might not want the store, you might want to get out, but that would stop you selling. You would be a target for a buy-out with your turnover.

**Mr Robertson**—Yes, but if another independent or another person who wants to get into business knew that the store was safe from a takeover or push out by the major chain they would be prepared to pay the market price for it.

**Senator BOSWELL**—Yes, he would, but he would not be prepared to pay three times what it is worth, and that is what has been offered sometimes. So those are the particular problems. I can see the need to maintain the independent wholesale sector. I can understand the arguments of critical mass. I can understand everything you have said. You have said that you have talked to your colleagues in the retail area and it is a very difficult solution to come up with. The trading hours have caused the problem. There was enough market out there for everyone before the trading hours issue came up. We kept the lid on trading hours in Queensland for a number of years. I proudly say that I had a fair bit to do with that, but that is not anything this committee has any jurisdiction over; that is a state issue.

**CHAIR**—Can you come to the point of the question?

**Senator BOSWELL**—I am just trying to make people aware of the problems we have got. What we are hearing from the three of you is no different from what we have heard in Tasmania or wherever. You have given a submission and it is a good submission. We have to come up with the answers. When you have anything to do with a particular issue you must declare it in the Senate: I have shares in Kilcoy Abattoirs. I wanted to pursue the AMH problem that Tim was on about. Can you give us some evidence on what is happening in the sales ring and what is happening with AMH?

**Mr Duggan**—About three years ago AMH registered a loss in the vicinity of \$60 million—I am not exactly sure of the figures now. Their other arm in America, ConAgra, registered a profit of over \$600 million. They then proceeded to do a \$60 million or \$70 million redevelopment to their Dinmore Meatworks to extend their killing facilities. They have just undertaken another extension and all this time they are running at a loss in this country. How can they afford to do all these extensions and increase their kill? And then you have the likes of Murgon who have had to close—hopefully it is only temporary—and Kilcoy are apparently doing it tough. How can one works outlay this amount of money when the other works are struggling? If there were this much money to be made in the beef industry in this country, surely Murgon and Kilcoy would be getting some of that as well.

**Senator BOSWELL**—So what is actually happening in the buying ring? You would be out buying cattle.

**Mr Duggan**—I deal direct with the producers. I do not buy anything at the saleyards. What I imagine is happening is that AMH are either paying more than market value for the cattle they are buying or they are selling their product at a low tender price.

**Mr Robertson**—Tim, at the creditors meeting for the South Burnett it was mentioned that every time South Burnett went up a few cents to try to purchase cattle—they were under their killing rate because they could not get hold of the supply of cattle—AMH used to go above them.

**Senator MURRAY**—AMH are big exporters, aren't they?

**Mr Robertson**—Yes. Murgon is in the export game as well. That came up at the creditors meeting of the South Burnett co-op.

**Senator BOSWELL**—That raises—

**CHAIR**—Senator Boswell, we do have a time problem.

**Senator BOSWELL**—But this is very important because this goes on to predatory pricing.

**Senator MURRAY**—I think it goes on to transfer pricing as well.

**Senator BOSWELL**—If what Tim is saying is right, we are seeing predatory pricing. That is one of the things this committee has to look at. This does not apply only to the retail sector. If Murgon Meatworks closes down, that would be 600 jobs. Looking at predatory pricing is very relevant to this.

**Mr Robertson**—On chequebook acquisitions, another concern in the industry is our warehouse. Beerwah have just been taken over by Franklins. Maleny have a turnover of around \$10 million a year and Franklins have been knocking on their door. The worry is that the more of these stores we lose the less our warehouse will handle and the less buying power we will have in that warehouse. That is another big concern in the industry.

**Senator BOSWELL**—I am well aware of that.

**CHAIR**—Sorry to put you three guys through the hoops but thank you for your participation and comments. It was very useful and very interesting. You represent not only your area but also regional Australia as we obviously cannot go to every centre. So you are representative of a wider number of regional cities and towns in Australia. Thank you for coming today.

[2.47 p.m.]

**ANDERSSON, Mr Ken, Owner, Andersson's Fruit Market**

**CREIGH, Mr Peter Aidan, Owner, Creigh's Kingaroy Foodstore**

**CREIGH, Mrs Roslyn Margaret, Owner, Creigh's Kingaroy Foodstore**

**CHAIR**—I welcome Mrs Rosalyn Creigh, Mr Peter Creigh and Mr Ken Andersson to today's hearing. The committee prefers all evidence to be given in public but, at any stage during the discussions, you can ask that the committee go in camera, which is keeping the hearing confidential, and we will consider that request. It is important to bear in mind that the giving of false or misleading evidence may constitute a contempt of parliament. The committee does not have a submission before it, but we look forward to your oral presentation today. Then we will proceed to ask questions of you at the conclusion of those comments. Who would like to start off?

**Mr Creigh**—I will speak on behalf of Ros and I because we have done this together. She can answer the questions, I will do the presentation. Chairman and committee members, welcome to Kingaroy. Our store is a small to medium size supermarket in Alford Street, Kingaroy. We trade under the Foodstore banner here. We offer all departments including fruit and veg, service deli and also prepackaged meat. We are coming up to four years in the ownership of the store. We are the only other supermarket size shop in town besides Woolworths. But in town we are also well serviced by Andersson's fruit barn, which is fruit, vegetables and groceries; three retail butcher shops; and a number of neighbourhood convenience stores.

Despite all these smaller operations, I would still at a guess say that Woolworths control at least 80 per cent of the grocery market here in Kingaroy and the South Burnett. That is including fruit and veg and meat. Their dominance is hurting not only small retailers but also small wholesalers, suppliers, farmers and now service stations. As their market share increases there has been a noticeable drop-off in service from manufacturers as it is no longer worth their while to service the independent shops, especially in rural areas. We suffer and then so do our customers.

Things like information on new products, shelf management, deals and displays—these are all provided to the major retailers as they control more than a lion's share of the market. We are on the back foot right from the start. Any slight advantage we had or have had is slowly being eroded with predatory pricing, which was raised earlier, and with extended trading hours, which are not involved in this.

Stores like our own are expected to provide a number of facilities that the chains do not do, and these are vital to the community. The most notable of these is account facilities for government institutions like hospitals, schools, community groups like Meals on Wheels and respite, and welfare organisations such as St Vincent de Paul and the Salvation Army. This facility is costly and time consuming. But it is to the benefit of the institution—not so much for the business—because they need the paperwork for the way they operate. But we provide the facility and try to remain price competitive at the same time.

To remain price competitive our major wholesaler, which in our case is Davids, needs a vibrant and sizeable market so as to compete on price. That issue was raised with the earlier witnesses. We need a level playing field on wholesale pricing for everyone, and that is not happening. That is the only way that we will be able to remain competitive and to offer the services that we are doing already.

A lot of the smaller rural shops are already now buying their goods from a major chain in a nearby town, because they are cheaper than going through a wholesaler or what is even more disturbing is that they are no longer being serviced by smaller distributors because there is no business there for them. We are slowly but surely being suffocated. As the independent sector continues to lose market share, so too does the ability of those remaining to stay competitive in the market. It was raised earlier by the people that the local businesses are the ones that the local sporting groups and charities go to for sponsorship and donations. I do realise that the chains do things on a national basis, but very little of that comes through into towns like ours. Thank you, that is all I have to say.

**CHAIR**—Mrs Creigh, do you want to add to that?

**Mrs Creigh**—That was a joint effort.

**Mr Andersson**—Chairman, I have been in Kingaroy for 25 years. At that time we were open from 8 o'clock to 5 o'clock five days a week, and on Saturday open from 8 o'clock until 12 o'clock. We had a fairly good life. Now we work from 7 o'clock in the morning to 7 o'clock at night seven days a week in order to do the same as we used to do when we worked from eight to five. I am running out of days—I need 10 days a week—and I have found out there are not enough days in the week.

You come to Kingaroy and you seem to be interested in our plight and if you are fair dinkum it is easy to fix. All you have to do is to make it a level playing field for all players, which we do not have now. For example, I can buy coke at Woolworths cheaper than I can buy from Davids, so how do you expect me to compete? All you have to do is make a law for the manufacturers or suppliers so that they have to offer the same price to everyone, and you have fixed the problem. It is as simple as that.

I can compete with fruit and vegetables because I buy from farmers and from the market. I go there. I started there at 1 o'clock this morning, for example. We have no trouble competing in fruit and vegetables. But with other goods such as drinks and groceries we do not have a hope. To give you an example, Woolworths were selling chocolate last week for \$1.97 and my buying price is \$2.35. So I rang up Cadburys and said, 'What has gone on here?' They said that they are paying the same price. But they are not because they are getting a cheque back—a sweetheart deal is what they are called in the industry—and we do not get that.

I don't know how you people expect us to survive. All you have to do is make a law to say that it is illegal for wholesaler or manufacturer to sell to anyone else at a different price. It must be the same price. That is all I have to say. It is so easy to fix if you are fair dinkum about our plight, but I do not think you are.

**CHAIR**—Well, we are here.

**Mr Andersson**—I say that you are here to justify your salary—

**Senator BOSWELL**—I don't think this is very helpful at all. We do not have to do this.

**Mr Andersson**—You have to justify it somehow. But if you are really fair dinkum and to justify your salary, you would do something about the situation.

**Mr NAIRN**—Mr Andersson, you are not doing your case much good at all, I am afraid.

**Mr Andersson**—Prove to me different then.

**CHAIR**—I think it is appropriate that we keep it on the basis that we have come here in good faith today—

**Mr Andersson**—I welcome you to Kingaroy.

**CHAIR**—to learn and to understand. I would ask Senator Murray to proceed with the questioning.

**Senator MURRAY**—Mr Creigh, you would have heard the questioning earlier and Mr Andersson has just given us his submission, but I wondered if you could help me with your views as to how we deal with the issue of the concentration of power in defined markets, such as Kingaroy or whatever. I am particularly interested in whether it should be a flexible analysis by people such as the ACCC, the regulatory authorities, or whether it should be black letter law—numbers of units, percentages, the value that is concerned and those sorts of issues. You would have heard the question earlier.

**Mr Creigh**—I think the ACCC has a role to play. As mentioned before, everyone seems to be struggling as to where we actually draw the line. That seems to be the biggest hurdle. I believe that more than a saturation above 75 per cent of a town or regional businesses going into one company is unhealthy. In an area here where we only have a fairly small population by most standards, it is extremely unhealthy. It is affecting everyone—as I mentioned in my brief—from smaller wholesalers as they lose their share to convenience stores and to other things that are closing down, to the milk distributor or anyone like that.

**Senator MURRAY**—When you say 75 per cent, you do not mean three out of four stores, you mean 75 per cent of the value—

**Mr Creigh**—I am sorry, Senator, yes, I took the wrong thing there.

**Senator MURRAY**—You mean by value?

**Mr Creigh**—Yes, certainly by value. I think that would be the only way you could orchestrate anything. It would have to be by value.

**Senator FERRIS**—Thanks for your welcome, Mr Andersson. We are also interested in the question of credit arrangements. We have had it put to us by witnesses in a number of regional places that we have been to that credit arrangements differ between the individual storekeeper and the major chains in terms of seven days versus up to 60 days for suppliers. I would be interested if you have any comments to make on credit arrangements that you might have with some of your major suppliers. Mr or Mrs Creigh might like to comment as well.

**Mr Andersson**—My major supplier at the market, which is where I spend most of my money, is seven days and then groceries is seven days, and cigarettes seven days. I might add something else: when I pay my market bill I have to pay the whole lot; but, if my name was Woolworths, Coles or Franklins, I get three per cent kickback in commission back on what they pay. I do not get that. For example, if Woolworths buy mushrooms for \$16 a case and I buy them for \$16 a case, if they sell theirs at cost price to get customers in, they make three per cent; if I sell \$16 worth I lose three per cent. That is how it works.

**Senator FERRIS**—With a major supplier such as the one you mentioned before, Cadburys, are you aware of whether there are arrangements for instore promotions and so on that give money back to you?

**Mr Andersson**—That is right. I get that too. I got \$5 a carton off from Cadburys which reduced my price down to \$2.35, but Woolworths sold theirs for \$1.97. It is a bit hard to compete in that way.

**Senator FERRIS**—Mr Creigh?

**Mr Creigh**—Our trading terms are seven days with our major suppliers, the same with our fruit and veg supplier and the same with suppliers of milk and bread, it is seven days. If you do not pay, you do not get supplied.

**Senator FERRIS**—Are you aware of whether the major chain here in town has similar arrangements with the suppliers; or do they get longer credit terms?

**Mr Creigh**—I am not aware; I can't comment.

**Senator FERRIS**—Would you see cost of credit as being a significant input cost into your business?

**Mr Creigh**—It is when we have to carry account facilities ourselves. That is purely for institutional arrangements—no private in that, it is all purely institutional—and a lot of them are government departments. They take 21 to 28 days to return payment, so we do have to carry that, yes.

**Mrs Creigh**—Can I add a point there: the thing that annoys us probably more than anything else is that they come to us to use the account facilities. Yet to do their own personal shopping they nick over the road because they know they are going to get a cheaper price. It all comes back to pricing. If we were all the same price then the market share would be a lot better.



**Senator FERRIS**—So much for customer loyalty.

**Mrs Creigh**—That is exactly right. We are good enough to use for the account service so they do not have to pay then and there on the spot, and that is what really stings. They come to us and some of the smaller organisations put their carton of milk on the account, but we are getting much bigger orders from some of the bigger ones. But the fact we are good for an account but we are not good for cash certainly hurts the little business person. It all comes back to pricing. If our price was the same as theirs, then there would not be the dominance.

**Senator BOSWELL**—Who do you buy off—Davids?

**Mr Creigh**—Yes.

**Senator BOSWELL**—If Davids have the same throughput as Coles or Woolworths, why are you not getting the flowthrough? Is there a difference between what Coles and Woolworths buy it for and what Davids buy it for?

**Mrs Creigh**—Yes, there is definitely a difference between what we are buying and what—

**Senator BOSWELL**—No, that is not the question—what Davids are buying at.

**Mrs Creigh**—Well, put it this way: there is a difference between what Davids are selling it to us at and what Woolworths is putting it in their shops at. You see, they are not dealing with the middle man—it is Woolworths to the manufacturer—whereas it is us to Davids to the manufacturer.

**Senator BOSWELL**—Yes, but Woolworths still must have a cost to put it through their warehouse.

**Mrs Creigh**—I cannot answer for them—

**Senator BOSWELL**—The question is: is Davids' throughput or turnover becoming reduced and is the effect that they are not getting the same buying price?

**Mrs Creigh**—Yes, exactly.

**Mr Creigh**—The price supplied to us is strict net cost.

**Senator BOSWELL**—So if Davids pay \$2 for a block of chocolate and then they get three per cent off for distribution and five per cent off for warehousing, but you are paying off the net price, they net it down and then—

**Mr Creigh**—Yes, that is right. We pay strict net and then there is a service fee that is applied to each order. The wholesale price is strict net cost.

**Senator BOSWELL**—So are you suggesting that, because the market share is slipping, Davids do not have the same buying power—

**Mr Creigh**—Yes, it is being eroded and it is only going one way.

**Senator BOSWELL**—I would have thought it would be in the best interests of any manufacturer to maintain a third force?

**Mrs Creigh**—Well, you would think so. We will talk about Woolworths because they are the ones that are in this town. Because Woolworths still has a more dominant buying power than Davids does, obviously the manufacturers are going to sell twice as much through Woolworths as they are through all the independents. To me, it is obvious at the moment, because there is no law against it, that they are going to Davids and saying, ‘We will give you this much off but we are not doing this for them.’ So it is making them say, ‘Yes, we will go along with that.’ It is swaying that way because there is nothing to say that the manufacturers cannot do it. I agree wholeheartedly with Mr Andersson that, if the manufacturers were made to give the same deal across the board to everybody, then it would certainly help to resolve the problem.

**CHAIR**—Solve one problem and probably create a few more.

**Senator BOSWELL**—I think the submission is self-explanatory and I understand the concern. I understand the need to maintain that third sector in there—not only for the retailers but also for other people such as farmers and grocery manufacturers. I am very thankful that you came in and made your submission.

**Mr Creigh**—I mentioned earlier the service levels that we used to get compared with what we are getting now. I believe it is all to do with the decreasing market share of the independent sector. When we first bought the business four years ago, we were getting significantly better service from the manufacturers. But now it has virtually dried up. It is non-existent. It is not worth their while—

**Senator BOSWELL**—They don’t come in and say, ‘We will sell you X and you buy it through the warehouse.’

**Mr Creigh**—Yes, obviously there would be deals but there would also be shelf management, as I mentioned. They would help you by saying, ‘I think you should have this product on your shelf. This is a new product which we are advertising.’ We are finding all that out second-hand by watching the TV or else our customers say, ‘Have you seen that new Mars bar?’ or this type of thing. That is what we are missing out on, and that is what our loyal customers are missing out on. We do not have that same service.

**Mrs ELSON**—Doesn’t Davids supply that sort of service?

**Mr Creigh**—Davids do not, but the manufacturers should supply that, Mrs Elson.

**Mrs ELSON**—But not through Davids—they do not?

**Mr Creigh**—Davids are the distributors. The manufacturers are supposed to still do their own store marketing and so forth.

**Senator BOSWELL**—Mr Andersson, do you have mainly a fruit and vegetable shop or is it a sort of—

**Mr Andersson**—I sell everything. The main thing I sell at the moment—I am the biggest drug pusher in Kingaroy—is cigarettes in order to get people into my shop. And that is how I get them in, by selling cheap cigarettes.

**Senator BOSWELL**—But it is not just a fruit and vegetable store—

**Mr Andersson**—Fruit and vegetables are the main items.

**Senator BOSWELL**—Do you have a banner or—

**Mr Andersson**—No, I do not have a banner.

**Senator BOSWELL**—And you buy from Davids?

**Mr Andersson**—I buy from Davids. I am what they call an associated food store. Most of our stuff we can buy cheaper straight from Woolworths than we can from Davids.

**CHAIR**—We have Woolworths, Coles and Franklins appearing before us next Monday and we will ask them about that. We are also going to have the Coca-Cola people there.

**Mr Andersson**—Of all the manufacturers, Coca-Cola is the worst culprit in the country.

**CHAIR**—Okay, we will quote that back to them. In their discussions with me a week ago they said they did not see they were causing any problems.

**Mr Andersson**—What do you reckon is going to happen to this country? The chain stores at present have an 85 per cent share of everything produced in this country. What do you think is going to happen when they sell 95 per cent? Do you think that as one market they will just say, ‘That is what we will pay, you either take it or leave it’? Do you think that is going to be good or bad for the country?

**CHAIR**—That is what we are looking at right now.

**Mr Andersson**—That is what happens.

**Senator FERRIS**—That is why we are here listening to you.

**Mr Andersson**—In the United States the chains only have 34 per cent of the market.

**CHAIR**—It is not fixed.

**Mr NAIRN**—It is a bigger market though.

**Senator FERRIS**—It is different.

**Mr Andersson**—I know but it is still a big market here with the chains taking 86 per cent or 85 per cent of the market share.

**CHAIR**—On one segment.

**Mr Andersson**—Years ago we had a saleyard in Kingaroy and there would be heaps of buyers and butchers who would all come to the sale. There would be a bigger price for the farmers for their beef because you had more competition. Now we only have a couple of buyers and you have no competition. That is what it is all about. It is not just our plight, it is the plight of all.

**CHAIR**—Mr Andersson, just by way of definition, if you take dry goods, then the chain stores have about 80 per cent of the market. If you include other areas, they do not have nearly as big a segment. If you include fresh fruit, meat and the other things that they handle, it is not of the order of 80 per cent.

**Mr Andersson**—Isn't dry goods made of what the farmers sell?

**CHAIR**—It is fresh fruit.

**Mr Andersson**—It is made by farmers too, isn't it?

**CHAIR**—Originally.

**Mr Andersson**—There you are. You reduce the competition.

**CHAIR**—Certainly, in that segment they have 80 per cent. I would ask the deputy chair to carry on with questions.

**Mr Andersson**—It is all made by farmers.

**Mr JENKINS**—With different emphasis you have both put to us that you want a level playing field on wholesale pricing. You are not the first people to tell us that. It is something that we are trying to come to grips with. I think a couple of days ago we had evidence from Rothmans about their pricing practices. As the chair said, we are going to have Coca-Cola in on Monday or Tuesday of next week.

I only wish it were as simple as just saying that, but it gets complex when we delve into some of the ways in which that price would flow through to you. For instance, this morning a food store owner that I think uses Davids indicated that, if there was a rebate that Davids would get, they would share that rebate between themselves and the retailer. The criteria for that was that there would be some use of part of the rebate for Davids' assistance to you people with marketing. It is these sorts of issues that we are trying to get around what is right and what is wrong, or what is actually fact. Do you know whether that is the case?

**Mr Creigh**—Yes, the rebates that come through obviously flow through on deals, and that is reflected in our weekly and also monthly promotional activity. It would be the same in that the chains also get promotional rebates. It is not so much on the promotional rebate as such but it is also on the everyday shelf price or buying price where there is a difference. The rebate is paid to Davids—I am not sure what sort of percentage they break it into; that is entirely up to them—and, yes, we do get a flow-on. But then it does not go into our pocket, it flows on into prices.

**Mr JENKINS**—As a solution, to one of the witnesses when we were in Dubbo, Senator Murray raised some American legislation, as I understand it, where like customers should get like terms. The witness to which he raised that solution then started questioning Senator Murray about what those terms actually mean—‘like customers’. The point is that we would not want to put it in place if it was decided that you were not a like customer compared with Woolworths and therefore got different terms. Or when we are talking about like terms, do the like terms not only go to those pricing considerations but also to considerations such as that the manufacturer did come and do the store marketing, the shelf maintenance and things like that? Can you assist us by giving us your view on whether they are problems that could be overcome, if we were to try to do it through legislation? One of the avenues to try to help is putting in place legislation of some sort.

**Mr Andersson**—It seems to me that everything is protected: koalas are protected, snakes are protected but the small businessman cannot be protected. So if they can make a law for the koalas and snakes, surely you can make one for the small businessmen.

**CHAIR**—Thank you for that contribution.

**Mr Creigh**—I do not have an answer there, Mr Jenkins. It is the first time I had heard of it in regard—

**Mr JENKINS**—Yesterday was the first time I had heard it as well—

**Mr Creigh**—So it caught me a bit unaware. I would probably like a bit more time to think about it.

**Mr JENKINS**—All I am saying is that if we were going to talk about like terms, we would have to define the parameters.

**Mr Creigh**—Yes, definitely.

**Mrs Creigh**—That is right. At the moment we are being treated completely differently from the way that Woolworths is being treated. We do not get the same service from the manufacturers’ salespeople that Woolworths do because we are not doing the turnover that they are. But that should not make a difference. We are still retailers and we should have the same rights.

**Mr JENKINS**—So it is about your presentation of their product?

**Mrs Creigh**—Yes, that is exactly right. But if they do not come and service us or if they do not come and tell us about the new products, how can we get them on our shelves in time for our customers who come in and say, ‘I have seen this on TV’? We are seeing it on TV, too, before we know anything about it. That is not the way it should be. Woolworths have them there the week they come on TV, and we still do not know anything about them.

**Senator BOSWELL**—Isn’t that Davids’ fault? Shouldn’t Davids be telling you?

**Mrs Creigh**—No, Davids are not our manufacturer. They are our wholesaler. The manufacturers of the products are the ones that should be informing us.

**Mrs ELSON**—But when I was in a small business like yours, we used to get the latest products from the wholesaler.

**Mrs Creigh**—That is right. We do get that information as well. But there should be follow-up. The manufacturers themselves have salespeople who should be coming around and giving us the benefit of that knowledge ahead of the advertisements and so on that are being run.

**Senator BOSWELL**—I have just one more question: let us take Cadburys and Nestles as an example; Cadburys have the big share of the chocolate business; and Nestle want to break into the market. Wouldn’t Nestle then come in and try to get your business by saying, ‘We can’t get into Coles or Woolworths, let’s try to develop the smaller end of the market’? Do you see any of that happening, the smaller manufacturers coming in and trying to—

**Mr Andersson**—Nestle are no small manufacturer. They made \$2 billion profit last year.

**Senator BOSWELL**—Yes, but in the chocolate business they were not as big—

**Mr Andersson**—They are not interested—

**Senator BOSWELL**—I take your point.

**Mr Andersson**—They are interested in the big players. If you were a chocolate manufacturer, you would not be interested in selling to me because I would not give you a big enough order, but you would be interested in selling chocolate to Woolworths, Coles and Franklins. What they do not think about is when there is no independent, Woolworths will say, ‘That is how much we will give you, sir, take it or leave it or we will buy it from Shanghai or somewhere else.’ And that is what is happening now.

**Mr NAIRN**—Mr and Mrs Creigh, do Woolworths leave you alone or do they come around and check out your prices?

**Mr Andersson**—They are my best customer.

**Mr NAIRN**—They do that on a regular basis, do they?

**Senator FERRIS**—They buy things from you?

**Mr Andersson**—They are my best customer. They come around and buy cigarettes off me to check my prices.

**Mrs Creigh**—Up until about six weeks ago, I asked the fellow who used to come into our shop on a weekly basis checking in particular our fruit and veg prices to get his manager to call me and, if he did not, then he should not bother coming into my shop again. Anyway, I never got the phone call. So when he came back the week after and tried to start writing down my prices again, I asked him to leave the shop. I said, ‘Look, unless they have the decency to give me a call and speak to me about this, then I do not have the decency to let you in my shop.’ So I asked him to leave, and he did.

Within half an hour I had the manager of that department in my shop buying one of everything. And he has done it every week since, because that is the only way he can get my prices. If we have something advertised in Tuesday’s paper, we look like idiots by Tuesday afternoon when we have something at one price and they have something 10c cheaper. We run specials to try to draw customers in and we are constantly being undercut in price.

**CHAIR**—Do you think they are trying to put you out of business?

**Mr Andersson**—Definitely.

**CHAIR**—I did not ask you; I asked the Creighs.

**Mrs Creigh**—Put it this way, they are not making our job easy. We are here and we are trying to do our part for this community. We have between six and 10 people knock on our door every day asking for donations. We are to the point now where we are saying, ‘Go and ask Mr Kerle. If he will give you something, I will give you something too,’ because they do not give a bloody cent to this town—nothing. We are the ones that are expected to do it.

**CHAIR**—I think it has been highlighted around Australia—the lack of involvement in the local community of the majors, and that is a pity.

**Mrs ELSON**—I wanted to ask: was your business existing before?

**Mr Creigh**—It was the original town business before Woolworths.

**Mrs ELSON**—So they had survived for a number of years in town with Woolworths still being there?

**Mr Creigh**—Yes. Woolworths have expanded. They were in the shopping centre.

**Mrs ELSON**—Over that time, have they?

**Mr Creigh**—They have expanded once in the mall and then they have expanded again about four or five years ago.

**Mrs ELSON**—So the competition with the prices has sort of accelerated over the last three or four years, has it?

**Mr Creigh**—Basically.

**Mrs Creigh**—As far as we are aware, they have always checked the pricing within our store and prior to our coming here as well. But it is certainly an issue that we have been concerned about since we have been here.

**Mrs ELSON**—If I can ask another question: when I asked a question before about the florist and you shook your head, was that predatory pricing?

**Mr Creigh**—Definitely and also presence as well. The florist had no hope, because on the days when they should make money—Mothers Day, Valentine’s Day, Christmas or whatever—the whole front foyer of Woolworths was just chock full of flowers. How could the local florist in the same shopping centre compete?

**Mrs ELSON**—Did they tell you this personally?

**CHAIR**—What happened to the florist?

**Mr Creigh**—The florist is no longer there.

**CHAIR**—That is interesting.

**Mrs ELSON**—How long did they last?

**Mr Creigh**—I am not sure.

**Mr Andersson**—Not as long as they ought to have lasted.

**Mrs Creigh**—They were there when we came. I don’t know how long they had been there before that.

**Mr Creigh**—If I can just mention something to Senator Boswell in regard to smaller manufacturers coming to us and asking us to try their product: the classic example has been that we have undertaken a number of small products which we had in town on our own; and then within a space of about six months that product is now available in Woolworths and we have lost that advantage. They had it advertised in their brochure this week at less than what we could buy it from our wholesaler. So that advantage has just been lost.

**CHAIR**—We find it very interesting and we will use some of your evidence to quote back to the majors. There is no point putting the local man under fire who is sitting at the back because he has to act according to the directions he gets from above. So we want to discuss it with them. Thank you very much for your presentation today. We found it very interesting and useful.



Mr Andersson, I know you may be cynical, but we do represent the various parties. Senator Murray is from the Democrats; Mr Jenkins is from the Labor Party; the four of us are from the Liberal Party; and Senator Boswell is the Leader of the National Party in the Senate. All of us come here to concentrate on the issue. It is not simple to come up with how you solve that. People come with the best of intentions. We have been empowered by the parliament to come up with recommendations. There is no pressure on us by anybody in government to do anything other than what we believe is the best answer. But there is a whole range of suggested answers to this question, and none of them are obvious. If they were, it would have been done some time ago. We are pretty familiar with what the problems are; the solutions are not as easy. We are obviously going to be spending some time discussing what the possible solutions are. We will do our best and we will see how we go. Thanks very much.

[3.24 p.m.]

**DANIELLS, Mr Warren Ashley, Member, QRTSA, State Committee Member, IGA**

**MOULE, Mr Barry Anthony Bruce, General Manager, Pinegrove Feedlot**

**CHAIR**—I welcome Mr Barry Moule and Mr Warren Daniells. The committee prefers all evidence to be given in public but, at some stage, you may wish to have your evidence taken in camera. If that situation arises, you may ask the committee to consider such a request. I would remind witnesses that the giving of false or misleading evidence may constitute a contempt of parliament. The committee does not have a submission before it, but we invite you to make an oral presentation to the committee.

**Mr Moule**—We have a submission. There is a submission in front of you.

**CHAIR**—Sorry, submission 290 from Mr Moule.

**Mr Moule**—That is correct.

**CHAIR**—You may now make an opening statement.

**Mr Moule**—Thank you very much. Senators and members, this is my first chance to present something like this to a meeting like this, so bear with me. My background is in the beef industry, and specifically in feedlotting. We have enormous financial resources, manpower and land tied up in the beef industry. We are looking at a figure of about \$10 million. We have a turnover of about \$18 million a year in beef. Most of that beef ends up on the shelves of one particular major. The rest of our business goes to Japan into the 100-day short fed market.

I preface my remarks today by saying that as senators and members you have a very difficult task ahead of you over the next few days. It is certainly a very difficult task to come to any point of intervention, if you are going to come to any point of intervention. As I see it at the moment, Australians, whether it be right or wrong, have made a choice and have voted with their feet and moved most of their business, their grocery shopping, their meat purchases, et cetera, into the majors. This has led to a lot of restructuring in corner stores. It seems to be the inevitable direction that people are taking. If you do decide to intervene, to some extent you are intervening in the democratic process in as much as you are stopping that flow that has already happened.

At this stage, we have in the vicinity of 75 per cent of the business in grocery items and beef tied up in three large majors. There are other parties in other countries that are looking at that sort of market concentration. I am sure that down the track you will see other parties from other parts of the world move in to try to claw back that sort of monopoly or whatever position you like to call it.

Moving to some direct points and to the issues I raised in my submission, there are two issues that really impact upon our business and our investment here in Australia. Our

business with the majors, and in particular Woolworths, is by choice. It is by choice for two reasons. Firstly, it is more profitable, and that is the overriding consideration. Secondly, there is certainty of business. Certainty of business is something which I think can be used as a throwaway line or it can be analysed in detail. There is no way in the world that we could commit \$10 million of land, resources, manpower, et cetera, unless there was some certainty of business.

Unfortunately, the corner store does not provide the certainty of business that we are dealing with. The corner store—I am not putting my foot on the corner store; I am just stating the facts—does not have the financial might of the majors and therefore cannot afford the risk and go out long term and create alliances with, in our case, our feedlot and provide us with certainty of business. We have certainty of business to the extent that before we even purchase the cattle we have a forward price three months in advance for when those cattle come out. The only risk that we take is in performance within the feedlot. So financial risk is largely taken away from us.

You might ask what the alternatives are. The alternative for us is that we would not be in the feedlot business. It is as simple as that. The other market mechanism is that we would be subject to a host of wholesalers coming around and cutting our throats every week on price and not taking a position in the market. We would be in the spot market, not in the forward contract market. In business—I noticed that Mrs Elson indicated that she was in business—you must have certainty of business otherwise you do not have a business, and that is very important.

In terms of profitability, we sell some of our cattle that do not make the grade for Woolworths out the backdoor and through saleyards. If I got the same price through the saleyards as I got for my Woolworths cattle, again, I would be out of business. I do not think I need to take that point any further. There is no profitability in it for us doing it any other way. Those two key issues represent the impact on us. I have kept it at two. There are a host of others, but I have tried to highlight the important ones.

What about the impact on the consumer? We are all responsible for consumers because at some point in time they become a voter. In terms of the consumer, there are two issues that are important. One is quality of product and the other is food safety, and food safety is sometimes missed. When you go and eat your steak that is supplied by my feedlot which is then supplied to Woolworths, I can guarantee to you that I can vouch for that beast from the time it was a weaner at the age of 12 months old all the way through until it is in the knocking box, the boning room, into the box and onto the shelf at Woolworths. There is strict quality control through the whole chain. If you pick up a piece of steak from your corner store on the way home tonight, I cannot vouch that you could say exactly the same thing. The quality standards and the system that is in place are not there. That is a fact.

In conclusion, I think you have two choices at the end of the day. One is intervention and one is to do nothing. As I said previously, to intervene would be to intervene in the democratic process and make a decision on behalf of people who have already made a decision. There is some solace in doing nothing, because, at the end of the day, there are people looking at our clean, green country and they want a part of the action. They want to create guaranteed supply lines in this country, get a foothold and then move the supply back

into either Europe, Japan or wherever and it all goes well for our rural industry. Thank you very much for your time.

**CHAIR**—Thank you. Mr Daniells.

**Mr Daniells**—Mr Chairman, senators and members, I have been in the retail grocery industry for approximately 12 years. We started off 12 years ago on the north side of Brisbane at Narangba. We put in a couple of years there and then sold that business and purchased an independent Four Square discount supermarket in Roma, where we spent eight years. We competed head on with Woolworths. There was really only ourselves and Woolworths in the town supplying the district with groceries, fruit and veg. We did not carry meat; we carried deli.

The population at Roma was about 7,000 people in the town and some 10,000 people in the shire. Similar to the Kingaroy story, in relation to the market share, they started off in the main street many years before. Coles were also there at the time, which was before my time. The Coles store burnt down. It was a great opportunity. Woolworths had only just purchased a block of land and built a large centre. As I said, the Coles shopping centre burnt down. Coles decided it was time to leave and left the independent and the chain there. The independent went broke because of the big shopping centre move that Woolworths could undertake. From there, another independent retailer took on that store. He was finding it very tough and then I went in and purchased that store and we competed with Woolworths head on.

When we purchased the store eight years ago, it was quite a small store in terms of turnover but large in floor area. It consisted of about 7,000 square feet. In that time, we probably doubled the business every year, but we had to do it very aggressively in the way of using lost leaders, as Woolworths did. The problems we used to get with that would be driving the price down and our gross profit down the whole time. Three years ago we were made an offer to sell that store. We accepted that deal and then moved on to Gayndah where our other competition in the town is a Foodstore, another local independent which has been there for 10 years. I believe that we hold 80 per cent of the market share spent on dry grocery in Gayndah. A small percentage would travel to Kingaroy, which is 1½ hours away. Bundaberg is a lot bigger centre and Maryborough is even closer, but the big trend is for people to travel to Bundaberg because they have the theatres, the entertainment and all that sort of thing.

I see the dominance of the chains working and eating into the smaller independents in the country towns. For example, Franklins have mentioned that they are not interested in towns under a certain size of approximately 5,000 people because it is not viable for a chain to run a business in that size town. Therefore, that is left for us. I am a member of the IGA supermarket group. In the last 2½ years we have lost six of our biggest 10 stores to the chains. They just keep buying them up. Some of those were Nambucca Heads in New South Wales, Kingscliff in New South Wales, Beerwah on the Sunshine Coast, Cloncurry in western Queensland and Proserpine. Actually, I think we will hear some bad news this weekend that another one in Brisbane has gone.

That eats into our buying power as a group. Our group has just launched in Queensland and northern New South Wales. The group as a whole is going very well. Across the group we are up 30 per cent in sales, store for store, but when we lose a couple it just takes the whole group down. It just chews away at the market share. There are a lot of good independent operators out there doing their best. As they get to a certain size, the problem arises where the chains come in with the chequebook policy and buy the store out and pay well over the market rate for the store. That is where I and the IGA group see that the problem lies in the chains' dominance in the marketplace. Once they keep going, it will just keep going. There will be nothing left. The warehouse will be gone. We will find it hard. We will have to start to go back and deal direct if there is no warehouse. That is a major problem that we can see happening. Thank you.

**CHAIR**—Thank you. We have two interesting viewpoints here which shows the complexity of the marketplace and the views there. Before I ask Senator Boswell to start the questions, I ask a question for clarification. In relation to those stores that have gone out of business, what happened to them? Did they just close their doors or were they taken over by somebody else?

**Mr Daniells**—Proserpine, Cloncurry and the ones that I mentioned were all bought by the chains in all those towns over the last couple of years. There are probably more that I do not hear about in the southern states. Every state is different. They are the ones that I know of here in the local area.

**CHAIR**—Do you think they were paid a price well above the market price in order to get them out?

**Mr Daniells**—It was a golden handshake. They were paid somewhere between 10 to 15 times their weekly turnover.

**CHAIR**—How would you feel if you were offered a golden handshake? Would you accept it?

**Mr Daniells**—You would have to accept it.

**CHAIR**—Have you thought this through in terms of following the line? We have had a strong argument put to us in terms of putting a cap on the market size of the majors. If you did in fact do that, you may not be able to sell your store to the majors as there would be maybe an investment program. Would you be happy with that?

**Mr Daniells**—I do not think that would worry a lot of people because if they were not allowed to buy any more stores it would not really upset people. They will look for another market. If they do not do anything, if there is nothing done, they will look for more markets. Years ago there was no such thing as a bakery in Woolworths, Coles, Franklins or any of the 'big fresh' companies. There was no seafood, there was no florist, there was no chemist. Well, there is no chemist now. There was no newsagent, but they sell magazines. So the push is that they would like to take the magazines, they would like to take the chemist. They do bakery very well. They are experts at what they do.

As Mr Moule says, people show it with their feet. They do it very well. We have to do it just as well, but if they keep going we are not going to get there. Our suppliers will be gone and things like that. They are great operators, but they will take away the opportunity for the independents out there as well. If there is a level playing field, it is a lot easier. They already do your banking with EFTPOS and things like that.

**CHAIR**—In some ways we should have the two of you debating one another.

**Mr Daniells**—We agree on a lot of things.

**Senator MURRAY**—I have a quick question on the same point. Mr Daniells, did you sell your stores to the chains or to independents when you were selling on your way through?

**Mr Daniells**—I sold to independents. My store at Roma was probably 7,000 square feet. If it was 10,000 square feet and I had a bit better turnover, it would have been a target.

**Senator MURRAY**—Thank you.

**Senator BOSWELL**—Barry, what we are trying to do here is recognise that Woolworths and Coles do a good job. No-one on this committee has ever said that they do not. At the upper end of the chain, I think they try to present a very good, responsible citizenship. That gets a bit diverted sometimes, not often, down at the bottom. What we are trying to do is make sure there is competition out there—there is a third force or a fourth force—so you have someone to sell to if you have a falling out with Woolworths or Coles. No-one is suggesting that we want to bring a hammer down on Woolworths or Coles. That is what we are trying to do—make sure there is a competitive market out there with people competing so that suppliers such as yourself have an alternative. So we recognise that the Coles and Woolworths people have made those decisions to support them at the retail level. Do you agree that you need more than two players in a marketplace?

**Mr Moule**—Senator, there are three major players in the marketplace at the moment. I am only speaking from the point of view of the beef industry, specifically the feedlot industry. There are three major players there. There are a host of wholesalers to whom you can tout the business. There are also emerging players. As you are probably aware, an organisation called Aldi, which is a German based company, is going to hit New South Wales in a very big way in the next couple of years.

**Senator BOSWELL**—Yes, I brought that up earlier in the hearing, before you came.

**Mr Moule**—That will be four players. What I am suggesting is that certainly the more players the better from our point of view, but the track record to date is that if you stop somebody from getting big you are stopping them from creating excellence within businesses. You just cannot stop the competitive spirit. You have to allow it. I can assure you from my dealings with Woolworths that if they were put in a room with a Coles representative and a Franklins representative and there was one knife in the middle of the room there would be a fight to get it to cut the other two people's throats. They are fiercely competitive at both the tactical level and at the strategic level. I do not think you have

anything to worry about with them going behind the backdoor and deciding that they will agree on a price.

**CHAIR**—Do you feel sympathy though for the small retailer who operates in a shopping mall, perhaps selling fruit and vegetables, and Franklins, who were previously in dry goods, suddenly goes into fruit and vegetables and he loses his business? Do you feel sympathy for that person or do you just think that is the market at work and so be it—tough?

**Mr Moule**—I am not in politics, and I chose not to be in politics for that reason. I am in business. At this stage all I am doing is going with the strength. I am stating it as it is. It is not profitable for us to be in anything else but with one of the majors.

**Senator BOSWELL**—Mr Daniells, you have obviously put a lot of thought into this presentation and you have made a good submission. What do you believe the answer is? Have you thought of any solutions as to where we go on this?

**Mr Daniells**—I believe there should be capping there somewhere. Deregulation of industries has also come about. At the moment in this state we are going through deregulation of milk. It will be interesting to see what happens with milk. In the past we have gone through deregulation of bread. Before that happened, there was not a lot of discounting of bread, but there used to be crumpet wars. The two big fellas from the north side of Brisbane would have people on mobile phones working the crumpet war. I do not know why, but there was a crumpet war. In relation to eggs, if you walked into a chain anywhere from four years ago when eggs were deregulated, the price went down and the price went straight up. I know the price I am buying my eggs for and the price I am selling them for. With deregulation, the chains are just taking profit.

At the moment, because of the winter and the season, egg prices on a wholesale level are going back up, but the chains do not really need to put their price up because they already had it up and they never brought it down. They never followed the independents. The independents have used little things like eggs, margarine and different things to do things for their customer which they have to do to keep their customer while the chains are saying, 'Hey, there's opportunity for profit there. We'll take it. The government's let us deregulate something. We hold 80 per cent of the market, so it doesn't matter what price we sell it for.' It does not matter what the price is. They will sell it because they sell 80 per cent of the eggs in Australia.

**Senator BOSWELL**—Just getting back to the point of capping the market, say Aldi or Franklins come in and you cap the market at whatever. Say you do not allow them to grow and, even if you ask them to divest, won't the two other chains then come in and take their sites over? If you stop someone growing, isn't that just a signal to send out a message to Wal-Mart to come into Australia by saying, 'We've nobbled the big ones. Come in and get it'? There is a thing in politics called unintended consequences. You start doing things for all the best reasons and you can end up doing a lot of damage. I am just concerned about some of those things that may flow through if we did cap.

**Mr Daniells**—If a fourth person comes into the market, as far as I know, the Aldi organisation is a full supermarket situation but in a smaller operation. So that might attack

right at the independent size. The chains currently service stores from 12,000 square feet or 1,200 square metres and bigger, whereas Aldi will go into a much smaller site which is an independent type site, although it is a chain. They will have that power there. If they have the backing behind them, they will come in and not make a profit for years. Therefore they will just work harder on dropping the market share even further to the independents. Whatever markets there are left, they will just push us out of any of the markets that are there, not just supermarkets but a lot of the stores.

**Mr NAIRN**—Mr Moule, what ties Woolworths to you? You have obviously felt that you have been able to make a significant investment in your feedlot because of the certainty you mentioned, but how certain is that certainty?

**Mr Moule**—The certainty is really from contract period to contract period in a technical sense.

**Mr NAIRN**—Which is how long?

**Mr Moule**—For up to a three-month period, which is the period that we have the cattle on feed.

**Mr NAIRN**—It is not very long, is it?

**Mr Moule**—No, it is not very long.

**Mr NAIRN**—How long have you been dealing with them exclusively?

**Mr Moule**—For a period of almost 10 years on that basis.

**Mr NAIRN**—I am not sure whether you were here earlier—I do not think you were—when some evidence was given to us about one of the majors buying produce and trying to get a lower price than what was agreed by claiming that the product had a problem or that it was not up to scratch or something like that. Have you ever had any difficulties or do you know of any similar sorts of difficulties?

**Mr Moule**—We operate on that principle every time we deliver cattle to the abattoir. We have what we call a grading system that applies to the cattle in terms of its weight, the fat measurement, et cetera. If it is outside the specs, there are penalties that are applied, but those penalties are known well in advance.

**Mr NAIRN**—So they are penalties based on some sort of contract in the first instance?

**Mr Moule**—That is correct.

**Senator MURRAY**—Mr Moule, you would appreciate that politicians are often in the situation where we have to make decisions between competing interests. If, for instance, there was an immediate cessation of any further growth for the majors, your business would still be as it is, whereas if you look on the other side of the coin, if that growth continues to



such an extent that it erodes the independent sector sufficiently, the wholesalers in particular are going to go out of business because they need the critical mass to service them.

**Mr Moule**—That is correct.

**Senator MURRAY**—If you were faced with a situation where we know you will survive but they may not—and, of course, the wholesalers sector has already reduced from eight or 10 wholesalers down to three, one of which is owned by one of the chains—you can see the pressures on us to interfere with the democratic processes, as you have expressed it. You were asked earlier if you had sympathy. My question to you really is this: if we were able to make changes to the law which still enabled you to have your business as it is and deliver you the certainty and the benefits of dealing with chains which have some very good characteristics but at the same time we preserved the independent sector or made it easier for them to survive and the wholesalers to survive, would you be happy if that balance was achieved, as it were, to accept an interference with the processes as you see it?

**Mr Moule**—The short answer to that is no. The long answer to it is that we need to grow our business as well. Standing still is getting us nowhere. I do not philosophically believe that anybody should tamper with the right of the competitive environment.

**Senator MURRAY**—So, if you follow that competition theory right through, you could arrive at a situation, in theory—personally, I think it is impossible—where two chains had all the business in the whole country and maybe you were contracted to just one of them.

**Mr Moule**—I do not agree with that. There is that much of a strategic positioning that the three majors have that anybody that gives it up is handing over an enormous amount of money to the other two. Hypothetically, I do not think that will happen.

**Senator MURRAY**—Let me continue so I can understand your view of things. Right now we have competition policy which allows the ACCC to prevent mergers of companies to avoid a situation where there is too little competition. What is being proposed to us is a form of that competition control. Do you disagree with, for instance, the existing powers that the ACCC has to prevent mergers?

**Mr Moule**—No, definitely not; absolutely not. What I am suggesting is that I do not see a role for what we are doing here when we do have those trade practices intervention methods already established.

**Senator MURRAY**—Let me put it a little differently. Say there are two paint manufacturers and the ACCC are asked to look at the merger between the two—they can make a decision. But if one paint manufacturer was to slowly take over the other through creeping acquisition, they have no powers to deal with that. Essentially, if Franklins and Coles wanted to buy each other right now, one way or the other, the ACCC can deal with that. But when Franklins or Coles go around and buy up hundreds and hundreds of independents slowly, they cannot deal with it. Why shouldn't we give them the opportunity to deal with creeping acquisition as well as major mergers?

**Mr Moule**—Senator, I think that is a good idea, but that is strengthening the powers of the Trade Practices Act, not dealing with what we are doing here.

**Senator MURRAY**—Okay. The other question I wanted to ask you related to transparency of pricing. We have seen a submission from the New South Wales Farmers Association and from a number of producers who have asked for transparency of pricing at the producer end—that is, your end of the business. Are you familiar with that proposition? If you are, do you support it?

**Mr Moule**—No. I think I know what you are talking about, but I would like you to explain it.

**Senator MURRAY**—I am not sure I can explain it as well as I would like, but essentially they are asking that the contracted price for their product—their beef, their fat lambs and so on—be transparent so that it is publicly known and not a secret contract and therefore they are able to establish that they are getting the right price for the right quality and grade of produce that they have, so it is not a secret contractual deal. That is my understanding of it. Do you prefer a situation where it is quiet, it is business to business, or do you think in the interests of the community that sort of area is openly known?

**Mr Moule**—If it is openly known, we will end up with the situation we had in the wool industry—that is, everybody knows what the price is and they know what the stockpile is and we end up with no price at all in the wool industry. It is probably a good thing that we keep the price between the seller and the buyer secret.

**Senator MURRAY**—That is all I have.

**Mrs ELSON**—Mr Daniells, you identified a problem before, and it is happening in rural towns in my electorate and I see it happening in other rural towns around Australia, where people are actually opting to do their shopping out of rural towns and in the regional town because of the entertainment that they have when they get into town and the shopping choices they have. What I cannot figure out an answer for is: how do you stop those people leaving town so that your business does not suffer? You cannot tell everybody that they cannot shop in a regional town and that they must shop in the town that they live in. It is very difficult, isn't it?

**Mr Daniells**—It is a great question. You have to give your customer what they want. It all comes back to customer service and supplying a customer service. If the smaller towns die in the country areas, you are going to have that sort of thing happening. If the big shift goes to the city, you will have it. Therefore, if there is not enough income in the smaller towns as a whole because of the volume of people in the town, there is not enough money for the supermarket or the chemist or whatever to make enough money to put the money back into his business.

Similarly for every other aggressive business person, every cent I am making I am ploughing back into my business. I want to spend \$2 million before Christmas on my business to do exactly that—that is, to grow my market share in my marketplace. I hope I hold 80 per cent of the market in my local area, but you have to offer the service. If the

services that are there now remain, such as the chemist and all those which are, in a way, protected because the chains have not got to them, the country towns are going to live a lot longer. If they are not there, the country towns are going to die a lot quicker.

**Mrs ELSON**—Yes, I know, but you can provide the best of service. For instance, one shop in my electorate decided not to have axe handles. So because people could not get axe handles in town they would go to the next regional town and do all their grocery shopping and everything else on the same day. How do you back up all the other businesses within a rural town to provide the service so you do not lose your service also?

**Mr Daniells**—It is not easy because you have so many different people doing so many different things, running their business their way. I think it comes back to confidence in the leaders in the small towns. For example, independent supermarkets and hardware stores are one of the bigger businesses in the small towns. If they are showing strength, they are holding your customer for you. A lot of our businesses in our town are reinvesting in their business. The more we can offer our customers as close as we can to the big regional centres, the better chance we have.

So it is just a matter of confidence, and we are dealing with it every day. It is just a game that you play. It is like a game of chess. You are out there to hold as many customers as you can and to create the energy within your community to see everybody succeed. I love to see everyone succeed. It does not matter who is doing it, as long as they are succeeding, the whole town is growing and we are giving the opportunities to kids and things like that.

**CHAIR**—In a one-minute summary from both of you, if you were in our position, what would you be doing?

**Mr Daniells**—I see that there is a need to cap the change at that magic 80 per cent level that people are talking about. It then holds some stability there for not just the independent sector that I come from. Even manufacturers in other areas do not want to be coming down to the big two or the big three. They want more independents out there who are doing a little more for them and keeping them honest. There are good independents out there doing their best, eating away at our own market. I feel that capping it will help the small businesses and the small towns in regional areas to prosper and keep the heart of Australia alive.

**Mr Moule**—At the organisational level, you have choices: you either intervene or you do nothing about it. If you intervene, you are stopping Australians voting with their feet. As politicians, that is something that you would not want to do. If you did nothing, as I said previously, there is some solace with competition coming in. There is no doubt about that. Sites are being selected in New South Wales and Queensland at the moment for Aldi. They are going to be ruthless in terms of taking on the small supermarket. It is going to be worse than what it was with the majors because they are targeting their size stores. Another issue, and I cap this under ‘do nothing’, is what Senator Andrew Murray mentioned—that is, to get Fels moving to work out some way of structuring the Trade Practices Act so that you can have some defensive mechanism against the creep provisions of takeover and mergers. On a personal level, I would recommend that all of you buy your beef from Woolworths because you can be sure that it is certified, safe and you won’t have a pain in the guts tomorrow.

**CHAIR**—Can I ask you, Mr Moule, whether Woolworths suggested you appear before today's inquiry.

**Mr Moule**—Definitely not. It was at my initiative completely.

**CHAIR**—Fine. I accept that. Thank you for coming. We wish you both well. We will take your divergent views on board.

[4.06 p.m.]

**NUNN, Councillor Kenneth Roger, Mayor, Kingaroy Shire Council**

**CHAIR**—I welcome the Mayor of Kingaroy. It is great to see you and I thank you for coming. The committee prefers all evidence to be given in public but if you would like to go in camera at any stage please let us know. As you know, these proceedings are protected by privilege, but false or misleading evidence may constitute a contempt of the parliament.

The committee does not have any submission before it. When we were in Bundaberg we asked you to appear because there was a particular interest in the involvement of local government in decisions on where supermarkets can be established, et cetera. We thought it would be interesting to hear from you in terms of your representing not only Kingaroy but the wider Australian regional community. So thank you for coming. I do not know whether you would like to make any opening comments today, but we would like to ask you a few questions.

**Councillor Nunn**—Thank you, Chair, senators and members. I thank you for coming to Kingaroy. We appreciate the opportunity to talk to you and make submissions. I have no formal submission, as you have stated, so any remarks that I make are a personal perception of what has happened or what may be happening in our community.

I suppose one of the reasons why an area like Kingaroy has become a regional centre is that we do have a major supermarket established here. In our case, it is a fairly longstanding arrangement, in that a supermarket—I think it was BCC—was established here long before I came to Kingaroy, which was in 1979. That progressed to a Woolworths supermarket and that has since been enlarged.

But I believe there is more to a town than one shop. Towns are judged in terms of the look or the ambience of their main street. As the mayor of the town and representing a community, that comes back to us very often, especially when something goes wrong in the main street. I must say that those in our CBD have taken up the cause themselves and they are trying their hardest to lift their position. The proprietors of the building that houses the major supermarket in town and the other shops have been very active also in their efforts to lift the CBD in our town. So that has been very positive.

We have some concerns that rural and regional Queensland towns are losing some of their identity. That is not just because of major supermarkets; it is because of other issues as well, and I am sure you are aware of the banks and that sort of thing.

Part of the tourist attraction of a town is the difference in shopping facilities between one town and another. A tourist does like to see that. I guess no-one wants to travel around Australia going from one regional supermarket to another buying the same sorts of goods and having the supermarkets selling the products in exactly the same sort of way.

In terms of our rural producers, there is some lost opportunity for them to sell their produce to the local community through the supermarket. As I understand it, the major supermarkets have a centralised buying system, and we heard something in the last

submission in terms of meat. I presume it is the same with other commodities. So a person producing fruit or something like that in our area would not have the opportunity to sell it locally so much any more.

I found it interesting to hear people quoting other countries earlier. When I visited the UK at Christmas time, I did see that the majors in the UK were taking over in exactly the same way as they appear to be doing here. I could refer to a number of cities and towns throughout the UK.

**CHAIR**—They are having their own inquiry over there.

**Councillor Nunn**—Yes. When we are faced with that sort of issue here, you do tend to look at it. I would refer to places like Fort William, a tourist town in Scotland, which have Safeway established just off the end of the main street. They have changed the whole focus of their main street, which was obviously a shopping street. They have had the opportunity to change it and it has become very tourist orientated because they get massive numbers of tourists. Not every town in Australia has that opportunity, unfortunately. We do not have that tourist capacity.

Council has few dealings with the majors, although in recent times we had a submission from Woolworths for a petrol station. There was, I would say, sufficient pressure put on council for us to go against the advice of our town planner, who followed the strategic planning line. We have a strategic plan; he follows that line because that is his job. Council adopted the strategic plan, that became council's policy and he is bound to accept council's policy.

It became very obvious that, if we were to stick to our initial decision, we would have had a court case on our hands. Quite frankly, the advice was that we had a good chance of winning; the advice to the other side from their barristers was that they also would have had a good chance of winning. Given that sort of scenario and the costs involved, we thought it prudent to adjust our town plan. It was not done just for that reason; we could see certain advantages with that particular position being used for commercial premises.

As for your committee, I believe in the democratic process, too, and within that process I believe there have to be checks and balances, leaders and investigators, and people who watch the processes occurring and who apply some sort of protection if those processes are not in the community's overall best interest. I guess it is a long-term competition issue that is my concern, and I fear reaching the situation where the multinationals might start taking each other over, as has occurred in the banks and that sort of situation. We would lose the competition.

Finally, we all appreciate the buying power that the big supermarkets have and the influence they have on the spending power of the public in this area. In this area some time ago, our supermarket did have perhaps some of the lowest prices in Australia. I have not seen the figures published, but we certainly have not been receiving publicity which says that we are still the lowest, the second lowest or the third lowest in Queensland or Australia. Either they are not taking the surveys anymore or in fact the prices here may have risen for one reason or another, and I would not speculate on that.

It concerns me that the majors in Queensland are also interested in taking over liquor sales. When you get away from Brisbane and the major coastal regional centres, the hotels provide the majority of the entertainment in the town, be it the RSL or the local hotel with a band and that sort of thing at night. If hotels did not have their liquor sales, it would be doubtful that they would be able to provide that entertainment. In the future, I guess I would not like to see the situation that you have in other states and overseas—albeit a very convenient way to buy alcohol.

**CHAIR**—Thanks very much, Mr Nunn. It was Senator Ferris in particular who put in a request to organise to see you on our visit to Kingaroy, so perhaps Senator Ferris might like to take on questioning on behalf of the committee because of our time constraints.

**Senator FERRIS**—I am interested in the social aspects of new developments. Appreciating that very often an area has been zoned as commercial a long time before a development application is received, would your council take into account any social aspects of, for example, a new K-Mart development application in a zoned commercial area which is currently a greenfield site, not in the main shopping precinct and not across the road here?

I ask the question because it seems to us—and it really struck me in Bundaberg last night as we drove around—that you have the main street, you have a very large development called Sugarland, which is a very large shopping centre, and you have another new development away from the main street. It seems to me that there is a social fabric question to be considered here when a local community representative body, such as a local government, is considering new developments in a town. I am just wondering whether the Kingaroy Shire Council takes into account any of the social aspects of a development application like that.

**Councillor Nunn**—Kingaroy has a strategic plan and that sets out where council believes a development should go. There was a lot of social input into the preparation of the plan. It has lots of other inputs too, but the social input is very much to the fore.

It is probably a difficult question for me to answer here because council owns a site within the recognised CBD and within the strategic plan zoned as a commercial business area which is occupied by a council depot and which it has offered on the open market for sale. The first prospective buyer was for a supermarket; that fell through.

**Senator FERRIS**—I did not know that when I asked the question.

**Councillor Nunn**—The second prospective buyer was for a convention centre, and that fell through. The third prospective buyer was, again, for a supermarket. We have had approaches from developers for a supermarket on other sites in town which do not lie within the commercial area. I can only say that we are very aware of the social impact and we are very aware of maintaining it. Part of the social impact, I suppose, is our CBD and keeping that alive. If that dies, there is a perception that the town has died. We had 17 vacant shops in our main street a little while ago but that has picked up.

**Senator FERRIS**—I was going to ask you that question.

**Councillor Nunn**—That comes and goes; that ebbs and flows. You talk about multinationals. There are groups around now that sell very cheap goods—cheap in dollar terms—like Crazy Clark's, Silly Solly's and things like that. Most CBDs of regional towns now have those sorts of shops in them. In one way, they have revived some interest in our main street because a lot of people here are shopping at those cheaper stores. I guess that is the way Woolworths and Coles started back whenever they started. They did have those sorts of goods.

The government gives us a lot of information on social issues and we do attend a number of conferences on social issues in regard to all developments. Our town planners certainly are well versed in that sort of issue. With the way town planning is structured in Queensland, if you go against a town planner's advice, then that is sent to the government and the government makes the final decision on a town planning application. This was under the old act. So it was not easy for a council to get away from a qualified town planner's advice.

**Senator FERRIS**—What happened when the first potential buyer who came to your depot turned out to be a supermarket? Was it public knowledge in the town? Was there a community debate about it? What did the council do?

**Councillor Nunn**—It was fairly early in my term in council. I guess there was divided feeling, and amongst the retailers there was a feeling that a shopping centre was not warranted. In the broader community, there was a perception that we should have another shopping centre to provide competition between the majors. It is my belief that that is still the public perception: that there would be more competition. That gets back to what I said earlier—that is, competition is my concern.

**Mr NAIRN**—Even though there is an independent who is competing with the major; that is not seen as competition, obviously.

**Councillor Nunn**—I guess that is the problem. We feel for the independent, we feel for the butcher shops, we feel for the florists, we feel for the this and the that. The newsagents are probably the next target. It does seem to me that there is a progression by the supermarkets, and not just Woolworths. We are not just taking on Woolworths here. It is probably more so down south than up here, and I suppose we are following what is happening down there. I understand that, in Melbourne now, pharmaceuticals and all those sorts of things are handled in supermarkets.

**Senator FERRIS**—You mentioned the number of empty shops. Can you give us some idea of the number of empty shops now? In a quick drive around the town before the hearings began, I did notice there seemed to be a block of three or four empty shops in a side street close to here near the petrol station that has closed. Is that the only block of empty shops or are there others?

**Councillor Nunn**—One of the things about any shopping centre—it has nothing to do with supermarkets—is that, if you build a big, airconditioned building which is very comfortable to shop in, which is just off the CBD in one part of town, it will affect the flow of traffic, the flow of shopping habits. The block that you referred to has had that sort of



situation for a long time. There may be more factors behind it than just position; it could be the cost of renting the shops. Generally, the rent in the shops in the CBD has not come down, even though some of them may be vacant. In the main street, I think now there are only two shops vacant, and one is just being readied now. In another side street, I think there are only two shops vacant there. So there are not a lot of shops vacant at the present time.

**Mr NAIRN**—You mentioned the petrol and that you felt the council was put in a position where you were going to have to take a risk if you went to court, and the financial situation made you back off. That was for a Woolworths outlet, obviously. Has that now gone ahead?

**Councillor Nunn**—Yes. The economics of the thing is not brought into town planning decisions and I think it is very important to remember that. Council does not make a decision on economic grounds; it makes it purely on town planning grounds. So the fact that it was Woolworths going in there made no difference.

**Senator MURRAY**—Do you think councils should make decisions on economic grounds?

**Councillor Nunn**—I do not think we could.

**Mr NAIRN**—How many other service stations are there in the vicinity?

**Councillor Nunn**—Six or seven.

**Mr NAIRN**—From a planning point of view, which is actually part of my background, there is a reasonable argument about land use. I know that in some respects—and I do not know your strategic plan or the Queensland planning system very well—service stations possibly get dragged in with other commercial uses, and that may be part of the problem. You said that you felt you could lose legally not so much because it was a service station that you were approving; it was probably more the general commercial use that service stations come under.

**Councillor Nunn**—I think you would have to understand the whole gamut of our strategic plan and how it was formed. Because we are a regional centre, our proportion of business to urban land is slightly greater than it would be in a normal town. Being a regional centre, our town might have 8,000 people but we cater for 30,000 people. So our business and industry section probably occupies more land and needs more land than you would find in an isolated town of 8,000 people. So it is hard.

The other issue was that, when you have a major highway going through the town and your strategic plan says that it is urban on one side of it yet just down the street there are commercial premises on the same side, you tend to think that it should be commercial. When we formed the plan, thinking back, we wanted it to be commercial but the government said, 'No, you've got too much commercial land.' We reached an agreement before the court and that was it.

**CHAIR**—Thank you, Mr Nunn. It is good to see our three levels of government here—Mr Nunn; Dorothy Pratt, who is the state member; and our colleague Cameron Thompson. It is great to see him here and hard at work in his electorate. Thank you to my colleagues for their participation in today's event. Thank you to those from Kingaroy for your welcome here. I am glad to see competition is alive and well and diversion of opinion here is alive and well.

This is the end of our visit to regional centres. We will talk to the majors and the major groups in Canberra and then we will be meeting to discuss amongst ourselves the direction we will go in. We have to report to parliament by 30 August. The pressure is now upon us; the challenge is there. Thank you for your involvement today. We really appreciate it.

**Committee adjourned at 4.29 p.m.**