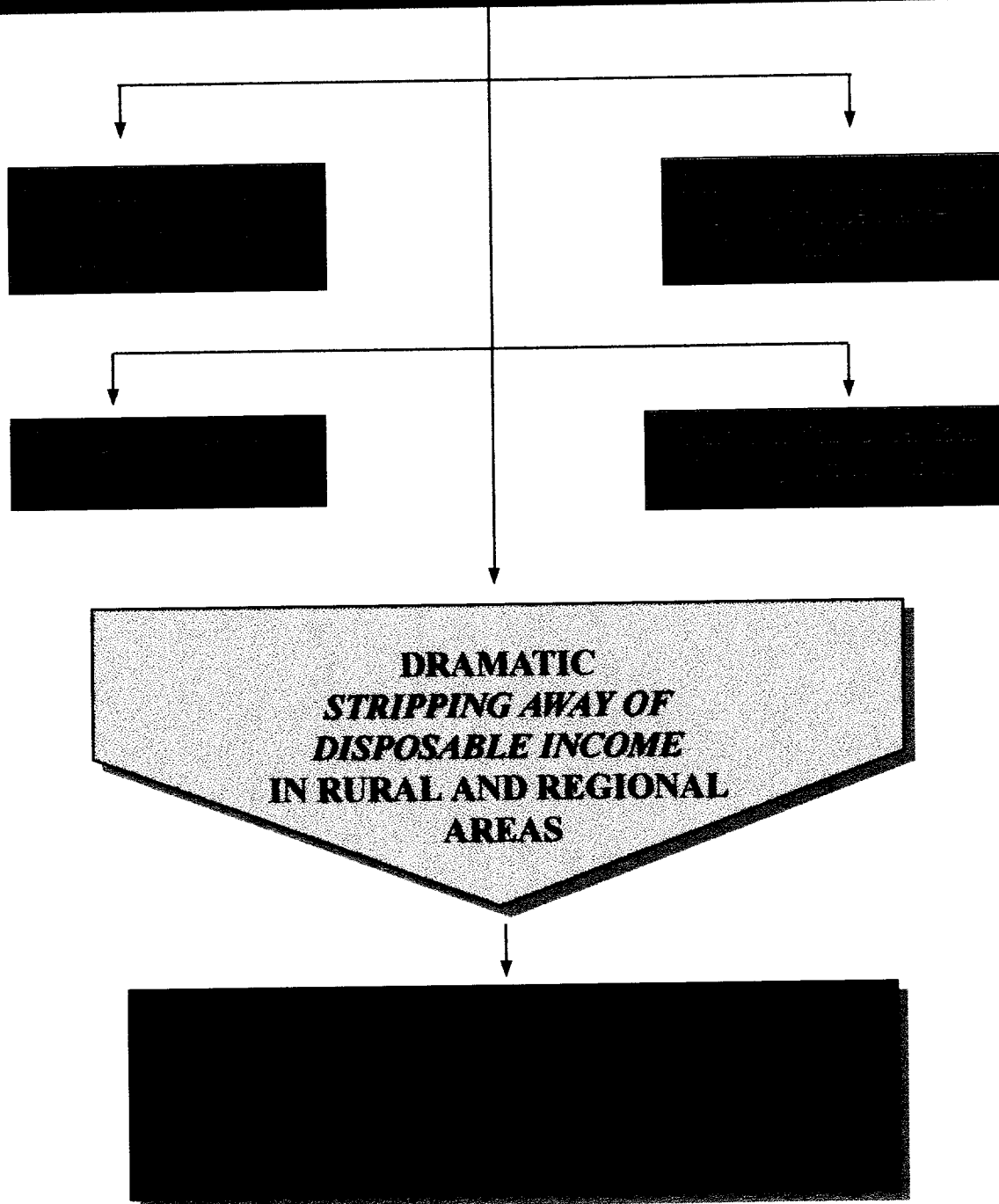


Submission to the Productivity Commission Inquiry into the Impact of Competition Policy Reforms On Rural & Regional Australia



National Association of Retail Grocers of Australia
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November 1998

FOREWORD

The National Association of Retail Grocers Australia (NARGA) directly represents 10,000 retailers in a retail sector employing some 250,000 Australians. Our members are at the coalface of the retail sector, providing service to their customers, jobs and cash flow for their local community. As such, they are best placed to report on and provide evidence as to what has been the impact of National Competition Policy (NCP), in rural and regional areas.

On behalf of the thousands of businesses represented under our banner (and while noting a duplicate line of inquiry between your Commission and that of the Senate Select Committee Inquiry on relatively the same issues), we welcome the opportunity to provide input to your Inquiry. We hope by highlighting our concerns and the problems which currently exist in the retail grocery sector (particularly in rural and regional areas), that we may make a valuable contribution to the Inquiry and thus assist in the development of practical and far-sighted recommendations to government.

We acknowledge that both this Inquiry (and the similar referenced Senate Select Committee Inquiry), have the potential to play a pivotal role, given they are jointly reviewing economic-rationalist policies, which are by any measure having a dramatic and devastating effect on small businesses, jobs, families and local communities, especially in rural and regional areas. Particularly so, given NCC policies have undergone little, if any, prior public review.

In this submission, we seek to demonstrate that what we consider as the overly obsessive economic rationalist approach of current National Competition Policies, have gone too far and imposed on the community at large undue serious social and economic consequences. To this extent we relate very closely to Senator Ron Boswell's very precise words as spoken on the floor of the Senate quite recently (*Appendix 8*) on rebuking certain statements made by the Chairman of the NCC.

Mr Samuel, I point out to you that the NCC is not a policy maker. You are beyond the reach of the electorate but the electorate expects us, to point out to you where you are wrong in no uncertain terms¹

It is our view that essentially unaccountable in terms of fine detail application, the NCC has fostered an *unhealthy* and *anti-competitive* environment within the retail grocery market in particular, whereby three major retail supermarket chains have been able to secure in aggregate an '80% plus' market domination.

We contend, through the direct experience of our members, that National Competition Policy reforms to date have acted as a counter-productive mechanism sweeping away what remained of ordered trading constraints, which previously had enabled small business to effectively compete on a more level playing field, with big business.

We believe the contents of our submission demonstrate:

- an urgent need for a moratorium on any further deregulation of the retail grocery market until such time as it can be proven that such further de-regulation is in the public's interest.
- the negative effects of market domination by the major supermarket chains can only be effectively addressed by the introduction of appropriate legislation to ensure Australia's public interest is protected and
- to ensure the future viability of the independent retail sector, we seek an 80% cap on the major chains share of the retail grocery market, with that share being reduced to 75% over the next five years, and each individual chain controlling no more than 25% of the national market share.

Finally, we believe that now is the time for Members of Parliament (both State and Federal) to recapture control and responsibility for the agendas that are driving the National Competition Policy reforms. In this way we can ensure in a truly democratic fashion a much broader social, community and economic perspective, is added to any future NCC directive.

Alan McKenzie, National Spokesman

¹ Senate speech, Hansard 13 May 1998.

FOUR SIGNIFICANT OBSERVATIONS

WHICH RELATE TO THE NCC

AND ITS FAILURE TO DELIVER

...the need for a national competition policy to create and safeguard market structures and behaviour which prevent anti-competitive practices, ensure that markets operate efficiently and to protect the interest of consumers.

The principal element of the Heads of Agreement endorsed by all Premiers and Chief Ministers in Adelaide 21-22 Nov 1991, which provided justification, through bureaucratic means, for the creation of the NCC

There needs to be a recognition the Australian environment is no longer conducive to fair competition because of the high levels of concentration in many industries -including retailing. It is naive to expect small business to survive unrestrained 'competition' without some form of protection from the worst excesses of the exercise of economic power.

Finding a Balance -Towards Fair Trading(Reid Report)
Paragraph 4.68

...economic theories advocate that market forces or the system of 'free enterprise' only works in a situation of 'perfect competition'. Such perfect competition, when considering the retail industry, simply does not exist anywhere in Australia. Where perfect competition does not exist, then it is desirable, if not necessary for government to legislate to ensure the imbalances are countered. In retailing, these imbalances exist because of the dominance of the major chains and the availability and size of the retail shopping centres.

General Overview -Hilmer Competition Policy Review page 5

It remains to be seen how professionally independent the Productivity Commission will be in its findings. By any objective standard the NCC has failed utterly in the charter given it, and serves more as an environmental health hazard for the Australian community, than its saviour. The current composition of its Council serves as a bastion for the big end of town, the large corporations, by following a dry economic rationalist doctrine which places profits before community needs and jobs. The social devastation that has flowed as a consequence has been greatest among small business operators and particularly in rural and regional areas. Our retail markets in particular are perhaps the most anti-competitive and unhealthy in the world for a democratic nation. It has been our small business community that has paid for it in terms of loss of jobs, opportunities, dislocation of families, and our rural and regional community infrastructures which are already weak due to droughts and floods and other factors.

The solutions are relatively simple, disband the NCC and allow the States to continue their ongoing legislative reform schedule, but with an expanded definition as to what constitutes public interest. If not, replace the current Chairman with one who understands the real needs of small business (or if not possible add two more members to the Council who possess significant small business experience) so that the Council is able to focus more effectively on the original brief given to it i.e. among other priorities, to be prepared to tackle head on the anti-competitive environment of Australia's retail sector and champion the introduction of anti--trust legislation and by means of divestiture powers contained therein progressively wind back the existing commercial stranglehold of the three major, large corporation, supermarket chains.

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EXECUTIVE SUMMARY

1. This submission to the Productivity Commission on the impact of National Competition Policy (NCP) Reforms on rural and regional Australia (Appendix 1), seeks to be persuasive, by means of direct evidence, and detailed comparative research, to ensure that Commissioners are made fully aware that the current wave of economic rationalist-based policies, sponsored by the NCP, have created an Australian retail grocery market which is unhealthy, anti-competitive and in our view contrary to public interest.
2. We maintain the economic-rationalist approach advocated by the National Competition Council (NCC) has, in recent years been shown to be fundamentally flawed in terms of securing what is in the best interest of all Australians. We consider these policies have in the main been blinkered, short-sighted, particularly detrimental to jobs, small business, families, and undermined the social and economic fabric of rural and regional communities.
3. One of the flow-on effects of the raft of policies pursued by the NCC, which has been particularly devastating in the retail grocery sector has been, because of the Council's narrow economic focus, the allowance, without any form of restraint, of the unfettered growth of the three major supermarket chains to the degree that they now command 80% of the retail grocery market. An unhealthy market dominance almost without precedent among developed nations.

History of Growth of Major Chains and Resultant Market Imbalance

4. Since 1975, the three major supermarket chains in Australia (Woolworths, Coles and Franklins) have doubled their grocery retail market share from 40% to 80%. This growth now continues at a rate of approximately 2% per annum –much of this by means of predatory cheque-book acquisition practices. By the year 2000, if no capping is imposed, the market stranglehold of the three major supermarket chains between them will exceed 85% Australia-wide, leaving less than 15% of the total retail grocery market available for the thousands of mostly family-owned and operated independent grocery retail stores.
5. As our recent highly successful *Enough is Enough* campaign has freely demonstrated through its grass roots appeal (refer Appendices No 2, 22-27) such an anti-competitive environment is totally unacceptable to significant elements of the Australian public at large.
6. Our considered view therefore is that the market domination by the major supermarket chains has created such an unhealthy and anti-competitive imbalance in the grocery retail market (in which we are best qualified to have an expert view), and this unfortunate state of affairs needs to be corrected without delay.
7. We contend the basic issue which the economic-theorists consistently fail to understand, is that in the *real world*, it is the small and independents who in fact keep the large multi-chain supermarkets competitive in terms of what is a fair price for the consumer to pay for the goods and services offered –refer Appendix 10.
8. Thus, without the independent grocers remaining as a viable retail trading force in the community at large, implied collusion between the major chains will be the end result, thus leaving the consumer exposed to unreasonable price rises, often dictated by the profit-hungry expectations of interstate or overseas shareholders. The independent grocers therefore should be accepted and understood to serve in a valuable capacity by both bureaucrats and planners alike, as *weather veins of health in the marketplace*, providing public benefit through true choice and real competition to the direct benefit of consumers as the end-users.

Jobs Loss due to failure of NCC to curb Market Stranglehold of Major Supermarket chains

9. Reducing the market share of the independent retail grocers has meant less jobs for small businesses, paradoxically the very sector of our economy which, contrary to general understanding, are the real job generators in our community.

'In the decade to 1994-95, the small business sector accounted for almost all the 1.2 million net increase in jobs, increasing its workforce by an estimated 1.1 million'².

10. The growth of the major chains continues to mean job losses with recent research demonstrating that for every job gained in a major chain, there are 1.7 jobs less in the small retailer sector.³

Effect of NCC policies on Rural and Regional Australia

11. Of equal concern and importance is that NCC dictates to State and Territory governments in recent years have been quite transparently threatening (e.g. if governments do not bend to their agenda, promised taxpayers funds would not be forthcoming) and has been most destructively felt in rural and regional Australia, where due to prolonged drought, difficult primary produce trading years and other factors, the community infrastructure is most fragile.
12. A clear indicator as to the extent of this damage is seen in the disparity of income between urban and rural families as demonstrated quite starkly in Attachment 12.

Review of Impact of NCP policies on Independent Grocers

13. It is clear that the implementation of the NCP has accelerated the growth of the major chains and the resultant decline of the independent retail grocery sector which has always operated as a major quality-rich jobs employer in terms of staff per turnover and quality of work (fulltime versus part-time) –refer Appendices 16,18 and 19.
14. We view the deregulation of shop trading hours, *without effective socio-economic impact assessments being effected before such decisions are made*, as a prime example of the destructive impact of narrowly-based economic rationalist policies wreaking havoc on traditionally based small business traders.
15. As previously highlighted (refer to pie charts in *Appendix 2* comparing the grocery market shares of major supermarket chains in other OECD countries), Australia's current concentration of market share in the retail grocery sector into the hands of just three major retail trading organisations (Coles, Woolworths and Franklins) is virtually unprecedented in the western world.
16. Our principal argument therefore, is one of focus on the failure of the NCC to ensure there is real and unfettered competition in the retail grocery market place. We consider the reality that an unhealthy and anti-competitive environment does exist at the present time in the retail grocery sector (*and has become more entrenched in recent years as evidenced by the stranglehold of the three major supermarket chains*) is clear proof that as a council, the NCC has failed in its core functions to protect consumers, small business and others, in ensuring that the market is operating in the public interest.

² House of Representatives Standing Committee on Industry, Science and Technology, *Small Business in Australia: Challenges, Problems and Opportunities* (AGPS, Canberra, January 1996), p.9.

³ Advice from Council of Small Business Organisations of Australia (COSBOA).

Urgent Need for Anti-Trust Legislation

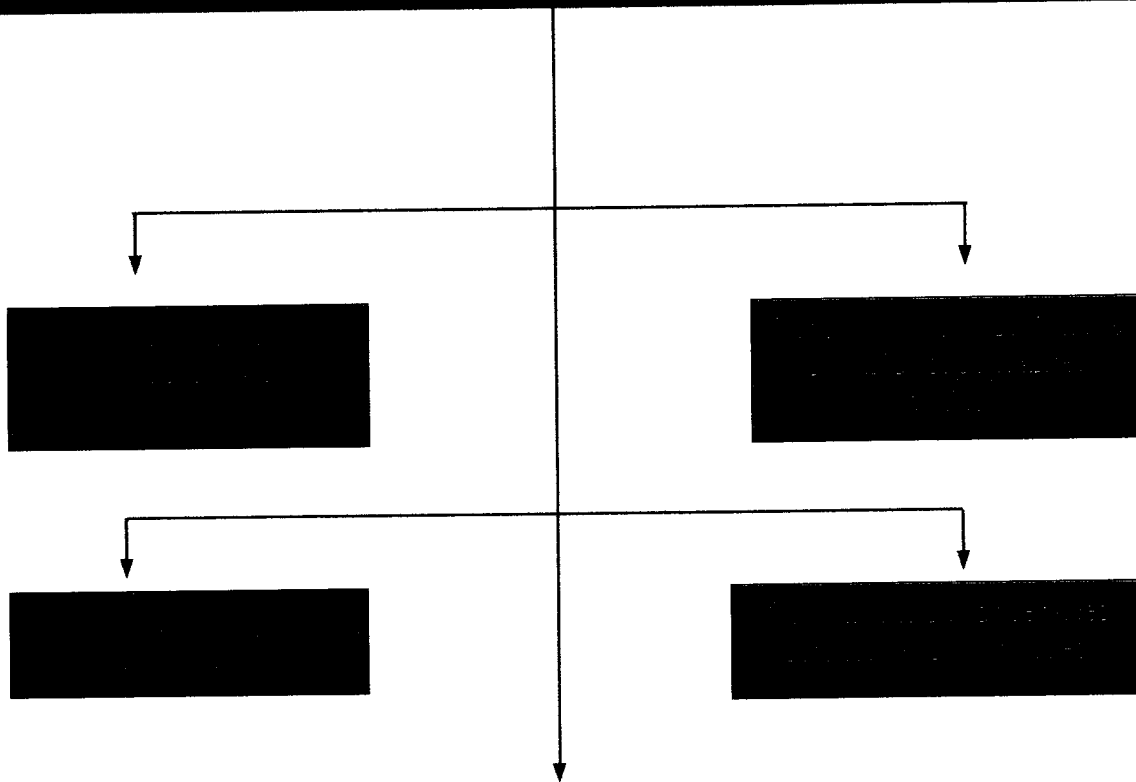
17. We believe the way ahead is for the NCC (*or its successor*) to promote, as a matter of priority a fairer and more equitable retail grocery market in Australia.
18. To achieve this, the Federal Parliament must legislate to stem the growing stranglehold of the major chains in the retail grocery market in Australia and, by doing so, promote a healthy and competitive market environment.
19. This would not be a new initiative. Indeed the United States and other western nations, whose commercial environment is based on a free enterprise system, have already in place appropriate anti-trust legislation, such as the *Sherman and Clayton Anti-Trust Acts* to ensure the fostering of anti-competitive environments (such as exist when too much power is given to any one corporation or small group of corporations in a given marketplace), are avoided.
20. We have regulations and laws relating to banking and cross media ownership, so it is clear that similar structured restraints in the commercial sector (let us call them *pillars of commerce*) be now put in place in the retail grocery sector.
21. Regrettably, we have justification in forming the considered view that the *Trade Practices Act 1974*, in its present form, *is incapable of neutralising the commercial forces* that have made the retail market in Australia both unhealthy and anti-competitive.
22. It is for this reason we believe this principal Australian commercial trading Act requires major overhaul or alternatively an entirely new act to enshrine clearly and unequivocally the principles of free trade on a relatively level playing field.
23. Whether the final result is a greatly amended *Trade Practices Act* or a new Act, NARGA seeks to ensure under the provisions of such an act, a winding back of the major chains supermarket share by the use of divestiture powers, as would be contained in such legislation.
24. We would also recommend that over time (five years) the holdings of the major supermarket chains are capped (as previously focused on in the *Enough is Enough* campaign –refer *Appendix 2*) at no more than 75% of the retail grocery market; with no one chain commanding more than 25% of the national market.
25. We believe the immediate capping of the top three major supermarket chains at 80% of the national grocery market, should be the first step in this market re-instatement process.

Conclusion

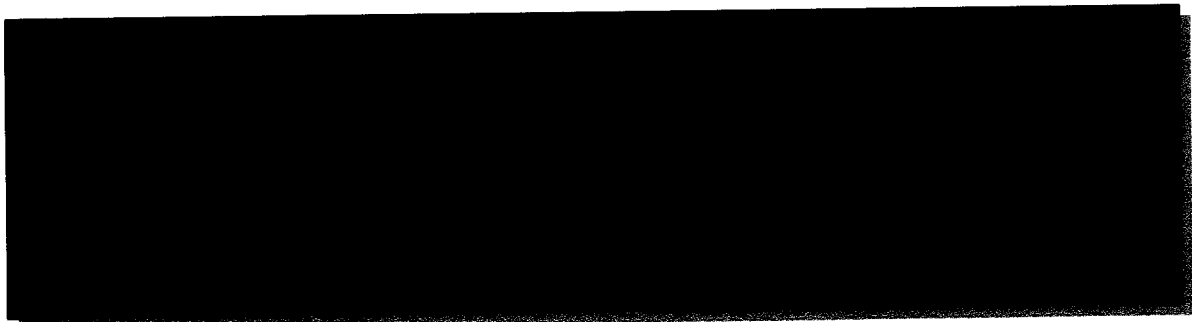
In summary, the dedicated implementation of an economic rationalist approach by the National Competition Council, without adequate recognition of the concept of what is in the public interest from a socio-economic basis, has had a devastating effect on jobs, small business, families and local communities -particularly in rural and regional Australia.

It is therefore time that members of Parliament, Federal, State and Local reclaimed the agenda from the bureaucrats and acted in the public interest. One avenue to achieve this is to not only implement appropriate legislation to cap the market share of the major chains, but also minimise any further incursion by them into rural and regional areas. In future, effectively drafted socio-economic impact assessments need to be completed as a mandatory process, whenever local planning approvals are sought for significant retail developments. We believe all these measures will in turn ensure real competition in the market place, more quality jobs in the retail sector, a better environment for families and small business in general, and a more secure future for rural and regional communities.

Impact of Competition Policy Reforms On Rural & Regional Australia



**DRAMATIC
STRIPPING AWAY OF
DISPOSABLE INCOME
IN RURAL AND REGIONAL
AREAS**



I Introduction

1. While by no means seeking to be fully comprehensive, the diagram on the preceding page demonstrates some of the more identifiable impacts the complex and varied NCC economic rationalist policies have had on rural and regional communities in recent years. Regrettably there are already clear performance indicators readily to hand which confirm that all is not well in our rural and regional areas: from the wide disparity in income between urban and rural families (refer *Appendix 12*), to the delicate and fragile infrastructure of rural communities visibly crumbling before our eyes.

2. While a later section will briefly cover the impact on rural small business trading entities of the economic-rationalist pressures that have driven the politic agendas:
 - of the forced merger of small local councils,
 - vertical integration by the large pastoral concerns, and
 - the withdrawal of essential community services such as banking, post offices, depots, government branch offices and lineyards etc from country towns and districtsthe main balance of this submission will now deal with our core concern, as representatives for the small and independent grocers of Australia.

3. Namely, the pronounced inability of the NCC (and its policy directors) to *appreciate it is in Australia's public interest* that the retail grocery stranglehold of but three major supermarket chains (Woolworths, Coles and Franklins commanding in excess of 80% of the total retail grocery market), is not allowed to continue unabated without resolute executive action on their part to wind back their market share to more acceptable levels.

4. In failing to so act, we believe the NCC is, *in direct breach of its charter*, by allowing a patently concentrated, and thereby unhealthy, oligopolistic⁴, anti-competitive trading environment to exist in our key essential service retail sector; that of the provision of food and sustenance to the nation. The social damage arising out of such omissions we contend has been substantial in terms of loss of jobs, small businesses, community infrastructures and the break up of families in rural and regional Australia.

⁴ There is no question that the top 3 major supermarket chains in Australia (Woolworths, Coles and Franklins) comprise an oligopoly. Oligopolies (by definition two or more market traders who between them hold significant market share) are in fact *de facto monopolies*, since their existence and extent of trade power produces *non-competitive stability*. In other words, by matching each other's conduct they will be able to achieve and charge a *profit-maximising price* as freely as though they were a single monopolistic entity. Such *de facto monopolies* have long been regarded in the United States of America as being anti-competitive forces requiring either court-based or legislative-based controls.

5. Therefore, in order to state our case fully, the balance of this submission, which we commend to your close attention, is specifically focussed on the area in which we possess an authoritative knowledge, that of the impact of the NCC and its associated economic rationalist policies, on the retail grocery trade in Australia: particularly those who trade in rural and regional areas.

6. We then conclude with what we believe are a pragmatic set of recommendations, which if supported by a sufficient number of statesman-like Federal Parliamentarians, will go a long way to *Striking a Balance* in the retail grocery market between the spheres of trade accorded to the major supermarket chains, and those who serve as the public's consumer's watchdog (in terms of maintaining realistic prices for the end-user), the traditional small and independent local grocers.

7. In order to achieve these objectives, it is necessary that we educate Commission Inquiry members, in terms of background, as to the following issues:
 - Profile of Australia's Retail Industry
 - General overview of Australian Grocers
 - Current Trading Environment
 - Nature and Importance of Small and Micro Businesses to Australia's economy.
 - NCC – Saviour or Public Health Hazard
 - In Search of Community Benefit
 - Those That Survive
 - Urgent Requirement for Upgrading of Planning Regulations
 - Widening Call to Curb the Encroachment of the Major Supermarket Chains
 - The need for Anti-Trust Laws and remedies to overcome market monopolies
 - Recommendations

These very important issues are considered in detail in the sections which follow and where appropriate expanded further in the Appendices

II Quick Snapshot Profile of Australia's Retail Industry

8. The retail industry is the third largest service industry in Australia and the largest employer in the country. It is dominated by two major companies⁵, Coles-Myer and Woolworths. Their combined revenues in 1997-1998 were in excess of \$37 billion. In 1997-1998, the retail industry (excluding motor vehicle retailing and servicing) turnover totalled \$134.6 billion⁶. Between them Coles-Myer secured 15.3% and Woolworths 12.5% of every retail dollar spent.⁷ Coles Myer as at July 1998 had an annual revenue of \$20,587⁸ million and Woolworths as at June 1998 had an annual revenue of \$16,842⁹ million. Both have increased their respective market share by billions of dollars in a short period of only a few years.

9. Such concentration in just two major players we consider, in such an essential service industry to be unhealthy, anti-competitive¹⁰ and most probably when all factors are taken into consideration unprecedented in the developed world. For this reason Commissioners will find in the concluding section our specific recommendations for resolute legislative action in terms of (a) the capping of market shares in the retail grocery sector (and later divestiture back to three players with no more than 75% with no one entity more than 25% of total market share type formula) and (b) the invoking of a set of industry standards (which we refer to as the *pillars of commerce*) to stand alongside those industry controls already in place in the allied fields of media ownership and banking.

10. This is the type of environment in which our traditional long-serving small and independent grocers are expected to compete and, contrary to what is in the best interest of all Australians, and unrepresented on the NCC, are grievously squashed like ants daily by the NCPs micro-rationalist policies, whose long tentacles now appear to invade every crevice of commerce, and yet fail to deliver what previously it has been heralded to perform. Instead there is a trail of socio-economic disaster, which is most keenly experienced in rural and regional communities.

US 131 (1948) and the *Sherman and Clayton Anti-Trust Acts*.

⁵ ABS Australian National Accounts – National Income, Expenditure and Product. Publication 5204.0 and Labour Force Australia 6203.0.

⁶ ABS Retailing in Australia 8501.0

⁷ Australian Financial Review, 1 May 1996, Supplementary p2 & #

⁸ Coles/Myer Annual Report 1998.

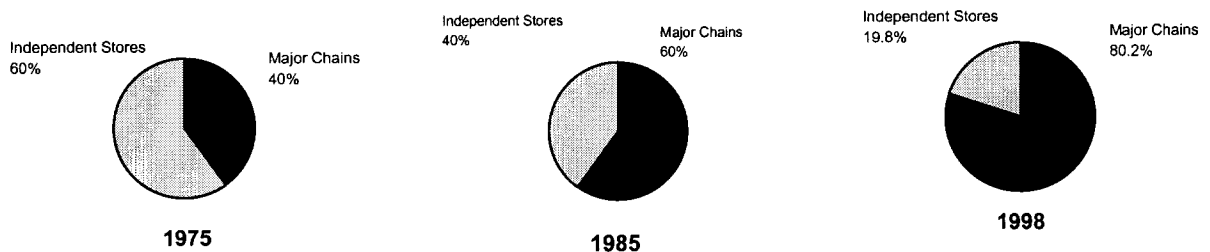
⁹ Woolworths Annual report 1998

¹⁰ By comparison to what we experience in Australia, we understand the world's largest retailer, Wal-Mart, controls only 2.4% of the United States total retail market.

III General Overview of Australian Grocers

11. The National Association of Retail Grocers of Australia (NARGA) has been in existence since 1960. NARGA directly represents ten thousand small and independent retailers who buy their groceries through wholesalers, an industry sector which comprises 65,000 stores and employs an estimated 250,000 Australians. The wholesalers involved include David’s Limited in NSW, Vic, QLD and SA, Foodland Association Limited (FAL) in WA and Tasmanian Independent Wholesalers (TIW) in Tasmania.

12. With their systematic practice of employing creeping cheque-book acquisition tactics, which are not generally caught up in the mesh of any of the existing provisions of the *Trade Practices Act*, the major retail chains in Australia have made significant and damaging incursions into the market share of the traditional small and independent supermarket owner(s) for decades.



13. It has reached the point that the BIG THREE supermarket chains now freely operate as an oligopoly¹¹ in the retail grocery market due to their combined market share of 80.2%¹² nationally and in some states an even greater concentration which has tended to entrench and foster, not diminish an anti-competitive environment in the market place.

CHAIN GROCERY MARKET SHARES

DECEMBER 1997

	WOOLWORTHS	COLES/BI LO	WOOLWORTHS /COLES TOTAL	FRANKLINS	TOTAL
NSW	35.4	21.9	57.3	25.2	82.5
VIC	35.6	31.8	67.4	9.0	76.4
QLD	38.3	31.4	69.7	16.8	86.5
SA	28.6	36.6	65.2	7.3	72.5
WA	26.7	31.9	58.6	N/A	58.6
TAS	48.5 (e)	26.5	75.0	N/A	75.0
NATIONAL	35.2	28.5	63.7	14.7	78.4

SOURCE: A.C. NEILSEN

¹¹ For further explanation as to the nature of oligopolies read Footnote at the base of page 7.

CHEQUE BOOK LOSSES* - NATIONAL REGISTER

(Since 1.1.95)

STATE/ MTH/YEAR	STORE LOCATION	ANNUAL WAREHOUSE PURCHASES SM	ANNUAL STORE SALES SM	RESULT	
NSW/ACT					
2/95	Payless Bowral	3.00	6.00	Franklins	
3/96	Cannons (13 stores)	65.00 (e)	150.00 (e)	Woolworths	
5/96	Tuckerbag Belrose	4.80	9.00	Franklins	
6/96	Foodtown Narromine	1.00	2.10	Bi-Lo	
2/97	Supa Barn Kippax	2.35	4.55	Woolworths	
11/97	Payless Illawong	4.40	8.80	Coles	
VICTORIA					
2/96	Tuckerbag Ocean Grove	7.50	15.00	Coles	
5/96	Festival IGA Lakes Entrance	6.80	13.60	Safeway	
	Festival IGA South Yarra	3.20	6.40	Closed	
6/96	Tuckerbag Bendigo	8.00	16.00	Bi-Lo	
8/96	Festival IGA Swan Hill	5.20	10.40	Bi-Lo	
3/97	Tuckerbag Yarra Junction	10.00	20.00	Safeway	
2/98	Festival IGA Healesville	7.55	15.95	Coles	
3/98	FoodWorks Yarrowonga	9.00	20.00	Franklins	
3/98	FoodWorks Corowa	3.10	6.20	Franklins	
7/98	FoodWorks Lara	4.10	8.20	Safeway	
7/98	FoodWorks Drysdale	4.25	8.50	Safeway	
7/98	FoodWorks Patterson Lakes	7.50	15.00	Safeway	
7/98	Festival IGA Benalla	7.50(e)	13.00(e)	Bi-Lo	
QUEENSLAND					
3/95	Cox Bros Coffs Harbour	15.00	30.00	Woolworths	
9/95	Denhams Cannonvale)				
10/95	SPAR Yeppoon)				
11/95	Q-Superstore)	37.50	75.00	Bi-Lo	
	- Woodridge)				
	- Mermaid Waters)				
2/96	Pick n Pay Aspley	12.20	90.00 (e)	Coles	
1/98	Festival IGA Cloncurry	5.00	10.00	Woolworths	
TBC	Festival IGA Proserpine	4.50(e)	9.00	Franklins	
TBC	Progressive Victoria Point	6.00(e)	12.00	Franklins	
7/98	Festival IGA Mossman	5.00(e)	10.00(e)	Woolworths	
S.A./NT					
10/96	Rite Price Darwin	2.45	4.90	Woolworths	
4/97	Foodland Stirling	8.05	16.10	Woolworths	
W.A.					
1/96	Supa Valu Kalgoorlie	2.80	7.00	Coles	
8/96	Supa Valu Mundaring	6.80	17.00	Coles	
9/96	Newmart (6 stores)	29.90	93.55	Coles	
2/97	Farmer Jacks - Beechboro	8.30	20.80	Coles	
3/98	Charlie Carters (15 stores)	30.25	75.65	Coles	
TAS					
	Nil since 1.1.95				
AUSTRALIA		67 Stores	338.0	819.70	

* Independent retail stores purchased by the major chains

N.B.

For 1997 total supermarket sales were \$36,099 million (ABS) so the store losses above represent around 2.3% of the total market.

14. The preceding table entitled *Chain Grocery Market Share –December 1997* (page 12) indicates the severity of the dominance of the three major supermarket chains (Woolworths, Coles and Franklins) at this time. It is our considered view that this reversal in market share as seen in the pie charts on page 10 between 1975-1997, has come at a large cost to;

- *Australian families;*
- *Australian jobs;*
- *Australian small businesses;*
- *Rural and regional communities; and*
- *Containment of Australian Retail Prices*

15. On current trends, as demonstrated on the previous page, the major supermarket chains continue to make significant incursions into the grocery retail sector at a rate of approximately 2% a year nationally¹³, as well as increasingly into other retail sectors which have always been traditionally serviced by family owned and operated small businesses: liquor, bakeries, pharmacies, newsagents, petrol stations, florists, photo lab services, butchers-and the list continually lengthens.

16. This segment of the submission has therefore sought to sensitise Commissioners at the Productivity Commission as to the critical state of the retail grocery market in Australia at this time, and our members' concerns with the National Competition Policy generally.

SECTION SOLUTIONS

17. We believe the implementing of the recommendations outlined in the conclusion of this submission, would produce a healthy competitive environment in the retail grocery industry and the benefits would flow on to all Australian families, consumers, small businesses and increase the quality of employment for many Australians, particularly those working in the retail sector in rural and regional areas.

18. Internationally it is not uncommon for governments to, by legislative means, restrict the power and size of retail giants for the purposes of promoting real competition in the market place. In a later section of the submission examples are given as to how the US have dealt with anti-competitive situations in their market place through the application of Anti-Trust Laws.¹⁴

¹³ Refer National Cheque Book Acquisitions by the Major Chains since 1995, in register displayed opposite.

19. Recently, in July of this year, the Director-General of the Department Fair Trading in the U.K. announced his intention to measure the profitability of Britain's three largest supermarkets chains, who have a combined concentration of 45% (as against Australia's top three commanding in excess of 80%), so as to determine the level of artificial profit of the group.¹⁵

20. Moreover, in France and Germany their governments have placed restrictions on retail giants for the purposes of promoting small businesses and through that policy they are directly supporting families, quality employment, rural and regional communities, and a market place where there can be many effective competitors all of which is of ultimate benefit to the consumer.

21. Graphical comparisons of the various market concentrations in the retail grocery markets in Asia and Europe can be observed as an Attachment to *Appendix 2* and on the following page.

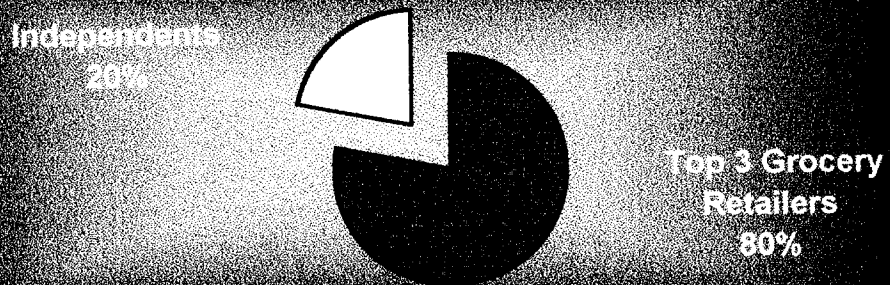
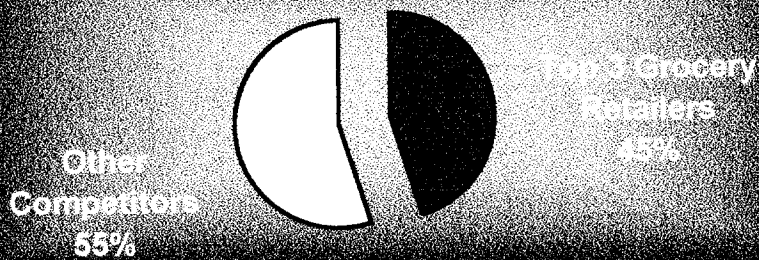
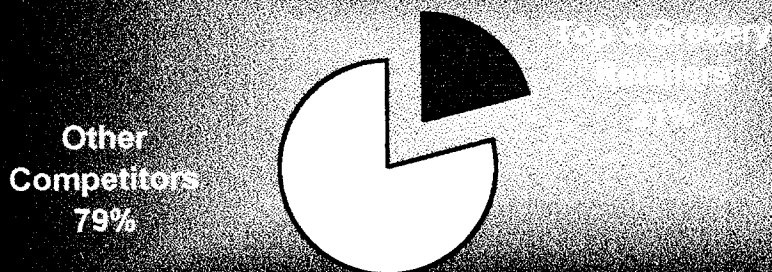
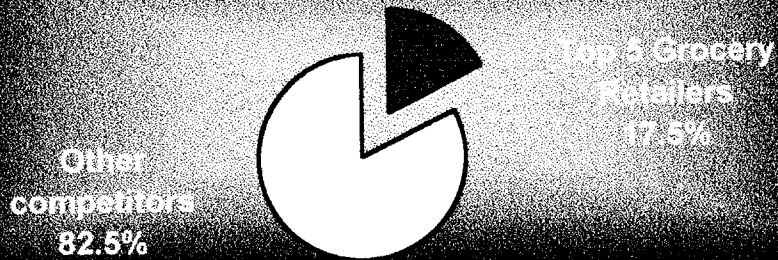
22. In the lead up to the October Federal Election, NARGA ran a comprehensive educational campaign on the anti-competitive and unhealthy trading environment existing in the retail grocery market entitled *Enough is Enough*. The information pamphlet for this campaign (*Appendix 2*) provides further detail as to the serious challenges currently faced by the small and independent grocers of Australia. In particular, Commissioners are asked to take special note of the recommendations contained on page three of that document, which are advanced further later in the submission.

IV Current Trading Environment Faced by Independent Grocers

23. Small and independent grocery stores throughout Australia have increasingly become casualties of the financial power of the major supermarket chains.

24. As a consequence the traditional independent grocery store has diminished to such an extent that many independents in States such as New South Wales are relegated to rural and regional or sparsely populated areas. Localities, which as we write, are now also becoming increasingly under threat from the major chains. Many case histories exist which show that when major retailers move into rural and regional centres, surrounding centres suffer, small businesses close down, money, employment and wages withdraw from surrounding towns and finally the infrastructure and foundation of the affected centres decline.

¹⁴ Refer *Appendix 4* Office of Fair Trading Announces Inquiry Into Supermarkets



25. We are not alone in this type of problem and how to solve it. The pattern of difficulties independent grocers are now facing has been a major feature in some parts of America, and precedents exist as to how best we may restore a sense of balance to the retail grocery market¹⁶.

26. The impact on regional and rural areas has been devastating, since most independent grocery stores are family owned and operated and are the financial savings plan or nest egg for the family. Competition from the major chains has all but decimated the custom for many of the independent grocers throughout Australia. This has had negative impacts on thousands of families and the trend is continuing.

27. In recent years NARGA and other representatives of the retail grocery industry have not been backward in voicing their concerns. Two recent Federal Government reports entitled *Finding a Balance – Towards Fair Trading* report (the Reid Report) by the House of Representatives Standing Committee on Industry, Science and Technology, was published in May 1997 and more recently in February 1998 a report of the Micro Business Consultative Group entitled *Under The Microscope – Micro Business in Australia*. Both carried a similar message to those who choose to take seriously their findings.

“There needs to be a recognition the Australian commercial environment is no longer conducive to fair competition because of high levels of concentration in many industries – including retailing. It is naïve to expect small business to survive unrestrained ‘competition’ without some form of protection from the worst excesses of the exercise of economic power.” Reid Report: para. 4.68

“The Committee recommends that the Australian Competition and Consumer Commission (ACCC) make investigations of complaints and enforcement of the law, in relation to the misuse of market power in the retail sector a top priority in light of the high degree of concentration in that sector and the disturbing evidence submitted to the Fair Trading inquiry.”

Reid Report: Recommendation 41

“The Committee recommends that the Trade Practices Act 1974 be amended to give the Australian Competition & Consumer Commission the power to take representative action under Part IV of the Trade Practices Act which deals with the various forms of restrictive trade practices, including the misuse of market power.”

Reid Report: Recommendation 4.2

¹⁶ A major report was conducted into this phenomenon in the US, which is loosely referred to as the Shils Report refer Appendix 8.

“Predatory pricing is a particularly prominent problem in Australia because of the very high degree of market dominance held by the major grocery retailers. Together the top three hold more than 70% of the market...”¹⁷

Under The Microscope: 1.65

28. In conclusion we believe there is now clear independent findings that are consistent with our views that with nearly 80% concentrated in the hands of just three major supermarket chains, the retail grocery market is anti-competitive and the key negative impacts will continue to exist until such time as the ever-increasing market share of the major supermarket chains is capped¹⁸ and reduced to levels that are in the public interest.

- *anti-competitive - no room left for the small operator to effectively compete. Why are the NCC and government watchdog agencies doing nothing about this? Nowhere else in the Western world is there such an entrenched oligopoly, in ostensibly one of the most free market economies, existing?¹⁹*
- *contrary to the public interest - no real freedom of choice in free market environment*
- *anti-employment - for every position gained by the supermarket chains, 1.7 jobs are lost to small business²⁰*
- *ever increasing control by the big chains are destroying the hard-won infrastructures of rural and regional Australia, given that small business proprietors are the very foundations of such communities.*
- *anti-families - since in most states it has been small business that has been the real job generator in the community, and of that sector of our community more than 80% are micro-businesses²¹ which are predominantly owned and operated by families and employing family members²².*

¹⁷ Under the Microscope – Micro Business in Australia – Report by the Micro Business Consultative Group. Page 68.

¹⁸ And in due course wound back to an agreed reduced market share profile that will ensure the small and independent grocer is able to maintain a continued competitive presence in the market place.

¹⁹ Based on all our research with the support of AC Nielsen

²⁰ COSBOA research statistics.

²¹ Report by the Micro-Business Consultative Group *Under the Microscope – Micro Businesses in Australia*.

²² Tasmanian Independent Wholesalers, *The Obstacles We Face and the Way Ahead*, 1998, pages 2-8.

V The Nature and Importance of Small and Micro Businesses to Australia's Economy

29. The activities of our small business sector are acknowledged as a vital and significant sector of Australia's rural and regional economy. Indeed, noted for its strict objectivity, it is significant a recent Australian Bureau of Statistics (ABS) publication entitled "*Small Business in Australia 1997*" at page one clearly states:

*'Small business performance is recognised world-wide to be one of the keys to general national economic goals such as business and employment growth.'*²³

30. ABS has estimated there were just over 1,000,000 small private sector businesses in Australia in 1996-97. These businesses employed some 3.5 million people.

31. The definition as to what constitutes a *small business*, has been defined by the ABS to mean a business that has the following organisational characteristics:

- independently owned and operated;
- closely controlled by owners/managers who also contribute most, if not all of the operating capital; and
- the principal decision-making functions rest with the owners/managers²⁴.

32. Contrary to popular belief, most successful businesses are on average over 5 years old.²⁵ However, the age varies between industries –with food, beverages and tobacco; metal products; retail trade and personal and other services having a higher proportion of very young firms.

33. It is from this sector of the retail grocery market, that a significant proportion of NARGAs' membership lies and given limited capital reserves such businesses are most vulnerable to unnecessary bureaucratic or regulatory red tape.

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²³ Australian Bureau of Statistics *Small Business in Australia 1997* pp1.

²⁴ Ibid pp1.

²⁵ BLS. Table 3.17.p40