

Public Submission
to
ACCC Grocery Inquiry

By

Southern Sydney Retailers Association

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**WHAT HAS HAPPENED TO THE PRICE OF
BREAD IN AUSTRALIA ???**



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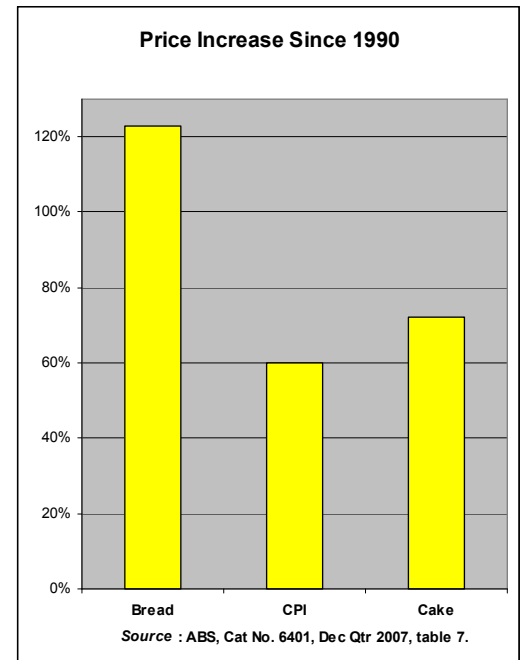


How much has the price of Bread increased ??

Given that our supermarket giants claim to have been engaged in “vigorous competition” in the “world’s most highly competitive retail market”, providing consumers with low prices they can count on everyday – how is it possible that the retail price of bread has increased **123%** since 1990 when the Consumer Price Index (CPI) has only increased **60%** during the same period ?

There can only be two answers.

- 1) The drought and other international factors have increased the cost of the wheat, the main ingredient in bread, and these increasing costs have pushed up retail prices more than twice the rate of the CPI.
- 2) Competition has collapsed as the result of highly mistaken economic theories, and the Trade Practices Act and its administration requires a complete overhaul.



How much could ‘the drought’ be responsible for increasing the retail price of bread ?

It is a fact that the price of wheat has increased significantly, not just in Australia, but worldwide over recent years. Therefore what effect is this likely to have on the retail price of bread ?

To save the ACCC having to make its standard vigorous in-depth economic analysis, this exact question has already been investigated by the US Department of Agriculture, who asked the following question – and then provided the answer ;

If wheat prices double, for example, how much would the price of a loaf of bread change?

The cost of wheat in a loaf of bread in 1990 was 5 percent of the retail price, while other farm ingredients added another 2 percent. The remaining 93 percent came from processing and distribution costs

So, for example, to adjust for a 100-percent increase in the price of wheat, the retail price of a \$1 loaf of bread would have to increase by only 5 percent. ¹

So if research by the US Department of Agriculture has confirmed that a 100% increase in the price of wheat will only increase the retail price of bread by 5% - then drought and other international factors increasing the price of wheat, cannot be blamed for the **123%** increase in the retail price of bread in Australia since 1990 – more than double the rate of inflation.

The Australian Reserve Bank has also arrived at a similar conclusion to the US Department of Agriculture. In an article published in The Australian last year²,

THE Reserve Bank has thrown cold water over claims that the drought is the worst in 1000 years or even 100.....

More of the country was also struck by the droughts of the 1980s and 1940s, and the average rainfall this year (2006) has been above the level in many previous droughts.

..... although wheat farmers, particularly in NSW, will suffer a large fall in production... past experience suggests the drought will have very little effect on inflation.

In the last drought, for example, the wheat price soared, then fell, but there was little change in the cost of a loaf of bread.

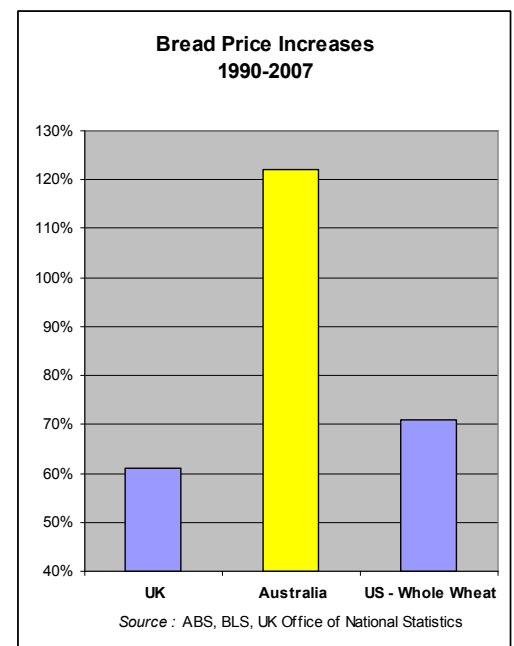
What about the Retail Price of Bread in other Countries ??

Woolworths CEO Mr Luscombe has recently claimed that, “*rising grocery prices were part of a worldwide trend*”³

Wheat is an internationally traded commodity – with a worldwide price. When the price of wheat increases, it increases for bakers worldwide.

Therefore, if the drought and other international factors push up the price of wheat, and this is responsible for increasing the retail price of bread, then the retail price increases we see in Australia should be comparable to price increases for bread in similar international markets.

So have consumers in other countries also suffered with the price of bread increasing **123%** since 1990 like it has in Australia ?



According to figures from the UK Office of National Statistics, the price of bread in the UK has increased just **61%** since 1990.

¹ Food Price Update, US Department of Agriculture http://findarticles.com/p/articles/mi_m3778/is_1992_April/ai_12150969/pg_1

² “The Reserve rejects one in a thousand year drought claim” <http://www.theaustralian.news.com.au/story/0,20867,20753489-2702,00.html>

³ Source : <http://www.smartcompany.com.au/Free-Articles/The-Briefing/20080122-Grocery-inquiry-terms-of-reference-released.html>

In the USA, the statistical agency the Bureau of Labour Statistics, reports that the price of wholewheat bread has increased **71%** since 1990.

So if bakers in all other countries are experiencing the “worldwide trend” of increases in the price of wheat, why has the retail price of bread in Australia increased **123%**, compared to just **61%** in the UK and **71%** in the USA over the same period of time ?

Conclusion – Competition has Collapsed.

The only conclusion that can be reached is that Australian families are paying substantially higher prices than they should for bread, not because of the drought, or any other worldwide trend – but simply because competition has collapsed in the Australian food retailing sector.

Alarm bells should start ringing for the Rudd Government, when the same group of individuals that have claimed in the past that Australian is the world’s most competitive retail market, when the truth has been that supermarket prices in Australia have been rising faster than anywhere else in the developed world, are also the very same group of individuals that have argued against any changes of the Trade Practices Act ?

It is a completely unacceptable situation that Australian families are being punished, with food prices rising faster in Australia than anywhere else in the developed world, because of the now discredited theories, and failed policies of our so-called competition law “experts” that have been calling the shots over the last two decades.

This inquiry seeks to find out why food prices in Australia have increased faster in Australia than the rest of the developed world, the answer is simple – competition has collapsed through the failure of the Trade Practices Act and its administration.

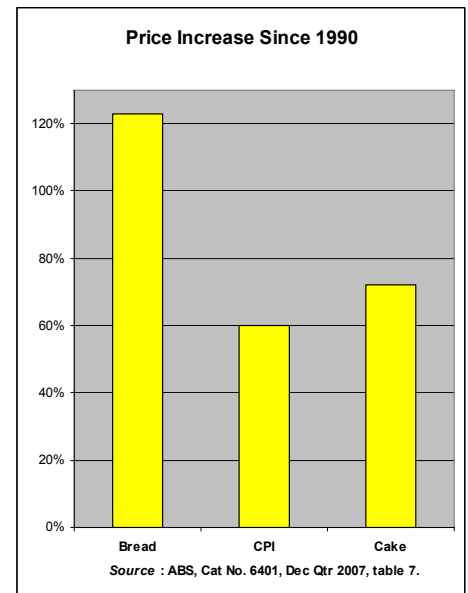
The Supermarket Giants' Contrary Argument.

To present a balanced submission to this inquiry, following is the alternative argument, from the point of view of the supermarket giants.

The price of bread enables this inquiry to dispel, once and for all, the misleading and inaccurate information about food pricing, in Australia and creates an opportunity to bring commonsense and clarity to the debate on Australian supermarket prices.

Consumers throughout Australia are benefiting from the intensity of competition in the world's most competitive retailing market with savings from volume buying being passed onto consumers in the form of lower prices. The intense rivalry between the two supermarket giants is the driving force for lower prices enjoyed by all Australians.

One example of the benefits to consumers resulting from the highly effective Trade Practices Act, which ensures a vigorously competitive market, is how the supermarket giants have lowered the price of cake.



Although ABS figures⁴ reveal that since 1990, the CPI has increased only **60%** but the lower prices resulting from the vigorous competition in the retail sector has increased the price of bread by **123%** - however over the same period the price of cake has been driven down increasing only **72%**.

Therefore cake is now cheaper relative to bread !!

Reducing the price of cake has been a goal of governments through history. Before the French Revolution, a French law required bakers to sell loaves at fixed prices and fancy loaves & cake had to be sold at the same price as basic breads. The aim was assist the poor by "*letting them buy cake at the same price as bread*". Under the current competitive environment, that the Trade Practices Act produces, Australia is well on the way of achieving this goal.

As spokeswomen, for the giant retailers **Marcy Osmand** thoughtfully reminds us; "every time you put something new in the Trade Practices Act you run the risk of creating unintended effect that undermines competition"⁵

Therefore if we if we leave the Trade Practices Act alone, the current "competitive environment" **Marcy** seeks to protect will continue, and on existing trends, very soon, bread will be so expensive, that all Australians will be able to buy cake at the same price !



This demonstration provides irrefutable evidence of that the market is delivering a fair deal to Australian consumers and it dispels once and for all the misleading and inaccurate information about food pricing, and why no changes to Trade Practices Act are necessary. The current competitive environment in the Australian retail sector is just right !!

Should any ungrateful Australian complain about the current competitive environment of the Trade Practices Act delivering a **123%** increase in the price of bread, the answer is simply – let them eat cake !!

⁴ Australian Bureau of Statistics, Catalogue No. 6401 Dec Quarter 2007, Table 7, Group-Sub Group and Expenditure Class.

⁵ Marcy Osmand Australian National Retailers Association, Media Release 20th August 2007
<http://www.anra.com.au/images/stories/pdfs/tpa%20inquiry%202%20august%202007.pdf>