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Feb 08

to:ACCC (Investigative Officer)  
Grocery Price Inquiry  
GPO Box 520  
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cc.Hon Tony Burke MP  
Minister for Agriculture, Fisheries & Forestry  
Parliament House  
CANBERRA ACT 2600

Hon Bob Katter MP  
Member for Kennedy  
Parliament House  
CANBERRA ACT 2600

Mr Paul Howes  
National Secretary AWU  
377 - 2383  
Suffix St  
SYDNEY 2000

Dear *Sir/Madame*

**SUBMISSION ON GROCERY PRICE INQUIRY**

Attached is a submission for consideration by the conducting officer of The Grocery Price Inquiry directed by the recently elected Federal Government. My submission is based on sixty years experience gained in the pursuit of successful enterprises comprising the Banana Industry, the Beef Industry, the Sugar Industry and the Dairy Industry. This submission draws on my observations and experiences over this considerable length of time, with many changes of government and the vicissitudes of many variations in seasons and locations (from Atherton tablelands in Queensland, Northern NSW and latterly in Southern NSW). These differing locations involved vast changes in seasonal conditions and contact with a wide cross section of bureaucrats, agents, processors, retailers and staff

Because of this wide variety of factors impacting on my working life I believe my comments brings both historical perspectives and realistic expectations to my submission.

I hope you find this submission helpful.

Yours faithfully

*W. J. Doohan*  
(W. J. DOOHAN)

Attachment: **Submission on Grocery Price Inquiry**

FILE No
DOC: D08/13907
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## **SUBMISSION ON GROCERY PRICE INQUIRY**

The following factors should be considered in any inquiry into grocery prices in Australia. In essence the inquiry needs to relate to the farm producers, the processors and the supermarket retailers, with a peripheral investigation into transportation and the rising impacts of fuel costs on all three areas.

### **OPPORTUNISM**

No one should question the rightful place of a reasonable profit in the pricing of groceries, where I feel that exploitation takes place is in the issues of 'opportunism'. This does not mean the legitimate opportunity made in the case of supply and demand, where shortage of a product raises the price in accord with accepted economic practice. The opportunism that should be questioned are: exploitation of natural disasters, excessive profit made using processors and producers money without interest, paper entries masking actual profits on money invested, home brands without transparency, warehousing figure fudging, freight costs and pre-emptive price rises upstream.

### **Natural Disasters**

One of the best examples of exploitation after natural disasters is that which occurred following the devastation of the Queensland banana crops by cyclone Larry. Bananas were selling at \$150 per carton at the markets yet they were being retailed at \$16/ kg in supermarkets. There is 13 kg per carton which equates to \$208 per carton (38.7% profit). This is a significant impost on an already inflated product. Normal profit on a case of bananas is approximately \$10 vs \$58. This particular item was blamed for having an effect on inflation by the reserve bank even though a senior supermarket executive was a member of the board at the time.

Another consideration is the use of the 'drought' to raise the price of milk – farmers were given a 3 cent per litre increase as compensation for increased feed costs . At the same time farmers were given an additional 10cents for movement in world prices – a total of 13 cents. Supermarkets, blaming the 'drought' meanwhile raised the price of milk 20 cents. A 53% increase above that paid to the farmer – what justification was there for this? Did the processors exploitation warrant such an increase by the supermarkets?

### **Use of Processors and Producer's Money for Excessive Profit**

The supermarket procedure for buying milk is to take delivery of the milk and delay payment for five weeks to the processor thence money is paid to the producer. During this five week period up to three deliveries can be made **per day** to a busy supermarket. It is reasonable to assume that this milk is sold within a day. This means that costs and **profits** are made within two days with no outlay necessary by the supermarket to purchase the milk. Considering the long lag time forced on the processors before payment is made, supermarkets are in the exploitive position of having never invested in milk and using only generated money from the milk sales to pay for the deliveries. **Therefore the percentage profit made is incalculable in terms of bookkeeping!**

In addition, this means that supermarkets are in effect using money owed to processors and farmers to expand their businesses with no interest paid. **Contrast this process with the need of consumers to pay immediately on receipt of groceries.**

### **Paper Entries Masking Actual Profits**

From the above supermarkets are able to make 'paper entries' claiming investment for money they have not invested and because they made these entries they are then able to claim a modest profit for taxation benefits – this in fact is a tax benefit paid for by farmers and processors. (In effect taking money out of the country into the cities)

### **Home Brands (Generic Brands)**

Packed with 'Australian and Imported Products' is a meaningless label when no details of what is made where and what percentage is included. Home brands lack transparency in their sourcing and pricing, this places producers in an unenviable position when they are unable to determine what price is being paid to the processors by the supermarkets and what discounts are being given to their detriment to secure the contracts. Home Brands are a significantly growing trend and will need to be labelled more fully to ensure that transparency to the producer and the purchaser exists.

### **Warehousing**

A dubious common practice with large supermarket chains is the practice of an increased percentage 'add on' whereby fresh goods are being centralised in a warehouse as a means of efficiency of securing cheaper products, storing and distributing to stores thereby ostensibly saving costs and making cheaper products available to the purchaser. This 'cheaper' product is compromised when the warehouse 'book keeping entry' of a percentage add on of a certain percentage out vs in is made. The reason for this added cost impost needs to be fully examined as it can be quite specific to differing outlets.

### **Freight Costs**

Country areas suffer badly by the impost of freight costs added to products which are patently excessive – the worst example here is in fuel differences in the country vs the city. However it applies to many other products and full justification and visibility of actual freight costs should be demanded to better protect country people from blatant exploitation in this area.

### **Pre-emptive Price Rises**

Following on from the common super market practice in the case of milk deliveries and also in many other lines, such as fruit and vegetables, is the notion of 'pre-emptive price rises' that is on the announcement of a price rise in milk to the producer the retail stores immediately raise their prices – even though they will not have to pay for the dearer product for another 5 weeks – this practice is straight opportunism and should be stamped out.

## **OTHER ASPECTS**

### **Imported Foods**

It is not without good reason that many countries around the world subsidise their agricultural communities in order to ensure that their home grown industry survives. The value of our own agricultural industry was starkly underlined during the isolation the nation experienced during WW2.

The use of a zero tariff on the importation of agricultural goods and indeed most goods is queried when the differing world standards of employment conditions are viewed. Two major examples of exploitation of Australian growers are evident and these are goods supplied which are in fact 'subsidised' by the cheap labour used, with poorer conditions than Australian workers and straight government subsidies which allow goods to be shipped at costs below actual costs of production.

### **Cheap Working Conditions.**

Australian workers enjoy the hard earned benefits of long service leave, sick leave annual leave and stringent conditions on employment. The 'cheaper sourced' countries do not have to factor these conditions into their wage payments and hence production costs are significantly reduced. This means that a level playing field is not evident and no producer in Australia can meet these low prices even with ever increasing efficiency in terms of machinery and better farming practices. The result of increased cheap imports of food will be to further reduce farmers profits and hence the nations self sustainability.

A minimum tariff should be factored into prices as a **non negotiable** percentage which covers workers special provisions in Australia. This can be imposed on a country by country basis in accordance with their respective workers condition and supervised by the AWU.

### **Government Subsidies.**

Countries which insist on subsidising their products should have their tactics recognised for what they are doing merely using a reverse tariff; their government 's subsidy is in fact paying the equivalent of a tariff before the goods are produced. These countries, using subsidies and hypocritically pointing to the GATT rules to force Australia into allowing their cheap imports should attract a tariff in our country to the level of their subsidy in recognition of this.

Our negotiators must insist on a level playing field in both of these areas to protect our vital agricultural industry.

### **The Future**

With the rising living standards of China and India and the huge numbers of people involved in these countries it has been projected that many of these people will switch to western style food supplies, thus creating a possible world wide food shortage and consequent significant price rise in all commodities.

Policies of using voodoo economics that have a short term gain, such as encouraging the import of cheaper foodstuff at the expense of our own industries (eg the current straits the pork industry finds itself in) is becoming more evident each year. If we are not careful we will develop a single source economy and risk becoming a basket case economy in the future as is the case with several African countries encouraged by their colonial masters in the past to abandon their own self sustaining industries and to concentrate on their strengths (eg copra, copper cocoa).

Most developed countries are stringent in protecting their ability to feed themselves. Any worthwhile economist will know that the Australian internal market for agricultural goods (around \$55 bn) far exceeds our projected exports of agricultural goods (around \$16bn). Hence to help our agricultural producers to survive and to be prepared when the world wide food shortage occurs we must ensure that our own market is not shut out to our farmers by ignorance and misguided economist who should look at both sides of the equation before passing on their advice to the relevant ministers.

It should be noted that once an industry is destroyed by unfair competition for perceived short termed gains it is very difficult, and usually impossible to restart, with no infrastructure left to sustain it

A self sustaining and more profitable farming sector can continue to offer employment with good wages to encourage the population to move off the seaboard into the country and continue to guarantee quality food at reasonable prices rather than face a bleak future of having our food prices being dictated by other countries. With a looming world wide food shortage this is an extremely short sighted view and not one that any government would want to be associated with.