



11 March 2008

Mr Graeme Samuel AO
Chairman
Australian Competition and Consumer Commission
GPO Box 520
Melbourne VIC 3001

Dear Mr Samuel

On behalf of the Australian National Retailers Association (ANRA), I am pleased to provide the Commission with a submission for its inquiry into grocery prices.

ANRA represents Australia's leading national retailers including Woolworths, Coles and Franklins. ANRA members strongly support open, competitive markets as the best guarantee of economic efficiency and consumer welfare.

ANRA welcomes the opportunity to place on the public record its views on the healthy state of competition in the retail grocery sector.

The ANRA submission presents a factual case showing that the retail grocery sector is competitive and open to entry by new retailers. There is no evidence that the structure of the market, or the conduct of participants, inhibits vigorous competition.

The factors cited by some parties as evidence of deficient competition are either exaggerated (ie. claims about the market share held by the two largest retailers) or attributable to external factors (eg. changes to global commodity prices).

For these reasons, ANRA believes that enforcement of existing sanctions under the Trade Practices Act 1974 is sufficient to address any market conduct issues. Governments could stimulate even further competition in the sector through reforms to lower the barriers to entry posed by planning and other regulations.

ANRA would be pleased to provide any further information to assist the Commission in its inquiry.

Yours sincerely


Margy Osmond
Chief Executive



Australian National Retailers Association (ANRA)

**Submission to the
Australian Government's
ACCC Grocery Inquiry**

March 2008

Prepared by:

Australian National Retailers Association

8/16 Bougainville Street

MANUKA ACT 2603

Tel: 02 6260 7710

Fax: 02 6260 7705

www.anra.com.au

3 Spring Street

Sydney NSW 2000

Tel: 02 8249 4520

Fax: 02 8249 4914

CONTENTS

CONTENTS	1
EXECUTIVE SUMMARY	2
INTRODUCTION	3
THE RETAIL SECTOR	4
A key sector for growth	4
Food is first	4
Defining the retail grocery market.....	4
Market shares	6
More, not less competition.....	7
A mature industry.....	9
FOOD PRICES	10
Rising prices in Australia	10
Rising prices in most developed countries	11
Global products, global prices	12
Impact on family budgets.....	14
CONCLUSION	16

EXECUTIVE SUMMARY

The Australian National Retailers Association (ANRA) supports an open competitive retail market in Australia.

In 2008, Australians benefit from a dynamic, competitive retail grocery market. Price competition is intense across the sector. The entry of new retailers and the growth of independent retailers confirm that the sector is open to competition:

- The market share of independent retailers is stable if not rising;
- Retail margins are lower in Australia than in other countries; and
- Supermarkets do not set ‘farmgate’ prices for staple items.

Nevertheless self-interested critics claim that the retail grocery sector is not competitive and requires government intervention. Critics allege that Australia has a unique, unacceptably high level of market concentration in the retail grocery sector and that this market concentration is the cause of rising grocery prices.

The first claim is based on sales data which excludes essential consumer grocery purchases (eg. fresh meat, fruit and vegetables) and points of sale other than supermarkets and grocery stores. A broader measure suggests that the grocery market is more evenly divided between large and independent retailers. As always, defining the market is a critical issue when assessing potential market power.

The second claim ignores the reality of food prices, in real terms, rising in most developed countries due to global changes in supply and demand. Australian farmgate prices are set by either global commodity prices or import parity prices. Local factors such as the introduction of the goods and services tax, the drought and higher fuel prices have also contributed.

Arguments for further government regulation of the market need to demonstrate market failure and how such intervention would improve competition. ANRA believes that there is no credible evidence of an uncompetitive market structure or of systemic anti-competitive conduct. Vigorous enforcement of Part IV of the Trade Practices Act 1974 and regulatory reforms to lower the barriers to entry to the sector are far more likely to enhance competition and consumer welfare.

INTRODUCTION

The Australian National Retailers Association (ANRA) represents the leading national retailers in Australia, across a broad range of retail products and services. Members of the Association include Australia's most trusted household names in supermarket chains, department stores and speciality retailers.

In 2007 ANRA members employed more than 600,000 Australians.

ANRA was formed in 2006 to ensure that governments, and the community, understand the contribution retailing makes to the national economy. The retail sector touches the lives of all Australians every day. An efficient, competitive retail sector generates tremendous consumer and economic benefits. ANRA seeks to ensure that public policy makers understand the retail sector and support policies which enhance the capacity of the sector to meet consumer needs.

While many ANRA members compete fiercely with each other, all members share the belief that Australia is best served by an open, competitive retail market. Competition maximizes choice for consumers and the sector's contribution to the national economy. Competition spurs innovation and efficiency.

ANRA members endorse the Council of Australian Governments' (COAG) Competition Principles Agreement and the COAG Principles of Best Practice Regulation which state that legislation should not restrict competition unless it is demonstrated that the community benefits of restricting competition outweigh the costs and that the regulatory aim can only be achieved by restricting competition.

ANRA welcomes the opportunity presented by the Grocery Prices inquiry. ANRA trusts that the inquiry will generate a well informed public debate about the retail sector. In particular, ANRA welcomes a rigorous analysis of the self-interested claims made by parties seeking heavy handed government intervention in the market.

ANRA notes the points in the Australian Competition and Consumer Commission's (ACCC) issues paper seeking commercial information on matters such as supply chain practices. ANRA does not hold such sensitive commercial information relating to its members. For this reason, ANRA's submission will focus on the state of the Australian retail sector.

Since 1999, the sector has been subject to a series of government inquiries, beginning with the Joint Select Committee on Retail Trading. These inquiries have not found that systemic market conduct issues exist in the sector. Nevertheless, the sector is regularly obliged to produce extensive and sensitive commercial information to counter weak claims by self-interested parties. All these inquiries demand a substantial commitment of resources from companies. ANRA is concerned by this ongoing governance and reporting burden placed on the sector; ultimately these costs are passed on to consumers.

THE RETAIL SECTOR

A key sector for growth

The retail sector is a vital part of the Australian economy. The sector contributes 6.2 per cent of gross domestic product, a share of total industry value-added twice as large as agriculture, forestry and fishing.¹

Retailing is Australia's largest employer, providing 1.58 million jobs in November 2007 or 15 per cent of total employment. In the five years to November 2007, the sector created 154,000 new jobs.²

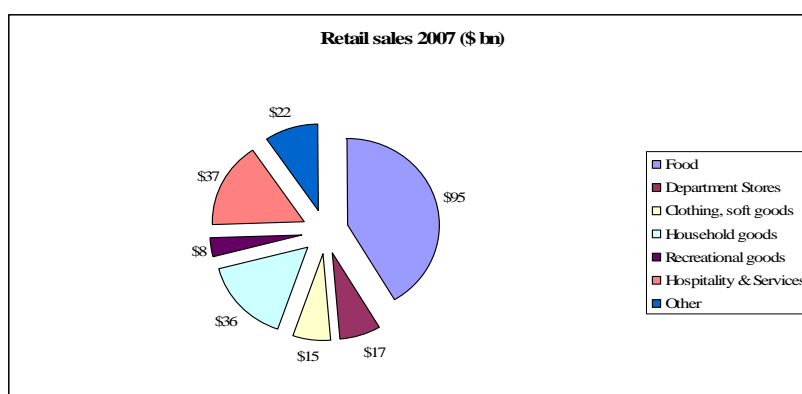
The sector is especially important as an employer of young people and of women seeking part-time work. About half of all employees aged 15 to 19 and one in five of employees aged 20 to 24 work in retail. Retail is also the second largest employer of women; 838,000 women work in the sector with more than 500,000 working part-time.³

The sector is growing strongly. Since 2001-02, turnover has grown by almost 28 per cent.

Food is first

By a huge margin, food retailing is the single largest segment of the retail market.

In 2007, retail turnover reached \$233 billion distributed between food retailing (\$95.6 billion), department stores (\$17.8 billion), clothing and soft goods (\$15.1 billion), household goods (\$36.4 billion), hospitality and services (\$37.7 billion) and "other retailing" (\$22.6 billion).⁴



Defining the retail grocery market

1. ABS Australian Industry Statistics 2005-06 (8155.0), 23 November 2007
2. ABS Australian Labour Market Statistics (6105.0), 11 January 2008.
3. ABS Australian Labour Market Statistics (6105.0), 11 January 2008.
4. ABS Retail Trade (8501.0), 5 February 2008.

Arguments about market power turn on how broadly, or narrowly, the market in dispute is defined. In general, the larger the market, the more difficult it is to prove that a business wields significant market power. Defining the market in narrow terms often has the opposite effect.

Markets are usually defined according to one or more characteristics: product, geography, time and function. These “who”, “what” and “when” questions are rarely simple.

The retail grocery market can be defined in at least four broad ways:

- By industry sub-group: all food sales in supermarkets and grocery stores. In 2007, this market would have been worth \$66 billion;
- By industry sub-group, with specialist food retail outlets such as bakeries and butchers’ shops (part of the “other retail” sub-group) included. In 2007, this market would have been worth between \$66 to \$85 billion;
- By product: all sales of selected food products regardless of retail outlet; or
- By all food retail sales: assuming that groceries and takeaway food are ready substitutes competing for the same consumer dollar. In 2007, this market would have been worth \$95 billion.

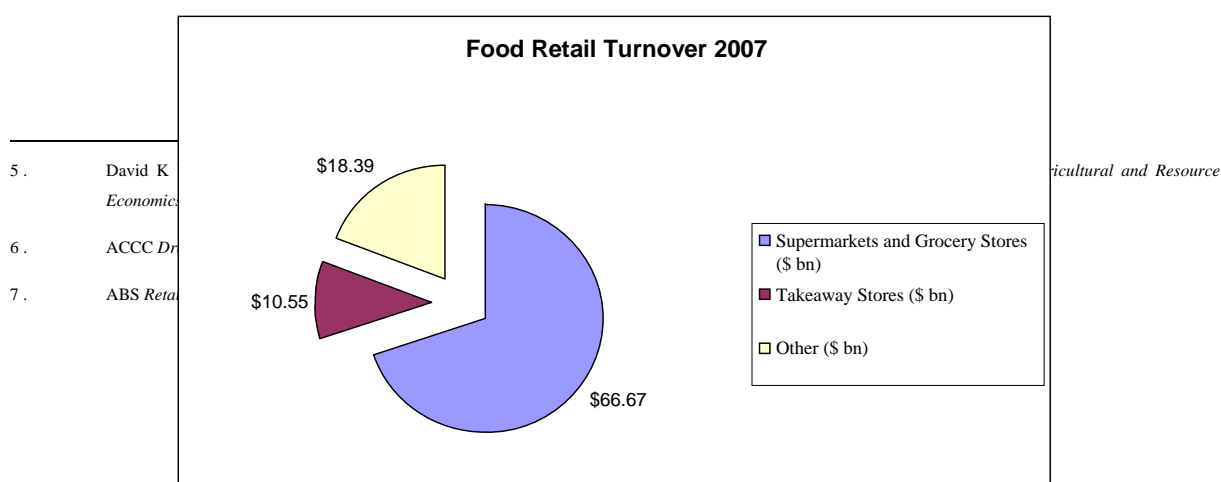
This list is far from exhaustive and is intended only to illustrate that a range of definitions for the retail grocery market can be plausibly made. To these broad markets can be added an endless number of geographic and product markets.

It is important to recognize that “market definition is a means to an end – to assess whether a firm’s conduct is anticompetitive”.⁵ The draft merger guidelines issued by the ACCC make the same point: “while market definition is a useful tool for merger analysis, it is simply the starting point for determining a merger’s impact on competition”.⁶

Defining the market is important as a first step in determining whether a business has the market power to behave in an anti-competitive fashion. However, establishing that a business is large does not prove that it has the capacity to distort markets. Having market power does not inevitably mean that a business resorts to anticompetitive conduct.

Complicating the challenges in defining the scope of the retail grocery market are gaps in the statistical data. The ABS produces separate data sets for total food retail sales for each industry sub-group and total retail sales for major commodities but there is a dearth of data to show what products are sold in each industry sub-group.

ABS data can show how total food retail sales are distributed between industry sub-groups. Supermarkets and grocery stores account for almost 70 per cent of food retail sales.⁷



ABS data can provide total retail sales for key product lines. In 2005-06, the main food products were meat (\$10 billion), fresh fruit and vegetables (\$8.4 billion), processed dairy products (\$5.9 billion) and processed fruit and vegetables (\$4.4 billion).⁸

However, the ABS does not disaggregate food retail sales by both product category and industry sub-group. ABS data does not reveal what share of specific product sales occurs in each industry sub-group. Groceries are sold in all three industry sub-groups but it is not always possible to state the value of goods sold in each sector.

Market shares

The broadest definition of the retail grocery market would be based on total Food, Liquor and Grocery sales data. Using this data, one study has estimated that Coles and Woolworths' combined market share is slightly more than 50 per cent with independent retailers accounting for 49 per cent of sales.⁹

For many years, the National Association of Retail Grocers of Australia (NARGA) has promoted an image of the retail grocery sector as overwhelmingly dominated by the largest retailers with small and independent retailers facing extinction. NARGA has gained widespread acceptance for its claim that 79 per cent of the market is controlled by Woolworths and Coles. This claim is then cited as proof that the market is not competitive.

The NARGA claim is premised on the narrowest definition of the retail grocery market (ie. just supermarkets and grocery stores) and is based on one data source. NARGA uses ACNielsen ScanData which reports sales of 105 "defined packaged grocery" products. NARGA claims this data is indicative of all supermarket sales. The result is a national figure of 78 to 79 per cent of sales for Woolworths, Coles and Franklins. State by State figures vary from 84 per cent in New South Wales to 68 per cent in Western Australia.¹⁰

Relying solely on ScanData gives only a partial snapshot of retail grocery sales. ACNielsen has advised against using ScanData as a measure of the total grocery market, suggesting that

8. ABS *Retail and Wholesale Industries, Australia: Commodities 2005-06*.

9. ACIL *Tasman Performance of Independent Supermarkets and Grocers*, June 2007, pp.26-27. This report was prepared for the Retail Traders' Association of Western Australia

10. ACNielsen *Grocery Report 2006*, p.12.

the market must also include fresh meat, fresh fruit and vegetables, delicatessen sales, bread and liquor.¹¹

At its simplest, ScanData does not include all food products nor does it cover all food retail outlets.

The data collected, for example, excludes fresh foods, such as fruit and vegetables, and in-store products such as bakery items. Products delivered directly to supermarkets and grocery stores - estimated by one study in 1999 to be worth at least 20 per cent of food and grocery sales - are not included.¹²

Nor does ScanData capture food retail sales in outlets other than supermarkets and grocery stores. Specialist retail stores such as bakeries or butchers' shops are not included.

In the case of some food products, sales in supermarkets and grocery stores can account for as little as 25 per cent of overall sales. In 1997-98, one study estimated that specialist stores sold 55 per cent, 49 per cent and more than 60 per cent of fresh meat and poultry, fresh fruit and vegetables and bread respectively.¹³ Roy Morgan research indicates that butchers and stores other than supermarkets account for 31 per cent and 8 per cent of meat sales.¹⁴ A study conducted for the Department of Agriculture, Fisheries and Forestry in 2004 found that 45 per cent of packaged milk and cheese sales are made outside the major supermarket chains.¹⁵

Often lost in this debate is the key point that a significant market share does not mean unconstrained market power; the potential for anti-competitive conduct in a market is determined by factors such as the barriers to entry, the availability of substitute goods and services and alternative markets. Lowering barriers to entry, such as planning restrictions, would do far more to enhance competition than intervention to distort prices or market.

Market share in itself tells us little about the conduct of a firm: "concentration statistics or even market shares attributable to individual firms by themselves tells us nothing about the dynamics of competition within a relevant market".¹⁶

More, not less competition

Over the last ten years, the number of supermarkets operated by both the major chains and independent retailers has steadily increased.¹⁷

The consolidation of many, small retail chains into larger "banner groups" of independent retailers has seen independents become more competitive.

11. Parliament of Australia. *Joint Select Committee on the Retailing Sector* (1999), chapter four.

12. Jebb Holland Dimasi *Retailing in Australia 1997/98: Industry Analysis*, pp.32-33. This report was commissioned by Woolworths.

13. Jebb Holland Dimasi *Retailing in Australia 1997/98: Industry Analysis*, pp.32-34.

14. Australian Competition and Consumer Commission. *Examination of the Prices Paid to Farmers for Livestock and the Prices Paid by Australian Consumers for Red Meat*, 2007, p.10.

15. Department of Agriculture, Fisheries and Forestry *Price Determination in the Australian Food Industry*, 2004, p.20 and p.24.

16. Round, "The Power of Two", p.54.

17. Jebb Holland Dimasi *Retailing in Australia 1997/98: Industry Analysis*, p.22; Coles annual full year profit news releases, Metcash annual reports, public information available on Franklins and Aldi web-site.

Supermarkets in Australia

Retailer	1998	2008
Coles	556	740
Woolworths	603	765
Franklins*	270	80
IGA	1036 (2001)	1209
Aldi**	N/A	150
Foodworks***	N/A	710

* Franklins was restructured and partly sold off in 2001.

** Aldi entered the Australian market in 2001.

*** Foodworks was formed in 2004 by the merger of 10 independent chains.

There is no evidence to suggest that turnover amongst small retailers is falling or failing to keep pace with the growth of the market. ABS analysis of Food, Liquor and Grocery data shows that turnover for small retailers (a proxy for most independent retailers) almost doubled from \$5.6 billion in June 1998 to \$10.25 billion in April 2007.¹⁸ Sales from smaller stores are rising more quickly than sales from larger stores.

Nor is there evidence to show that the number of independent retail stores is in sharp decline. ABS data again shows a different picture. Between 2003-04 and 2005-06, the number of food retailing businesses with annual turnovers between \$500,000 and \$1 million doubled. Over that period, there was a net increase of 3 per cent (2,077 businesses) in the number of food retail businesses.¹⁹ Since 2001, 270 new independent supermarkets have been opened as part of the Metcash distribution network.

Case Study: The Champion of Independent Retailers

While the health of the independent retail sector cannot be measured by the progress of a single business, the growth of the largest independent wholesaler (and equity investor in independent retailers) Metcash is instructive.

Metcash's share of the supermarket and grocery stores market (through its holdings in the IGA banner group) has grown from 11.2 per cent (2001) to 18.5 per cent (2007). The company has grown more quickly than the market as a whole, through acquisitions and through higher retail sales.

18. ACIL Tasman *Performance of Independent Supermarkets and Grocers*, June 2007, p.27.

19. ACIL Tasman *Performance of Independent Supermarkets and Grocers*, June 2007, pp.22-23.

In 2001, Metcash customers absorbed most of the Foodland chain (104 stores).²⁰ In 2005, Metcash acquired 81 Action supermarkets in three States. 82 of the 91 supermarkets reviewed by the ACCC as potential acquisitions in the last three years have been acquired by Metcash. From 2001 to 2007, Metcash customers opened 272 new stores.

In the six months to 31 October 2007, Metcash posted a 30.4 per cent rise in net profit after tax to \$86.2 million. Wholesale sales rose by 6.4 per cent to \$4.8 billion in the half year. The driver of this growth was IGA Distribution with wholesale sales rising 7.1 per cent to \$2.9 billion (against market growth of just 4.3 per cent).²¹

In 2006-07, IGA investments included:

- 42 new stores (more than 40,000 m² of retail space); and
- 23 replaced or extended stores (13,000 m² of retail space).

In 2007-08, IGA plans to add 90 new stores (80,000 m²). Some 39 new stores were opened in the first five months of the 2007-08 financial year. The company has another 120 new sites and more than 50 replacement stores planned.²²

A mature industry

The retail grocery market has many of the characteristics of a mature industry, not the least being relatively modest and stable returns.

Over the last eleven years, for example, annual earnings before interest and tax (EBIT) for Coles' Food and Liquor division has oscillated in a range of 3.1 to 3.65 per cent. The latest figures show an EBIT of 3.1 per cent (in 2006).²³

This performance is consistent with the sector as a whole. An independent study has concluded that

A highly competitive retail sector combined with the strong presence of national and international brands has resulted in a low margin, by world standards, grocery sector operating on less than 4 per cent earnings before interest and tax.

The same study found that Australia is a high cost business location for supermarkets: “supermarket costs of doing business represent around 22 per cent, whereas United States and European grocery retail leaders operate in the range of 16 to 20 per cent”.²⁴

Such low earnings belie the claim that Australian retailers are operating in anything other than a highly competitive market.

20. Network Economics Consulting Group *Creeping Acquisitions in the Australian Grocery Industry: A Report to the ACCC prepared on behalf of Metcash*, 2003, pp.11-12.

21. Media Release “*Metcash Limited Posts Record Half Year Profit*”, 4 December 2007.

22. Metcash/IGA Media Release, 22 November 2007.

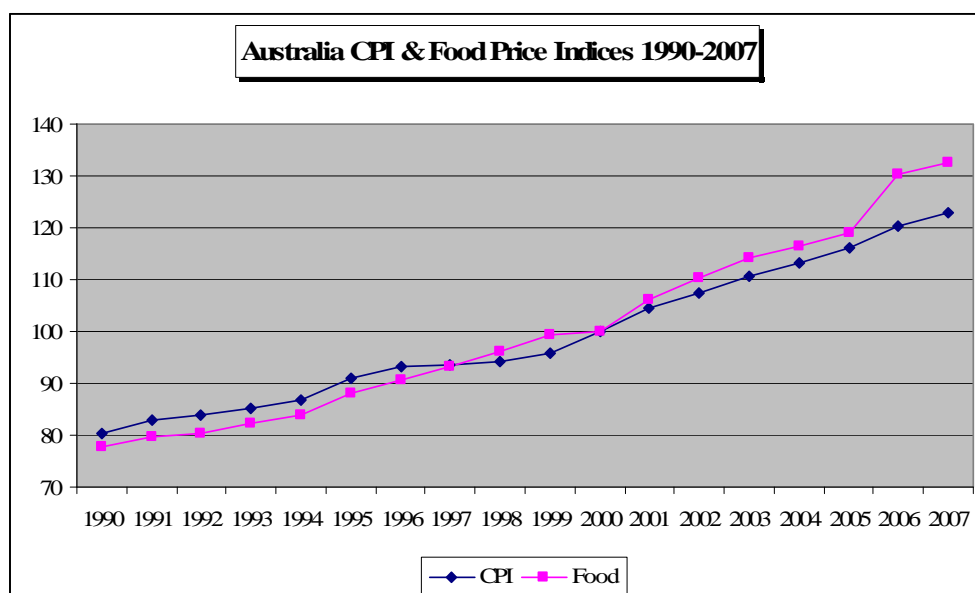
23. Coles News Releases “*Full Year Profit*” (19 September 2007), “*Full Year Stats*” (22 September 2006) and “*Statistical Analysis*” (19 September 2003).

24. *Price Determination in the Australian Food Industry*, p.3.

FOOD PRICES

Rising prices in Australia

In recent years, food prices in Australia have risen in real terms. The increase in Australian food prices is less than the average for all OECD countries but is higher than many European countries.²⁵



The OECD data provides a point for comparison with other countries over time. An analysis of recent inflation figures in Australia shows a more volatile picture of relative price stability punctuated by spikes in inflation.

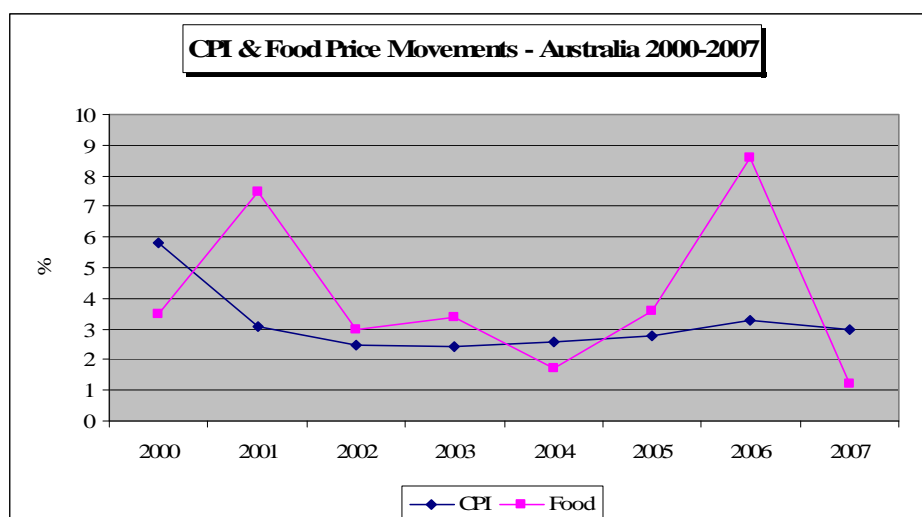
Over the last seven years, as shown in the table below, food prices have fluctuated. In three of these seven years, food prices increased less than the general inflation rate (ie. fell in real terms). In 2007, for example, food prices fell slightly in the December 2007 quarter and fell in real terms during 2007. While the Consumer Price Index rose by 3 per cent in 2007, food prices rose by only 1.2 per cent.²⁶

On the other hand, food prices increased sharply in 2001 and again in 2006. The 2001 spike in food prices was due largely to the introduction of the goods and services tax. The 2006 spike was spurred by factors such as rising fuel prices and the effects of Cyclone Larry in March that year. Fuel prices rose more than 11 per cent in the June quarter. Cyclone Larry led to a 250 per cent increase in the price of bananas. Higher fruit prices contributed almost one-third of the 1.6 per cent rise in the consumer price index in the June 2006 quarter and 0.8 per cent to the 3.9 per cent headline inflation rate for the 12 months to June 2006.²⁷

25. OECD Stats Extracts. *Main Economic Indicators: Consumer Prices Indices*, 28 February 2008.

26. ABS *Consumer Price Index Australia December 2007*, 23 January 2008.

27. Transcript of Press Conference with the Treasurer, the Hon Peter Costello MP, 26th July 2006 at www.treasury.gov.au and Ian Gerard "Still bent out of shape" *The Australian*, 31 October 2006.



Rising prices in most developed countries

Much has been made by some parties of the fact of rising real food prices in Australia. It is inferred that there is something sinister occurring on the assumption that increases in food prices should not exceed the general rate of inflation.

In fact, food prices have been rising in real terms in most OECD countries.

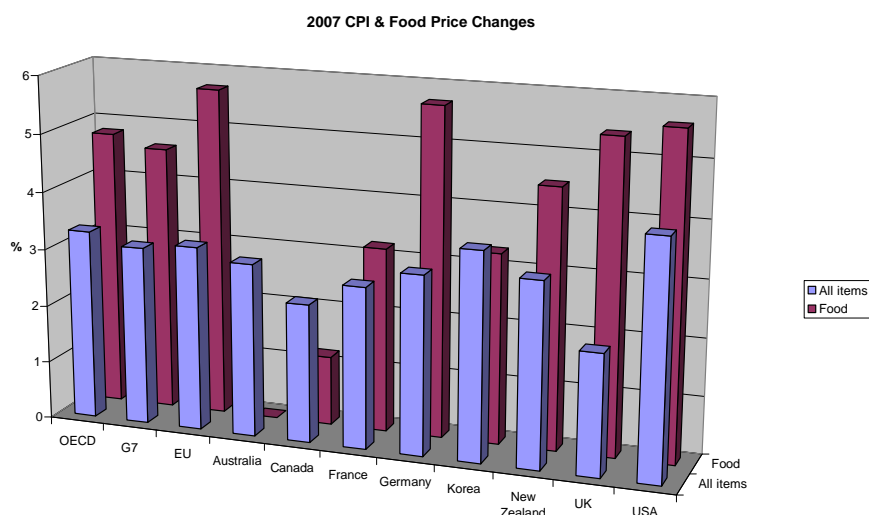
Countries such as the United Kingdom, France and Canada have consistently recorded increases in food prices above their inflation rates.

OECD data for the period 2000 to 2007 reveals that sixteen OECD countries have experienced higher prices growth for food compared to all consumer items. The gap between changes in the consumer price index and food prices varies. In many instances, such as Mexico, Spain and Korea, the gap is significant.²⁸

The immediate prospects are this gap between food price inflation and the general consumer price index will widen rather than contract. Across the OECD, in the year to December 2007, the consumer price index rose by 3.3 per cent but consumer prices for food rose by 4.8 per cent. In the United States the corresponding figures are 4.1 per cent and 5.6 per cent. In the G7 countries, the consumer price index stood at 3.1 per cent but food prices rose by 4.6 per cent. In the twenty seven countries of the European Union, general inflation averaged 3.2 per cent while food prices rose by 5.7 per cent.²⁹

28. OECD Stat Extracts. Consumer Prices Indices (MEI), 2 February 2008.

29. OECD news release "Annual Inflation in the OECD area at 3.3% in December 2007", 5 February 2008.



Global products, global prices

Australian food prices are being pushed upwards by international and domestic factors.

As a major exporter, Australian prices for most commodities are largely determined by prevailing international prices. Australian producers have the ready alternative of export markets for most of their products. In many cases, export sales equal or exceed local sales: exports account for 75 per cent of sugar, 65 per cent of beef and 45 per cent of lamb sales. In less export-oriented sectors, such as pork, import competition has increased, ensuring parity with global prices.

A comprehensive study, conducted on behalf of the Department of Agriculture, Fisheries and Forestry, has concluded that ³⁰

The impact of international trade is increasingly having an effect on farmgate prices across primary food sectors regardless of the forces in the domestic retail food sector, with a few important exceptions.

Australian food retailers are price-takers, competing with international and local buyers for commodities in demand. In the case of the red meat supply chain, the ACCC has concluded ³¹

even the largest retailers buy only a small proportion of total production. Under these conditions, it seems unlikely that any one party would be able to suppress prices and/or impose onerous terms and conditions.

Woolworths and Coles, for example, purchase just 12 per cent of local beef production. The development of direct supplier agreements by retailers is a response to guarantee local supply and quality in a competitive market; the fact that these agreements offer producers a guaranteed minimum price indicates that there is not an imbalance of market power between buyer and seller. In fact, in 2006, the average prices paid for beef by Woolworths and Coles was above the industry benchmark. ³²

³⁰ . Price Determination in the Australian Food Industry, p.1.

³¹ . ACCC Examination of the Prices Paid to Farmers for Livestock, p.iii.

³² . ACCC Examination of the Prices Paid to Farmers for Livestock, p.ii and p.9.

On the supply side, global agricultural markets have been affected by production shortfalls, rising input and transport costs. In the last three years, global production of basic food commodities has fallen from its peak in 2004. Production in major exporting countries has generally contracted. The shift away from production-based subsidies has steadily reduced food stocks, exacerbating price volatility. Rising input costs, in particular fuel, has contributed to higher global prices.

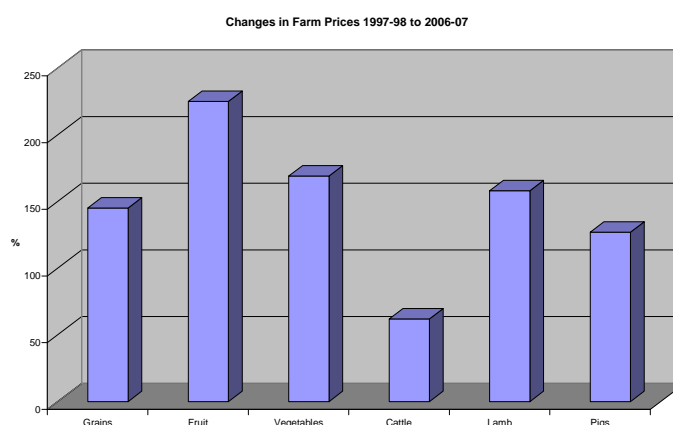
The result has been sharp rises in agricultural prices in 2006 and 2007. According to the latest Westpac-NFF Commodity Index, global commodity prices have surged by almost 22 per cent in the 12 months to February 2008.³³ There are good reasons to believe that these price spikes are not isolated events. Indeed the UN's Food and Agriculture Organisation has warned that:³⁴

What distinguishes the current state of agricultural markets is the concurrence of the hike in world prices of not just a selected few but ...of nearly all major food and feed commodities and the possibility that the prices may continue to remain high after the effects of short-term shocks dissipate [and] suggest that the observed long-term decline in *real* prices could come to a halt, signaling a structural change in agricultural commodity markets.

In the long-term, the shift to a more Western diet in developing countries, especially China, is driving greater demand for dairy products, meat and, indirectly, grains (as stock feed). The increasing and often government mandated use of biofuels is also raising grain prices.

These international factors aside, Australia has been badly affected by drought. The net value of farm production has fallen from almost \$6.7 billion in 2000-01 to just \$2 billion in 2006-07.³⁵ Wheat production has fallen from 22 million tonnes (2000-01) to only 10.6 million tonnes (2006-07).³⁶ The sharp decline in production has been compounded by rising input costs.

According to ABARE, producer prices have increased steadily since 1997-98, as in the table below.³⁷



33. Westpac-NFF Commodity Index, February 2008, p.1.

34. Food and Agricultural Organisation of the United Nations. *Growing Demand on Agriculture and Rising Prices of Commodities*, 14 February 2008, pp.1-2.

35. Australian Bureau of Resource and Agricultural Economics *Australian Commodity Statistics 2007*.

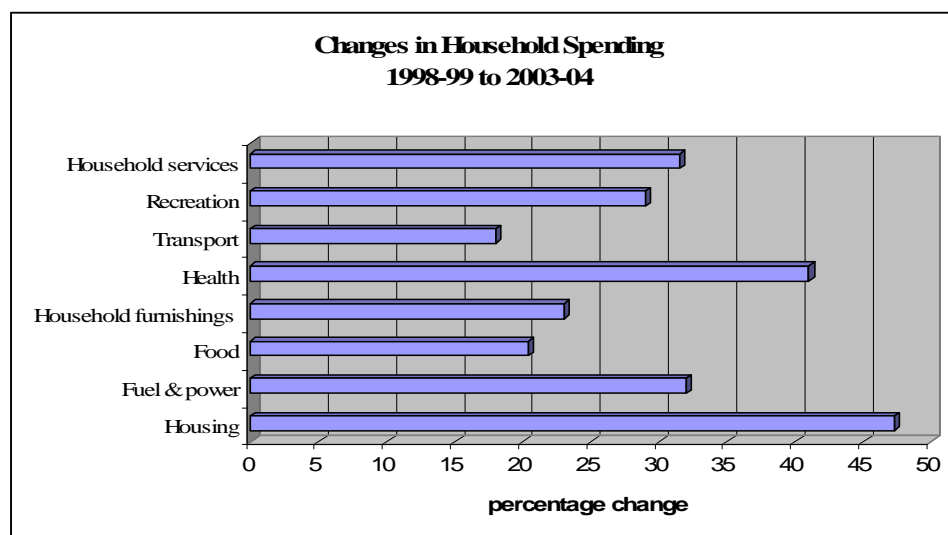
36. Australian Bureau of Resource and Agricultural Economics *Australian Crop Report Number 145*, 19 February 2008.

37. Australian Bureau of Resource and Agricultural Economics *Australian Commodity Statistics 2007*.

Impact on family budgets

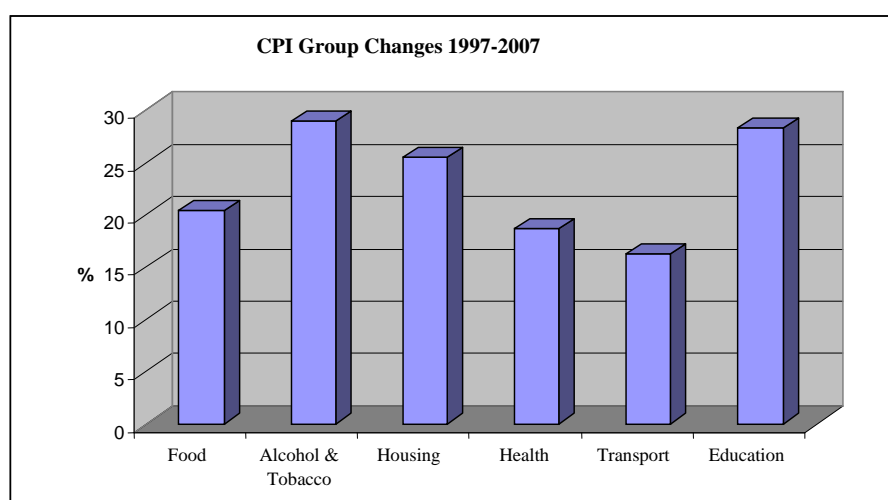
As important as food prices are, the rise in food prices should be placed in context.

Rising food prices have coincided with rapid growth in real household incomes. Despite higher prices, families are spending ever lower proportions of their incomes on food and non-alcoholic beverages. Prices and household expenditure on many other consumer items have risen more sharply than food.



Food prices rose by almost 50 per cent from 1990 to 2006, an average annual increase of 2.5 per cent. Over the same time, per capita incomes rose by 83 per cent, or 3.9 per cent a year on average. Nearly all of this growth in incomes has occurred in the last decade. Disposable household incomes rose 22 per cent from 1999-2000 to 2005-06; incomes for the lowest income households rose 25 per cent over the same period.³⁸

While food price rises rose in real terms from 1997 to 2007, education, housing, alcohol and tobacco prices rose even more quickly.



38. ABS *Household Income and Distribution, Australia 2005-06* (6523), 2 August 2007.

Weekly household expenditure on food and non-alcoholic beverages rose by \$26 or 20.4 per cent from 1998-99 to 2003-04. Overall household expenditure rose by \$194 or 28 per cent.³⁹ Expenditure on housing, energy, health and recreation also rose as a proportion of household expenditure. With the increase in spending on other items outstripping expenditure on food, the proportion of household budgets devoted to food and non-alcoholic beverages fell from 18.2 per cent in 1998-99 to 17.1 per cent in 2003-04.

39. ABS *Household Expenditure Survey 2003-04* (6530)

CONCLUSION

As with other sectors, anti-competitive conduct in the retail grocery market is subject to strict prohibitions in the *Trade Practices Act 1974*. The Government will add to these prohibitions with amendments this year to s.46 of the Act. There are also industry specific arrangements – such as the Charter for the Competitive Sale of Independent Supermarkets – which are in place to enhance competition in the sector.

ANRA believes that these measures provide a rigorous competition policy framework for the sector, probably more so than any other sector in the economy.

The intensity of competition in the sector is obvious in the relatively low margins in the sector. The largest chains seek to set the lowest prices in the market. They are continuously improving the efficiency of their supply chain and use of retail space to secure a competitive advantage. Direct supply arrangements between retailers and producers, for example, have reduced purchasing risks and delivered more consistent quality. The result has been more stable and lower prices for consumers.

Independent retailers have undertaken similar supply chain improvements and brand promotion to enhance their competitiveness. While NARGA claims independent retailing faces extinction, Metcash states that its growth “demonstrates the ability of independent retailers to survive and thrive in the face of the two dominant chain store groups”.⁴⁰

In short, Australia has a competitive retail grocery market, benefiting all consumers. The most sensible course for government is to institute reforms to business regulation to enhance competition in this market. Intervention constraining the capacity of businesses to compete, including adding more onerous reporting and governance requirements, will only inhibit competition.

40. Metcash Limited *Annual Report 2006*, p.4.