

Public Submission to ACCC Grocery Inquiry

By

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On

11th March 2008

**Why is the price of COKE more than 100%
higher in SYDNEY compared with SEATTLE ??**



Woolworths Sydney (Jan 2007)



Safeway Seattle (Jan 2007)

Given that Coca Cola is a worldwide commodity, and the way that Coke is bottled and distributed around the world in today's global market place, one would expected that the retail price of Coke should be similar in supermarkets worldwide – *provided that competition is working effectively*.

Therefore why is Coca Cola more expensive in Sydney supermarkets that it is in supermarkets in Seattle ?



For example in Jan 2007, Woolworths with their guarantee of “*LOW PRICES you can count on, everyday*” were charging **A\$2.96** for a standard 2-litre bottle of Coca-Cola.

However across the Pacific in Seattle, the price for a 2 litre bottle of Coke at the supermarket varied from US\$0.88 to US\$1.20 the equivalent of **A\$1.10** to **A\$1.50** (including allowance for GST and adjusting for the difference in exchange rates of A\$1 = US\$0.88).

Why is someone who lives in Sydney pays 100% higher for a 2 litre bottle of coke at the supermarket than someone who lives in Seattle ?



Safeway Seattle
24th Jan 2007



Walgreen's Seattle
21st Jan 2007



Longs Seattle
24th Jan 2007

What has caused competition to collapse in Sydney, resulting in consumers being punished with these high supermarket prices at Woolworths, which are adding to inflation, and placing upward pressure on interest rates ?

In undertaking their vigorous inquiry to get to the bottom of why Australian consumers are being punished with the developed world's highest food inflation, and why competition has collapsed in Australia, perhaps the ACCC could consider the following questions;

1. Is the production cost of a 2 litre bottle of coke a 100% higher in Sydney than it is in Seattle.?

2. Is “the drought” in Australia the reason why Coke is so expensive in Sydney supermarkets ?
3. Is the high cost of water in Sydney, as compared to Seattle the reason why Coke is so expensive in Sydney supermarkets. ?
4. Does Coca-Cola in Australia engage in Price Discrimination – i.e charge independent retailers a much higher price for a 2 litre bottle than they charge to Woolworths/Coles. ?
5. In Australia, is such a Price Discrimination illegal under the Trade Practice Act ?
6. If Woolworths & Coles pay one price, and independents are forced to pay a much higher price, for a 2 litre bottle of Coke how can the independents bring any competitive price pressure to Woolworths/Coles retail prices.
7. If Woolworths & Coles pay different prices from all others – has a cosy duopoly been created ?
8. Does Coca-Cola in the USA engage in Price Discrimination – i.e charge independent retailers a much higher price for a 2 litre bottle than they charge Safeway. ?
9. Are Coca-Cola prohibited from engaging in Price Discrimination in USA under the Robinson Patman Act. ?
10. Could the absence from the Australian Trade Practices Act laws like the Robinson-Patman Act, be the reason why consumers pay more than 100% higher price for a 2 litre bottle of coke in Sydney as compared to Seattle ?

I would suggest to the ACCC, that the reason why consumers in Sydney are being punished, forced to pay 100% higher prices than consumers in Seattle for a 2 litre bottle of Coke is because Australia’s Trade Practices Act does not have an equivalent to American Robinson Patman Act.

US Congressman Wright Patman (1893-1976) a Texas Democrat explained the workings of the Act in his book on the *Robinson-Patman Act*, where he stated;

*“Essentially the present act provides that when a man sells a product to two or more customers who are in competition of the resale of that product, he must not discriminate between them in such a way that one is given an unfair advantage over the other.”*¹

The US House Committee on the Judiciary also explained the workings of the Act;

*“[The Robinson-Patman Act] limits the use of quantity price differentials to the sphere of actual cost differences. Otherwise, such differentials would become the instruments of favour and privilege and weapons of competitive oppression”*²

Therefore in Seattle, under US law, Coke cannot discriminate against retailers that are in competition against each other. This provides a level playing field where a wide variety of retailers are able to purchase Coke at lowest price – therefore, with more retailers all competing on a level playing field - there is greater competition and consumers in Seattle enjoy low prices.

¹ Patman, *The Robinson-Patman Act: What You Can and Cannot Do Under This Law*. New York: The Ronald Press Company, 1938.

² Committee on the Judiciary – US House of Representatives, 74th Congress – 2nd Session Report No. 2287 Prohibition of Price Discriminations

In contrast, in Sydney, under the empty shell of the Australian Trade Practices Act, Woolworths/Coles can use their market power to pressure Coke into discriminating in price against everyone other than Woolworths/Coles. The price differentials that Woolworths/Coles they enjoy, don't get passed on the public, but become the instruments of favour and privilege and weapons of competitive oppression.

Therefore in Sydney, a cosy duopoly between Woolworths & Coles has developed, with all other retailers discriminated against, and this Price Discrimination throws up an umbrella of protection for Woolworths & Coles to hide behind.

Thus, the retail market Coke becomes a cosy-duopoly and competition collapses – just like the old bad old days of the Ansett/Qantas cosy-duopoly when it cost \$600 to fly to Sydney/Melbourne when oil was only \$14 a barrel.

The US Congressional Records also explain the need for such Price Discrimination legislation, and provide a lesson from which Australia, with the develop world's highest food inflation could well learn;

“It is a well recognised fact that if one merchant buys a 100,000 pair of shoes, he should receive a more generous discount than the merchant who only buys a 1,000 pairs.....nobody proposes to interfere with that, nobody objects to it, it is one of the laws of business.....but there may come such a condition after a while that the purchasers becomes so enormously large his purchasing power so tremendous, the quantity he buys may become so very great that the discount which he receives will enable him to drive all others out of the business.....that ought not to be allowed, that brings monopoly.....for if a man has such purchasing power he can crush out of existence all the independents”

“ [the Robinson-Patman Act] is based upon the principle that where even an admitted economy is of a character that is possible only to a very few.....it may become the meat upon which monopoly feeds, and that in forbidding its use, and foregoing its benefits, the public is but paying a willing price for its freedom from monopoly control.”

The Australian public are no paying the price from not having such a law or having the ACCC enforce it.

Australia needs to open it retail sector to competition, and by introducing a similar version of the Robinson-Patman Act into Trade Practices Act, the playing field will be levelled, and there will be more competitive pressure in the market – and consumers in Sydney should be able to enjoy prices closer that those in Seattle.

This will reduce inflationary pressures in the economy, taking away the need for the Reserve bank to lift interest rates.

But of course, the cosy-duopoly and their camp followers will squeal like wounded pigs at this suggestion. Anyway, Coke is full of sugar and properly harmful for anyone's health, so maybe it is best to leave the Trade Practices Act the way it is as so Woolworths/Coles can continue to charge prices 100% higher for Coke in Sydney, than Seattle, as to discourage its consumption.



