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To: Grocery Prices Inquiry

Subject: submission

Public Submission to inquiry by Lynda Voltz MLC 18 Apr 2008

Whilst I appreciate that the submissions were due on 11th March - please find enclosed a speech I recently made in the NSW Parliament regarding the Grocery Prices Inquiry and issues that should be addressed.

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The Hon. LYNDIA VOLTZ [5.17 p.m.]: Following direction from the Federal Government the Australian Competition and Consumer Commission commenced today in Sydney its formal inquiry into grocery prices. Over the past few years food inflation has been higher than the average inflation rate. There is considerable evidence to suggest that Australian food inflation has been higher than the world average. The Federal Government has instructed the commission to take a broader approach to its inquiry and ensure all aspects of the chain are included—from the farm gate to the checkout counter. The inquiry is to consider the current structure of the grocery industry at the supply, wholesale and retail levels, including mergers and acquisitions by the national retailers; the nature of competition and the pricing practices in the grocery industry; and factors influencing efficient pricing of inputs along the supply chain.

Some questions, specific in nature, should be put to the inquiry. These questions centre around the relationship between major supermarket chains and large manufacturers. What the two major supermarket chains need to address as part of this inquiry is that in order to have a product accepted and maintained does the manufacturer have to comply with a demand to pay an annual fee for in-store activity? How many millions of dollars per week do the chains reap from major manufacturers for the various gondola ends, side wings, dispensers, shelf high lighters and checkout displays, et cetera, described as in-store activity? Why is this promotional activity fee enshrined in trading terms by the major supermarket chains? When this activity fee was introduced, did it follow hard on the heels of the ruling-out of new line fees when they were deemed illegal by the Trade Practices Act some time ago? Why do big manufacturers fall in with this in-store activity charge as part of their trading terms, and what other charges are involved in this in-store activity? For example, do manufacturers pay extra for things such as stock allocations? Are supermarket chain category buyers set a personal target over and above the moneys that they must extract from manufacturers for this in-store activity?

With relation to profit margins, do major chain category buyers demand a specific gross margin for products in that category and have any products been rejected for this reason? Additionally, how is this gross profit margin arrived at? Why is the base line number imposed on a whole category? Are margins being artificially manipulated? Is it also a fact that if a product does not need a hurdle rate set by the chain it is headed for deletion, unless the manufacturer buys more shelf display time via an activity fee? How is this hurdle rate set? To what uses is it put? Is it used as a club to extract more manufacturer moneys?

The big question that arises out of all this is: How does this cosy preserve of supermarket chains and big manufacturers impact on the cost paid by Australian shoppers for supermarket items? This is of some concern to me. Is it time to subject the big supermarket chains and big manufacturers to close scrutiny to ensure that the benefits of true competition and ethical cost structures are passed on to the Australian shopper? At the end of the day, consumers need transparency and confidence that they are getting a fair deal from a competitive grocery industry. Whilst the major supermarkets in an increasingly concentrated industry continue to come to terms of trade with major manufacturers whilst smaller competition is priced out of the shelves, the question must be asked: what is the knock-on effect to the Australian shopper?