

Public hearing – Hobart
10 April 2008

Time: 11.00am – 3.00pm

Address: Grand Chancellor
 1 Davey Street, Hobart

Room: Hearing – Harbour Room 2 (Level 2)

Witness	Submission	Summons
Tasmanian Farmers and Graziers Association Mr Bruce Williams Chief Executive Officer	N/a	No
Capilano Honey Limited Mr Roger Masters Managing Director	N/a	Summonsed and compelled to appear by ACCC
<i>Lunch</i>		
Tassal Group Mr Mark Ryan Managing Director and Chief Executive Officer	N/a	Summonsed and compelled to appear by ACCC
Tasmanian Independent Retailers Mr Grant Hinchcliffe Director and Chief Executive Officer	N/a	Summonsed and compelled to appear by ACCC

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TRANSCRIPT OF PROCEEDINGS

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

**MR GRAEME SAMUEL, Chairman
DR STEPHEN KING, Commissioner
MR JOHN MARTIN, Commissioner**

GROCERY PRICE INQUIRY HEARING

CONDUCTED AT: GRAND CHANCELLOR, HOBART

DATE: 11.00 AM, THURSDAY, 10 APRIL, 2008

THE CHAIRMAN: All right. I think we'll get started. Sorry, for the bit of delay, but occasionally there's a couple of technical issues. Good morning. My name is Graeme Samuel, I'm the Chairman of the Australian Competition and Consumer
5 Commissioner and the chair of this public inquiry into the competitiveness of retail prices for standard groceries. I welcome you all and declare this hearing open. I'm joined by Commissioner John Martin on my right and Commissioner Stephen King on my left, who are the two other presiding members for this inquiry. This hearing is convened under part 7A of the Trade Practices Act.

10 It's held pursuant to a request from the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, Minister Chris Bowen, received by the ACCC on 22 January 2008. Matters to be taken into consideration by this inquiry shall include but not be restricted to the current structure of the grocery industry at
15 the supply, wholesale and retail levels, including mergers and acquisitions by the national retailers, the nature of competition at the supply, wholesale and retail levels of the grocery industry, the competitive position of small and independent retailers, the pricing practices of the national grocery retailers and the representation of grocery prices to consumers, factors influencing the pricing of inputs along the
20 supply chain for standard grocery items, any impediments to efficient pricing of inputs along the supply chain, and the effectiveness of the horticulture code of conduct and whether the inclusion of other major buyers such as retailers would improve the effectiveness of the code.

25 We've so far received over 150 public submissions to the inquiry as well as confidential submissions. The ACCC will endeavour to take into account all of the information that has been provided and we thank industry participants for the contributions that have been made. We understand that the competitiveness of retail grocery prices is of significant concern to all Australians. Now, the purpose of these
30 hearings is to give the ACCC an opportunity to investigate in detail the issues raised as part of the inquiry with industry participants. The ACCC is organising hearings throughout Australia during April with several hearings occurring in Melbourne in May.

35 I wish to emphasise that many witnesses to these hearings are not attending voluntarily and have been summonsed to appear under section 95S of the Trade Practices Act. In particular I note that in general the ACCC has summonsed all supplier companies. Thus no conclusion can be drawn regarding a company's willingness to participate in the inquiry from the fact that a company is appearing at
40 the hearings. Some of the material covered in these hearing sessions will be confidential and commercially sensitive and therefore parts of the hearings will not be open to the public. Questioning will start in public, but sessions will move into a confidential phase when the questioning moves on to confidential material relating to the witness.

45 We have been able to investigate issues that are commercially sensitive to witnesses without damaging the witness' competitive position and commercial relationships.

We will be questioning the organisations about their commercial relationships and about confidential documents that we've obtained through using the information-gathering powers. This cannot occur in public. In particular, where a witness has not made any submissions to the inquiry and has been summonsed by the ACCC to attend these hearings, we must be able to hear certain evidence in confidence.

Transcripts of the public parts of the hearings are placed on the ACCC's website. We may disclose some aspects of the confidential components of the transcript a while after the hearing if we consider that some of the material should be in the public domain, but the ACCC will consult with the relevant witness before doing this. Where there are industry associations or representative organisations who are attending voluntarily, it's more likely that most of the hearing sessions will be in public. Now, in terms of procedural issues, all witnesses will have received a document that outlines how we intend to approach these hearings. So I won't go through those procedural points in detail.

I just wish to emphasise that although we are not taking evidence under oath at this hearing, it is a serious offence to give false or misleading evidence to the ACCC. A transcript of the proceedings apart from any proceedings held in private at the inquiry will be made available on the ACCC's website. Now, as I've indicated before, we recognise that some witnesses will be asked to give evidence that if disclosed would damage their competitive position or which may for other reasons be confidential. If a witness believes that a particular question or a series of questions are likely to require him or her to disclose such confidential information, the witness should indicate an objection to answering the question on that basis. I will then consider whether the inquiry should take evidence in private from that witness.

I note that although the ACCC is not utilising external counsel at this hearing, witnesses will be questioned by the ACCC's internal lawyers, Mr Damien O'Donovan and Ms Catherine Freeman. Well, that concludes my preliminary remarks. I thank all the witnesses that are attending the hearings, particularly those that have been summonsed to attend. We realise that you are busy people and attending these hearings can be a significant imposition on you and your organisation. There has been a slight change in the order of hearings today, so I want to welcome the first witness which is Mr Roger Masters from Capilano Honey Limited. Mr O'Donovan, if you would like to take over from there.

MR O'DONOVAN: Certainly.

THE CHAIRMAN: We'll start in public session and move into private as soon as it becomes relevant to do so.

MR O'DONOVAN: Okay.

MR O'DONOVAN: All right. Could you state your full name?

MR MASTERS: Roger David Elliott Masters.

MR O'DONOVAN: Okay. And your position?

MR MASTERS: Managing Director.

5 MR O'DONOVAN: And the company that you're managing director of?

MR MASTERS: Capilano Honey Limited.

10 MR O'DONOVAN: Okay. Can you just give us a brief description of what it is that Capilano Honey does?

MR MASTERS: Yes. Capilano Honey is Australia's largest honey producer – packer of honeys. It's a public company coming from its co-operative routes some decades ago. We have a turnover of around about 59 million at the current time due to drought, but it's been as high as 100 million when we honey to Australia itself. We have international federations. We have a board of management in Argentina. We have a subsidiary in Canada. Our suppliers are based basically all over Australia in Queensland, Victoria, South Australia, New South Wales. Our major customers both in Australia and overseas are the major supermarket retailers, but also industrial users.

MR O'DONOVAN: Apart from honey, is there any other industry that Capilano is involved in?

25 MR MASTERS: No.

MR O'DONOVAN: No. Okay. And in relation to – and your relationship with beekeepers, is that a contractual relationship or they're employed by you or in what – how do you acquire your honey?

30 MR MASTERS: Our beekeeper suppliers at the moment are for the most part also shareholders and they own a majority of Capilano Honey, as a public company does have what we will call dry shareholders, but the beekeeper producers comprise around about 88 per cent of our shareholding and we have a contractual relationship with those suppliers in the form of a quota which is issued to those beekeepers for the supply of honey.

MR O'DONOVAN: Okay. Now, you indicated a substantial drop in the company's turnover. Can you just describe the factors that have caused that drop?

40 MR MASTERS: Yes. The two major factors would be in order I suppose in the drought in particular which has dropped the crop in Australia from some seven and-a-half thousand tonnes which will be due to Capilano alone, down to a level this year we expect of around about six thousand, eight hundred tonnes, which is quite a considerable drop. Normally, we would be in a position of exporting that surplus which obviously would go straight to revenue. The second one which is affecting

our revenue is the direct competition in supermarkets between private label brands and our producer brands which have had the impact of forcing our revenues down.

5 MR O'DONOVAN: All right. Just going back to drought and its impact on supply, has that had an effect on the price consumers pay for honey?

10 MR MASTERS: Yes, I'd say there would certainly be a drought effect because we've had – usually pay a higher price to our beekeepers to ensure there'll be supply and that return has been – well, we've attempted to pass that on to our customers and in turn I presume they would've have passed it on to consumers.

15 MR O'DONOVAN: All right. And in terms of I suppose understanding your options, at the production levels that there are at present, you have a choice of selling through the retail chain in Australia. Are there export options for honey?

20 MR MASTERS: Yes, about 40 per cent of our crop is normally exported. The difficulty relates to one of margin. Exporting for industrial use is usually a much lower margin which doesn't give a return that our beekeepers would really require to be viable. So certainly the returns for our beekeepers has gotten better considerably over the last number of years.

MR O'DONOVAN: And in terms of the break up between the retail and export, did you say it's about 40 per cent to export at present?

25 MR MASTERS: That's normally, yes.

MR O'DONOVAN: So about 60 per cent through the retail chain in Australia?

30 MR MASTERS: Through retail, it's both Australia and overseas.

MR O'DONOVAN: Okay. What proportion of that would be to overseas retailers?

35 MR MASTERS: It's probably about 5000 tonnes to Australian retailers and roundabout 3000 tonnes to overseas retailers.

40 MR O'DONOVAN: Okay. And then within the Australian retail market, if I can just talk about the major supermarket chains as a category, so that's just Coles and Woolworths, of those 5000 tonnes how much of it would go to Coles and Woolworths?

MR MASTERS: A majority of of the 5000.

45 MR O'DONOVAN: Sure. Can you indicate a rough percentage publicly or would you prefer to do that - - -

MR MASTERS: Yes, I don't have the figures off the top of my head to do that.

- MR O'DONOVAN: Sure. But it would be more than 75 per cent? Just if we can get a rough indication.
- MR MASTERS: Yes.
- 5 MR O'DONOVAN: Right. Okay.
- MR MASTERS: It would be split between our own branded product and private label product.
- 10 MR O'DONOVAN: Right. Okay. Are there other major domestic customers apart from the major supermarket chains?
- MR MASTERS: Industrial users on a whole.
- 15 MR O'DONOVAN: Would Metcash be a significant customer?
- MR MASTERS: In the current climate Metcash is not a significant customer.
- 20 MR O'DONOVAN: Okay. All right. In terms of the competition, are there other domestic producers of honey?
- MR MASTERS: Yes.
- 25 MR O'DONOVAN: Who are they?
- MR MASTERS: The main competitors would be Wescobee in Western Australia, Beechworth in Victoria and Leabrooks Honey in South Australia.
- 30 MR O'DONOVAN: Okay. And in terms of market share, is there a rough publicly-known figure of market shares?
- MR MASTERS: It's been published. So in terms of retail packs, Beechworth would be approximately 8 per cent, Leabrooks would be approximately 7 per cent,
- 35 Wescobee would be approximately 5 per cent.
- MR O'DONOVAN: Okay. So is it fair to say Capilano is far and away the biggest producer of honey in Australia?
- 40 MR MASTERS: Yes. Those would be brands by the way. Wescobee – sorry, Beechworth is also a producer and packer of private label honey.
- MR O'DONOVAN: Right. All right. Now, the CPI figures produced by the ABS suggest that at least for the last 15 years honey has been going up at more than the
- 45 CPI. Firstly, in relation to the returns to beekeepers and processors would that have been generally true in the past 15 years?

5 MR MASTERS: I'm not sure about the last 15 years, but I can speak in respect of the last 10. In respect of the first five years of that 10, there would be a rise, for example, from roundabout \$1.50 a kilo take to produce it to approximately up to the beginning of the drought about \$4 a kilo and that's declined in the last five years to roundabout an average of \$2.30 a kilo. That reduction is because – not so much that the producermore but that we are not extracting revenues that we used to from the market.

10 MR O'DONOVAN: All right.

MR MASTERS: My belief is that at the moment what the beekeepers get paid is fairly close to at or below the cost of production.

15 MR O'DONOVAN: Right. And in terms of the retail price, do you think that the – that CPI – the ABS figure that is above the CPI, does that sound right to you, that the retail price of honey has been going up at the retail level?

20 MR MASTERS: I'd say it would've been pushed up by conditions of drought in particular. There was a fairly large jump roundabout 2002/2003 and at that point, for example, we were unable to supply Woolworths for their private label because we didn't have sufficient honey.

25 MR O'DONOVAN: Right. But this shortage of supply at the wholesale level hasn't produced an increase in returns to beekeepers?

MR MASTERS: Only for a short period of time.

30 MR O'DONOVAN: Okay. Alright. The rest of my questions are specific, confidential questions.

THE CHAIRMAN: Alright. We'll have to clear the room then of those who are not involved with the ACCC.

35 **ADJOURNED**

[11.25am]

CONTINUED IN TRANSCRIPT-IN-CONFIDENCE

CONTINUED FROM TRANSCRIPT-IN-CONFIDENCE

RESUMED

[12.47pm]

5

MR O'DONOVAN: Can you just state for the record your full name and the organisation you represent?

10 MR HINCHCLIFFE: Grant John Hinchcliffe, Tasmanian Independent Retailers Cooperative Society.

MR O'DONOVAN: Okay. And I might just get the other two gentlemen on your left and right to introduce themselves.

15

PROF DUNCAN: Ian Duncan, lawyer, counsel for TIR and Director of SIW.

MR HENRICK: And Ken Henrick CEO of National Association of Retail Growers of Australia and of which TIR are a member.

20

MR O'DONOVAN: Thank you for attending. I note that it is an offence under the Commonwealth Criminal Code to give evidence at this inquiry that you know is false or misleading. Do you know that?

25 MR HINCHCLIFFE: Yes.

MR O'DONOVAN: Very good. Now, can I just confirm a number of matters about the structure of the retail grocery in Tasmania and if you could just confirm that they are correct. As I understand it, there are 111 IGA stores in Tasmania.

30

MR HINCHCLIFFE: That's correct.

MR O'DONOVAN: And there are eight Foodworks stores.

35 MR HINCHCLIFFE: Seven I think is the official number.

MR O'DONOVAN: Okay, but they are not part of the Tasmanian Independent Retailers Group.

40 MR HINCHCLIFFE: No.

MR O'DONOVAN: There are 28 Woolworths stores.

MR HINCHCLIFFE: Woolworths stores, yes.

45

MR O'DONOVAN: And 14 Coles stores.

MR HINCHCLIFFE: That is correct.

MR O'DONOVAN: Now, in terms of the concentration, is it fair to say that the IGA are located primarily in rural locations?

5

MR HINCHCLIFFE: IGAs are located in metropolitan areas throughout Tasmania but predominantly our strength is certainly in the rural and regional areas of Tasmania.

10 MR O'DONOVAN: Okay. And in terms of Coles and Woolies' presence, can you just indicate where they are most likely to be found?

MR HINCHCLIFFE: Coles and Woolies are very concentrated in the metropolitan area of Tasmania, be it Hobart, Launceston or Devonport. Woolworths have stores in some of the regional towns throughout the State but predominantly they are located in the metropolitan areas.

15

MR O'DONOVAN: In terms of the role that the Tasmanian Independent Retailers performs, could you just briefly outline it?

20

MR HINCHCLIFFE: The Tasmanian Independent Retailers is a cooperative, so we are ultimately owned and represented by our members, which are the IGA supermarkets. No other organisations or individual can be a shareholder in the cooperative unless you meet proactive membership provisions as per our rules, which means you have to trade under the IGA banner of Tasmania. You are not compelled to be a member of the cooperative or a shareholder of the cooperative if you do not wish to do so but there are certainly benefits associated with such shareholding and membership.

25

30 Tasmania Independent Retailers, as I said, we are predominantly here to represent the interests of our members. We provide the members with a host of services and support but predominantly we represent our members with respect to promotional and advertising material. So we negotiate with the suppliers with respect to promotional programs, we organise all their advertising, be it press, television or radio, for the respective banners and the stores that trade under the IGA banner.

35

MR O'DONOVAN: Okay. So it primarily creates a link between the retailer and the supplier in arranging promotions. Is that your primary objective?

40 MR HINCHCLIFFE: Yes.

MR O'DONOVAN: And in terms of the membership, is it a profitable organisation or is it there primarily to deliver services at cost?

45 MR HINCHCLIFFE: Primarily to deliver services but any cooperative and any business these days obviously has to be profitable because if you are not profitable it is difficult to provide additional services to your members. The benefit of being a

cooperative at the end of the day is any funds in excess of those that is required by the cooperative will ultimately be rebated back to the members by various rebate structures, one of which is a business development kind of program which is money which goes back to the retailers to enable them to upgrade these stores.

5

MR O'DONOVAN: Okay. And are there any other services which I suppose would encourage someone to join the Co-op?

10 MR HINCHCLIFFE: Yes, I suppose. I mean if you look at the IGA banner, I mean, there is a lot of functions which are associated with that banner. Not only did we arrange all the promotional activity under the IGA banner but we also maintained their host file for retail pricing. We are effectively the spokesperson for the independent retailers in the State so we obviously get involved with political lobbying as and when is required.

15

MR O'DONOVAN: I understand that the IGA brand is a brand that is owned by Metcash.

20 MR HINCHCLIFFE: It is, and it - we have a franchise arrangement with Metcash where it has been sublicenced to Tasmanian Independent Retailers.

MR O'DONOVAN: Tell me if this is not public information but is that an arrangement that is purely based on a licence fee or are there other arrangements with Metcash that allow you to use that brand?

25

30 MR HINCHCLIFFE: No, it is basically on a licence arrangement, the terms of which I understand are being negotiated with Metcash because it obviously has some association with IGA International as well. So negotiations are currently being undertaken with that sublicense arrangement but surrounding that we have been given the authority to continue to use the IGA brand and name in Tasmania.

MR O'DONOVAN: My understanding is that Metcash don't supply you with wholesaling services, your members with wholesaling services.

35 MR HINCHCLIFFE: No, from the Tasmanian Independent Retailers' perspective, that is correct. Statewide Independent Wholesalers which predominantly supplies the majority of products into independent retailers in Tasmania. Statewide Independent Wholesalers does have an association with Metcash with respect to slow-moving lines. It is relatively small business and I think for '06/07 it was around
40 about two million dollars worth of purchases. So it is predominantly slow-moving lines that we can't justify the range in our warehouse in here so obviously we try and draw those lines through Metcash so that we can provide that as an additional benefit and service to our members.

45 MR O'DONOVAN: So Metcash's involvement in the Tasmanian retail market is very small.

MR HINCHCLIFFE: Very small, and it is only through a supply arrangement which they hold with Independent Wholesalers. So for all intents and purposes, Statewide Independent Wholesalers is another customer of Metcash.

5 MR O'DONOVAN: As I understand it, Statewide Independent Wholesalers doesn't supply Coles at all.

MR HINCHCLIFFE: No, that is correct.

10 MR O'DONOVAN: Do you have any understanding of how it is that Coles operates its wholesaling operations or goods at a wholesale level within Tasmania?

MR HINCHCLIFFE: Coles have a warehouse facility that is based in Launceston. It is a dry grocery DC and I think they have around about 5,000 to 6,000 fast-moving
15 lines. The remainder of their slow-moving lines are sourced from the mainland. I'm not aware of what their supply chain arrangements are. I think they have got a - it's by a contract but I'm not sure what.

MR O'DONOVAN: Are they a participant in the wholesale markets on the fresh
20 food side, as far as you are aware?

MR HINCHCLIFFE: No, as far as - I mean, with Woolworths and Coles, they would have their own produce DC. DC, I know Woolworths have theirs based out at Devonport. They do not actively sell to anybody else in the marketplace.
25

MR O'DONOVAN: But in terms of participation in the wholesale market, are you aware whether they enter the wholesale market to buy produce, fresh produce?

MR HINCHCLIFFE: Yes, most certainly. I mean, I can't speak on behalf of what
30 Coles and Woolworths' arrangements are because obviously I don't work with them, but I can only assume that it would be very similar to our arrangements with respect to they would source fresh products, ultimately fruit and veg. for example, from a host of suppliers, be it through the Melbourne markets, be it through local suppliers in Tasmania.
35

MR O'DONOVAN: Right. Is there a Tasmanian wholesale market equivalent to the mainland markets like the Brisbane Markets?

MR HINCHCLIFFE: No, no. Certainly not. I mean, Tasmanian Independent
40 Retailers actually owns its own produce distribution business (Island Fresh Produce) which supplies fresh fruit and vegetable products to independent retailers and also a host of other independent businesses, be it pubs and clubs, whatever. We don't supply any produce to Woolworths or Coles by that operation and we predominantly deal with local manufacturers where we can do, and if we can't get locally, we deal
45 through the Melbourne markets and other producers on the mainland.

MR O'DONOVAN: Right. Okay. In terms of fresh produce, if you can't deal with the direct supplier, you will ship it across the Tasman?

MR HINCHCLIFFE: Yes.

5

MR O'DONOVAN: And that is owned by Tasmania Independent Retailers.

MR HINCHCLIFFE: Our produce division, which is known for owning fresh produce, is owned by Tasmanian Independent Retailers, yes, that's correct, and it has no association with Statewide Independent Wholesalers at all.

10

MR O'DONOVAN: And in terms of the wholesale operation, is it only available to IGA members or is it available to other retailers?

MR HINCHCLIFFE: Wholesaling from the perspective of dry grocery or fruit and vegetable?

15

MR O'DONOVAN: Fruit and vegetable.

MR HINCHCLIFFE: No, any customer can deal through that cooperation. I mean, as I say, I would say off the top of my head or as an estimate that probably 60% of our sales of the fresh produce would be to IGA retailers. In the main it would be to various other independent retailers, pubs, clubs, restaurants etc.

20

MR O'DONOVAN: Right, okay. So is that run as a profit centre as opposed to a service to members kind of business?

25

MR HINCHCLIFFE: It is. It is run as a profit centre, that is correct, but ultimately the profits from that operation go into the consolidated revenue for Tasmanian Independent Retailers, which then means that at the end of the day, whether it be revenue to be retained to further advance the business, if we do anything in excess of that we are to rebate that to our retailers and members

30

MR O'DONOVAN: All right, sure. Just dealing with again matters, and hopefully you can answer these sorts of questions in public, as a general matter, has there been pressure on the price of fresh food that is bought and sold by Tasmanian Independent Retailers?

35

MR HINCHCLIFFE: Generally speaking, I think that would be a fair comment, but predominantly the fresh business is run as a separate costing to 2,000 independent retailers. I have a general manager of that division so some of the specifics, if you want to get into specifics, I may or may not be able to answer.

40

MR O'DONOVAN: Sure. I mean, there is a common perception that the drought has made some contribution to the food inflation in Australia. Generally speaking, on the information available to you, do you think that drought has affected the price that you are able to acquire fruit and veg. for the Tasmanian retail account?

45

MR HINCHCLIFFE: In my opinion, I think that would be a fair assessment but I think there is a lot of other things that come into place that ultimately drive up costs not only with respect to fresh fruits but with respect to many other products as well, such as rise in interest rates, rise in distribution costs, rise in fuel prices. So I think it is fair to say that there has been probably some market pressure in those areas, but as I say, getting into specific examples, I may not be able to answer that.

MR O'DONOVAN: Sure. Alright. I suppose moving to the level of concentration at the retail level in Tasmania, you would be aware of how concentrated or otherwise that market is.

MR HINCHCLIFFE: Yes.

MR O'DONOVAN: Can you give us an indication of the rough market shares between the independents Coles and Woolworths?

MR HINCHCLIFFE: The figures said I'm probably going to quote my estimates. I don't have accurate information to make it up but I would suggest that in Tasmania, Woolworths and Coles would collectively control around about 80% of the market. I would suggest that in metropolitan areas such as Launceston, for example, in my opinion I think that would be higher, I think it would be around about probably 83 to 85 per cent, and a lot of that has to do with the high concentration of the chain supermarkets in the metropolitan areas. Let me give you some practical example from certainly the Independent Wholesalers, Prospect DC is within a seven to 10 minute drive, they can quite comfortably get to seven chain supermarkets. Within seven to 15 minutes you can add another two chain supermarkets on that, so they are very heavily concentrated in those areas and obviously those make it very difficult for independent retailers to be able to compete with such a high concentration.

MR O'DONOVAN: Sure. The evidence that you are relying on, is that in terms of value of retail sales going through those shops?

MR HINCHCLIFFE: Yes.

MR O'DONOVAN: Just to give us an idea, what is that rough indication based on?

MR HINCHCLIFFE: Well, it is based on - I mean, obviously if I'm looking at the IGA supermarkets, there is reasonably good access to turnover information for those retailers. If I'm talking about Coles and Woolworths, I mean, it's not too difficult to assess turnover information based on the sales of the store, their stock holdings etc. I mean, at it's - as I say, the figures that I have done are in my estimate so whether they can be relied on or not, it is probably a matter that can be debated, but I think generally speaking, in the marketplace I think it is widely accepted amongst many commentators that Woolworths and Coles control around about 80% of the grocery/retail market, and as I say, I would consider that to be fairly reasonable in Tasmania as well.

MR O'DONOVAN: When you talk about 80 per cent, are you just talking about the dry packaged groceries?

5 MR HINCHCLIFFE: No, anything that is basically sold in the markets. They are talking dry groceries, frozen, fresh, normal supermarket lines.

MR O'DONOVAN: I have got some questions about those figures I guess based on some of the trading information about Statewide Independent Wholesalers. Presumably, that should be done confidentially.

10 MR HINCHCLIFFE: Yes.

MR O'DONOVAN: In relation to the effect of the deregulation of trading hours, you have made some comments and some submissions about that which suggest that independent retailers were adversely affected by deregulation. Can you just indicate why you think that was so? Firstly, what the effect was and why you attributed it to deregulation?

MR HINCHCLIFFE: Well, to give you one very good example, we had a Festival IGA supermarket that was trading prior to 2002. I think it was around about 2003 when it actually closed, but prior to deregulating shop trading in 2002 it was averaging in excess of about \$125,000 weekly turnover. I think it was about 12 to 18 months after the deregulated shop trading hours came in that supermarket ceased trading. Now obviously when you are talking about a business who is doing \$125,000 a week or in excess of five million plus a year, that obviously has a detrimental impact from a wholesale perspective but also from a market share perspective. I would estimate that prior to shop trading hours being deregulated back in December of 2002, the independents probably controlled around about 25% of the market. My estimate now is that it is probably anywhere between 15 to 20%. So in my opinion, I think there has been a shift in the market and I think that has been demonstrated with respect to how the businesses moved from a warehousing perspective.

MR O'DONOVAN: Well, looking at that from a competition perspective, the effect of deregulation was to allow the major markets to be open longer and compete for a longer period with the independents, and presumably, that decline or demise of that particular store was as a result of customers choosing no longer to shop there and to shop instead at the major markets.

MR HINCHCLIFFE: Yes, I suppose that is one way to look at it. I mean, when you are talking about supermarkets in particular in Tasmania, on the mainland it may be a little bit different because there are some independent supermarkets over there that are of a comparable size to the chain supermarkets and can compete, I would consider, reasonably effectively with the chain supermarkets. In some cases in Tasmania, as I highlighted, given that the chain supermarkets have 42 supermarkets dotted around the island, it is very difficult for the independents to establish themselves in a supermarket often comparable to the chain supermarket, and I should note that of that 42, as I understand it at this time, there is potential for another eight chain supermarkets that are being considered at that point in time. So that effectively will take them up to 50 chain supermarkets. So it is difficult for them to compete in

those metropolitan areas where the chains are so highly concentrated and that there is no doubt that the independents in the metropolitan areas did have an advantage when there were restrictions imposed. Looking back on the debate, and there were several debates in Tasmania regarding shop trading hours, they were extended over a 15 year
5 period, and I suppose when we fought the last fight we were more fighting from the perspective that if we lost Sunday trading, it would be very detrimental but what in effect happened was that we basically lost the whole lot. There is only a very limited number of occasions where the major chain supermarkets cannot open, and what had an impact was not only the loss of the Sunday trade to the independents but the fact
10 that the chains in the majority of the cases decided to open from 9 to 12 seven days a week. So that not only had an impact on Sunday trade, it also had an impact on the weekday trade when the chains would normally close between six or seven. So it certainly did have an impact on it, I don't think there is any doubt about that, and as I say, it is difficult for independents to compete. It gave the independents an
15 advantage until 2002.

MR O'DONOVAN: Sure. Just looking at this idea that it is difficult for independents to compete, if I can just ask: is the relationship between Woolworths and Statewide Independent Wholesalers publicly known?
20

MR HINCHCLIFFE: Yes, yes.

MR O'DONOVAN: Can you just indicate in terms of - so in terms of Woolworths' I suppose supply arrangements, could you just indicate what publicly is known about Woolworths' wholesale supply arrangements?
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MR HINCHCLIFFE: Well, at the end of the day, it is on the public record that when we are talking about Statewide Independent Wholesalers, it is co-owned between Tasmanian Independent Retailers and Woolworths. Woolworths has a 60%
30 shareholding and TIR has a 40% shareholding. I don't think we have ever tried to hide from the fact that there is an association there. As far as, you know, going any further, I would probably want to do that in private.

MR O'DONOVAN: Sure. And can you tell us anything publicly about the supply arrangements or the existence or non-existence of a supply arrangement between Woolworths?
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MR HINCHCLIFFE: The supply arrangements are ultimately handled by Statewide Independent Wholesalers. That is an entity that gets all its goods from the various
40 manufacturers and suppliers. Those goods are warehoused in our Launceston DC, be it dry grocery, frozen or chilling, and those goods are there to fill orders of its customers, be it a Woolworths customer or an independent customer.

MR O'DONOVAN : I suppose what I wanted to be sure was that Woolworths was a
45 customer of the same wholesaler as the independent sector.

MR HINCHCLIFFE: That is correct.

MR O'DONOVAN: And that being the case, there doesn't appear to be anything at the wholesale level that would prevent an independent from being able to compete against Coles or Woolworths, is there?
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MR HINCHCLIFFE: I would probably sooner answer that question in private.

MR O'DONOVAN: Sure. Then is there any other feature of the Tasmanian market that prevents independent supermarkets from being directly and aggressively competitive with Coles and Woolworths?
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MR HINCHCLIFFE: I think probably getting back to the example that I used previously, that with respect to the high concentration of Woolworths supermarkets in Tasmania, especially in metropolitan areas, it is very difficult to find an independent operator that would be prepared to come into Launceston, for example, and build a three and a half thousand square metre IGA supermarket that for all intents and purposes would have a similar or a better offer than Woolworths and Coles. It would be very difficult to find somebody to come and invest that kind of money, given that currently they are surrounded by nine chain supermarkets that in effect control, in my opinion, around about 85% of the market. So that in itself makes it very difficult for us to even be in a position to be able to compete against them in the first place. The largest supermarket, the largest independently owned cooperative supermarket in Launceston would have floor space of around about 1200 square metres. Now, that supermarket provides an excellent service and an excellent offer but it does struggle against the chain supermarkets.
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MR O'DONOVAN: Just taking as an example the shop that failed following deregulation, presumably, at that stage its turnover and site justified its position.
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MR HINCHCLIFFE: Yes.

MR O'DONOVAN: Why is it that independent shops of that size and nature don't choose to expand to being large format stores which can compete directly with the supermarkets?
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MR HINCHCLIFFE: Well, that's certainly prior to 2002 with the protection of a regulated trading market. Now, as I said, when you take that regulation and when you take that protection away, it then becomes unstable, and for all intents and purposes, that is where that independent retailer who was in effect competing with both Woolworths and Coles in the same area found it very difficult to survive and it got to a point where their turnover was reduced to a level but it was just no longer viable to let that business trade if you are going to have a supermarket of 1500 to 2,000 square metres and you need to be doing a reasonable turnover to justify its existence, otherwise it's not going to be successful.
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MR O'DONOVAN: But are there structural features of the market that prevent an independent supermarket stepping up its customer offering to drive that sort of traffic?

5 MR HINCHCLIFFE: Well, once again, I mean if I talk about Launceston, it gets back down to location and getting into the customer traffic areas, and if we look at Launceston, for example, as is the case predominantly in Hobart and Devonport, Woolworths and Coles are already established in those centres or in those locations. So it is very difficult to encourage an independent operator that's got to come along and invest his own money into an operation that's going to compete directly with Woolworths and Coles.

MR O'DONOVAN: All right. So apart from the reluctance to actually invest the money to do that, is there specific obstacles to getting sites in Tasmania?

15 MR HINCHCLIFFE: I would suggest in Tasmania it is a bit different to what exists on the mainland. We don't have the larger shopping centres such as in the metropolitan areas on the mainland. Once again, when we start looking at sites and available areas for large supermarkets, it is quite often the case that Woolworths and Coles get into a greenfield site which potentially could be developed into a supermarket well before the independents can because TIR as an organisation has to find an individual or an entity that is prepared to invest in owning these stores, and one of the benefits I suppose that Woolworths and Coles do have is that they can go into these sites and they can operate from these sites for a period of time at a loss. An independent operator can't do that and that's where there is a difference. Woolworths and Coles have far more ability to cross-subsidise their stores, whereas independent retailers don't do that, and if Tasmania Independent Retailers as a cooperative cannot do that because it is unfair on our other members who couldn't really do so.

30 MR O'DONOVAN: I think that is all we have to do publicly.

MR SAMUEL: I've just got two or three quick questions, if I can, in the public arena. SIW is a subsidiary of Woolworths?

35 MR HINCHCLIFFE: Yes.

MR SAMUEL: Therefore, its accounts are published?

40 MR HINCHCLIFFE: Beg your pardon?

MR SAMUEL: Its accounts are published?

MR HINCHCLIFFE: Yes

45 MR SAMUEL: You are a director of SIW.

MR HINCHCLIFFE: Yes.

MR SAMUEL: I presume it makes a profit.

5 MR HINCHCLIFFE: Yes.

MR SAMUEL: Can you tell me the EBIT margin that represents your sites.

10 MR HINCHCLIFFE: Can I answer that in private?

MR SAMUEL: It will have to be public. It is before published.

MR HINCHCLIFFE: Statewide's brief is to operate anywhere between point 5 to 1
15 per cent. Now, anything in excess of that ultimately goes back to its shareholders.
What Woolworths decided to do with its contribution, I don't know. From the
Tasmania Independents Retailers' perspective, that money is rebated back to our
customers.

20 MR SAMUEL: So it is then rebated back to the members of TIR.

MR HINCHCLIFFE: Yes.

MR SAMUEL: Which are the customers of SIW.

25 MR HINCHCLIFFE: Yes.

MR SAMUEL: It may be in private some more investigation of that will take place.
The other one is a more general question. I'm not asking you to give me specifics
because you probably won't have the answer, in any event, but do the retailer
30 members of TIR make a profit or a loss or do they break on perishable groceries.

MR HINCHCLIFFE: If you are talking about a normal IGA retailer, some of them
would be profitable, some of them would be on the borderline and some of them may
35 operate with losses, and the extent of profit that a retailer can make at the end of the
day is largely dependent upon their mix of business. If you've got a smaller retailer,
and we have some in Tasmania where 50% of their business is tobacco, for example,
and it is low margin line, they obviously have a low GP and a low corresponding
bottom line, if they have the bottom line, but it does vary. But, I mean, at the end of
40 the day, I would be of the opinion that independent retailers in the main could be
profitable because if they weren't profitable they just wouldn't exist. I mean, you
would go and do something else. Whilst we are there to provide a service to our
customers, there has got to be a return for that service as well, and it is not only do
they need to generate a return. Well, they need to generate a return obviously to
45 justify the investment that they have made but also to be able to retain some profits
so that they can improve on their offer as well. You don't just build a supermarket
and fit it out and not do anything to it for 20 years. I mean, on average TIR is of the
opinion that you should be looking at upgrading your supermarkets within a probably
seven to nine year time frame. Now, there are considerable costs associated with
such upgrades so independent retailers, as do Woolworths and Coles, need to make a

profit so that they can justify that capital expenditure that has got to be made down the track.

5 MR SAMUEL: Last question. Just to take you back to SIW, if it only needed margin of point 5 to 1 per cent and anything in excess of that is being rebated back to the retailers, that's TIR, why is it in Woolworths' interests to be providing a rebate to its competitors; that is members of the IGA group and elsewhere?

10 MR HINCHCLIFFE: Well, any profit that Statewide deems that it can pay back to a - let me rephrase that. Statewide Independent Wholesalers previously used to operate between 0.5 to 1 per cent. Now, if they are getting towards the 1 per cent, it is because funds have to be retained for capital expenditure, be it new trucks, be it warehouse expansions, be it new forklifts, whatever it may be. With respect to the distribution, that is distributed back pro rata to the respective shareholding, to the
15 respective ownership. So if we are talking of distribution of profits from Statewide Independent Wholesalers, 60 per cent goes to Woolworths, 40 per cent goes technically to Tasmanian Independent Retailers. It is Tasmanian Independent Retailers' decision that we would prefer to see that money rebated back to our customers. Now, in dollar terms, the distribution that we are talking about, by the
20 time you spread it across, I think Statewide at the moment has got about 220 customers - in dollar terms it is not a significant amount of money - - -

MR SAMUEL: No, but the question I was perhaps trying to get to is this: why
25 wouldn't SIW just simply be charging wholesale prices that, for example, saw its margin go to three or four per cent and so be it. Given that its major shareholder is Woolworths, Woolworths, I wouldn't have thought, was in a particularly generous or benefactory mood or attitude to its competitors as IGA. Why doesn't it just increase its wholesale prices to its customers, which are in part its competitors?

30 MR HINCHCLIFFE: Well, then Statewide would be operating outside of its breach in accordance with its rules. Its rules are quite clear, that it is there predominantly to provide a supply chain facility to its customers, be it Woolworths or be it Coles, and I suppose it is probably important to clarify at this point in time that just because Woolworths has a 60 per cent shareholding in Statewide Independent Wholesalers, it
35 ultimately does not control the board structure and I alluded today to that in my response. So, I mean, from Statewide's perspective, it is there to provide that service and it is not there to provide service that generates excessive profit for the organisation. I mean, it obviously has a need to retain profits. Potentially we may be looking, in the next 12 to 18 months, at a major capital expansion of our dry grocery
40 and frozen DC. That capital expansion will probably cost in excess of 20 million dollars. You need to retain some profits to be able to do those sorts of things, but generally speaking, Statewide's brief is to operate within that guideline and not to operate outside of it.

MR SAMUEL: We will learn more about that in private session and it will be very interesting. Thank you. All right, we will go into private session at this point in time.

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ADJOURNED

[1.26pm]

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RESUMED

[2.56pm]

35 COMMISSIONER MARTIN: Mr Ryan, thanks for coming in, and we won't - you've received all the documentation. For the record, if you could state your name, organisation and role?

MR RYAN: Yes, Mark Andrew Ryan. I'm the Managing Director and CEO of Tassal Group Limited.

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COMMISSIONER MARTIN: And we've introduced ourselves. I'll pass over to Mr O'Donovan, who will conduct the hearing, and we will be joined by the Chairman, Graham Samuel, who's just on his way back from another meeting.

45 MR RYAN: Okay.

MR O'DONOVAN: Okay. Firstly, can you indicate whether or not you were summonsed to attend here today?

MR RYAN: Yeah - no, I was summonsed to attend.

MR O'DONOVAN: Okay. And I just want to confirm that you understand it's an offence under the Criminal Code to give evidence at this inquiry that you know is false or misleading.

MR RYAN: Yes.

MR O'DONOVAN: Can you just describe briefly the business that Tassal is in?

MR RYAN: Yeah - no, we are producers of Atlantic salmon, so we hatch them, grow them at sea, process them, and then sell and market the salmon, and obviously Coles and Woolworths are two customers of ours.

MR O'DONOVAN: Sure. Okay. Now, is this a relative new industry?

MR RYAN: Yes.

MR O'DONOVAN: Not selling the salmon, but in terms of farming.

MR RYAN: Yes, it's about 20 years old in Australia, so it's about 70 years old globally.

MR O'DONOVAN: Right. Okay. And in terms of the market, is it a growing market?

MR RYAN: Yes, it's a growing market. It's been growing at around about 10 per cent per annum.

MR O'DONOVAN: And in dollar terms - can you give us an indication in dollar terms?

MR RYAN: It would probably be, around about for the producers in Tasmania, around about a \$350 million industry.

MR O'DONOVAN: Okay. And the - can you give an indication of the proportion of the salmon that's produced, that's sold domestically onto the Australian market.

MR RYAN: Yeah, about 90 per cent of the salmon produced is sold into the domestic market, so 10 per cent's exported.

MR O'DONOVAN: In terms of the product that you actually sell, are you selling fresh salmon, canned salmon, smoked salmon, processed in some other way salmon - what do you sell?

MR RYAN: Yes, we sell fresh salmon, we sell salmon as fresh, but fillets and portions; so we've got the whole fresh salmon, fillets and portions as fresh, smoked salmon as fresh, and frozen.

5 MR O'DONOVAN: Okay. Any of that packaged salmon where you just see slivers of it in plastic containers?

MR RYAN: Yes. So we sell that as well. As well, we actually import some smoked Salmon into Australia, and that also goes through Coles and Woolworths.

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MR O'DONOVAN: Right. Okay. Do you sell any of your whole salmon to Coles or Woolworths?

MR RYAN: Not directly, but it does get sold - so about 40 per cent of our domestic sales, 40 per cent of the 90 per cent ends up in Coles and Woolworths in some form. That may be that we probably sell 20 per cent direct, and about 20 per cent goes indirect, which will go through wholesalers, who will then cut up the fish and then deliver it into the various supermarkets around Australia.

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20 MR O'DONOVAN: Okay. And the - and where does the remainder go? Who's the 50 per cent?

MR RYAN: More restaurants and food service and that type of thing, so the wholesalers receive most of the balance, and that's where it ends up, ends up going.

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MR O'DONOVAN: Is there a big retail alternative - an independent fish mongers is a big independent source of retail customers.

MR RYAN: Yes, if you look at it globally, seafood in supermarkets normally sits around about - 70-80 per cent of seafood is sold through supermarkets, so if you look at the US and the United Kingdom, that's around about the percentages, whereas in Australia it's probably only 20-30 per cent, so there are a lot of other retailers out there in terms of the wholesalers and the like, like the Sydney Fish Markets and the like, that actually sell - sell fish.

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MR O'DONOVAN: Okay. So that 20-25 per cent includes the proportion that will go through a wholesaler into Coles and Woolworths.

MR RYAN: Yes, yes.

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MR O'DONOVAN: So in terms of market share, there are - if you assumed it was equally divided, we are talking about only 12.5 per cent of the market for the salmon.

MR RYAN: If we said - let's say it's 30 per cent that goes through Coles and Woolworths in seafood in general.

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MR O'DONOVAN: Yes.

MR RYAN: You'd probably find that it would be probably closer to a 70/30 split - so a 70 per cent going through Woolworths, and 30 per cent going through Coles, I would have thought.

5 MR O'DONOVAN: Right. Okay.

MR RYAN: They are roughly the sort of numbers.

MR O'DONOVAN: But in terms of the concentration of the market, Coles and
10 Woolworths don't dominate - - -

MR RYAN: No, no.

MR O'DONOVAN: - - - sales of seafood.

15 MR RYAN: There are plenty of other alternatives to sell your product.

MR O'DONOVAN: So if you had a falling out with a Coles or a Woolworths, it wouldn't decimate your business.

20 MR RYAN: No. We'd obviously like to keep the relationship, given that we are 1 per cent of worldwide production out here, so there's equally a lot of export markets to sell into, but, you know, selling it in the domestic market is where we make the majority of our profitability, obviously with the high Aussie dollar and the
25 fact that you've got to put these things on planes and send them over because you are selling them as fresh, it is not an efficient way to sell your product; so, you know, Coles and Woolworths have been extremely important in our growth strategy, so, no, we wouldn't want to lose their patronage.

30 MR O'DONOVAN: Right. Okay. And so - and then in terms of how you go about selling, I understand a proportion is sold through the wholesale stream - - -

MR RYAN: Yes.

35 MR O'DONOVAN: - - - but ultimately it ends up at Coles and Woolworths.

MR RYAN: Yes.

MR O'DONOVAN: But a proportion you deal with them direct on.

40 MR RYAN: Yes.

MR O'DONOVAN: Talking first about the direct relationship, why do you deal with them direct and how is that relationship established? Perhaps starting with
45 Woolworths.

MR RYAN: The dealing with direct or indirect comes down to their ability to deal with the product. So if you are dealing with a packaged product, so smoked salmon, it's much easier to deal with them, to send to a centralised distribution point and then they feed it out to their supermarkets.

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When you are dealing with a fresh product you can go direct to the bigger supermarket - the bigger supermarkets, but for the smaller more regional centres, and rural centres, you need to - that's where the wholesalers come in, and then they cut it up and not only take salmon, but other wild fish and the like out to those more remote supermarkets that might not be as big.

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MR O'DONOVAN: Right. So it's really the supermarkets election about what's more efficient - - -

15 MR RYAN: Correct.

MR O'DONOVAN: - - - for them in terms of getting it into their stores.

MR RYAN: Yes.

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MR O'DONOVAN: In terms of a price setting, does the wholesale market have a strong influence on your relation - the price at which you sell direct?

MR RYAN: As in direct to the supermarkets?

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MR O'DONOVAN: Yes.

MR RYAN: No, it's more the distribution channel; you know, whether they can actually deal with it. If they wanted to take more product direct, we'd supply more product direct, but it's just the way that - unlike red meat and chicken, basically most of that - for you and I as consumers in the supermarket, will go and get a pre-packaged piece of meat.

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With fish, it is not in that section, it's behind the deli counter, so it's about making sure it's as fresh as possible by the time it hits the supermarkets. So if you keep a - I don't know, probably heading into a little bit of trivia for everyone, but if you keep the head on a fish you get 21 days shelf life, if you keep it at 3 degrees. As soon as you take your head off, you only get seven days, so the reality is if we can send the whole fish up to the wholesaler who can then cut it up, it just preserves shelf life, so it gives us as consumers more time to eat the product effectively as a fresh product.

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MR O'DONOVAN: So in metropolitan areas, are the major supermarkets set up to handle a product like fish themselves?

MR RYAN: Yes, some of them are, yes, and obviously they are a lot - we'll send them up in trays, already cut up, and they can deal with a lot more mass than some of the smaller ones that rely on more regular and sort of quick turn around delivery, so

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if you are out in Burnie, let's say, and you run out of fish, there needs to be a wholesaler close by that can just cut up some fish and deliver it in.

5 They won't carry a large stockholding of that because it is a perishable item once it's been cut down in a fillet portion, whereas the actual smoked salmon you get around about 30 days shelf life on that product, so you can actually hold some in store, and then, you know, sell it progressively. So it is not as perishable.

10 MR O'DONOVAN: Right. Okay. And then in terms of how the point at which price is set, do you have a, like, a 12 month agreement at a buy price, or is it a weekly fluctuating salmon market?

15 MR RYAN: The last agreement we did - if we just look at the history of the salmon industry. In about 2002 it was pretty much all the companies had either gone into receivership or were close thereto. I actually came in as a receiver as Tassal Limited, so the predecessor to Tassal Group Limited, and we restructured the industry, and of which Coles and Woolworths were extremely supportive in terms of continuing supply and the like with that, so it allowed us as an industry to get back on our feet. They supported the volume through the supermarket, as in they bought Tasmanian
20 Atlantic salmon, rather than imported Atlantic salmon, so it gave us a significant base in which to continue to grow the industry from.

MR O'DONOVAN: Yeah. Now, what had caused the industry to get to that point where- - -

25 MR RYAN: Just too much debt in the industry and, you know, it's basically a four-year planning cycle and a three year working capital cycle, so it's a long lead time; so if you actually put too many fish into the sea, you've got to fund them and grow them, and obviously if you don't have a market big enough to take them when they come out, you've got to actually do something with those fish, and it was
30 that - at that point that the Salmon industry realised that it had a problem, because all the bankers were saying, virtually, "We want our money back now", so they hadn't worked out how they actually were going to market it all the way through, so - - -

35 MR O'DONOVAN: Okay. So then the arrangements with the major supermarkets reflect the long lead times in - - -

MR RYAN: Yes, so effectively the last negotiation we had, I think, was around
40 about - well, by the time we get out to 31 December 2008, it would have been two, two and a half years that we had an agreement in place with them, where we implemented a price increase during that time, but other than that we've kept the price of the product at a stable level, which allows them to promote around it, and we were happy with the price that we got, so it was pretty much - you know, we are conscious of increasing the scale of our industry, which allows us to lower the cost of
45 growing, which makes us globally competitive, and obviously for Coles and Woolworths, in order to promote around it, it's better that they get, you know, prices that they - you and I as consumer can go in and readily know that that's roughly

going to be the price each and every time you buy the - buy the product, so from both points it's worked extremely well, because if you look at the fluctuations of wild fish prices - you know, you might have flathead fillets one day is the \$45, \$50 a kilo, the next day they might be as low as 10, and it all depends on the wild catch.

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So the whole idea of fish farming is that you - like normal farming, you've got sustainable delivery into your sales and marketing areas 12 months of the year, and that's what we've been able to work with Coles and Woolworths to actually get that in place.

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MR O'DONOVAN: Okay. And is there - with those terms, is there any - I suppose, are there any external factors in the market that place pressure on that arrangement so that an external fish supplier is shipping in cheap salmon from somewhere else.

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MR RYAN: No, it's much more that they've been - you know, they haven't committed to a volume at all, but they've committed to keep taking Tasmanian Atlantic salmon, and we've committed to a particular price, so that it's been a working relationship that we've kept going through.

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You know, equally, because fish coming into Australia - or Atlantic salmon coming into Australia have got to have their heads off as a biosecurity quarantine rule - and it's obviously from Norway and Chile are the two major growing areas - to actually airfreight it into Australia is quite a significant cost. The amount of imports that come in probably isn't as great as with fresh fish as it is with canned and frozen fish because with frozen fish you put it in, it's got to - in a container, ship it out and it's got a 12 month shelf life on a frozen fish, so that's the difference in terms of when you are doing a fresh product, we are able to give them 12 months supply, and that's what they - they end up supporting, and that's what they build their business around.

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MR O'DONOVAN: Okay. So in a sense your direct arrangements are - are completely unhinged by what might be happening in the wholesale market for fish?

MR RYAN: Yes, that's right.

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MR O'DONOVAN: So then how does the wholesale market work?

MR RYAN: The wholesale market works for us, is that we could set daily prices, weekly, monthly. The last price increase I think we took in the wholesale market was, again, two years ago, and it's been because, you know, like we've been taking costs out of our businesses so rather than keep increasing the price of salmon for us, we want to promote it as an every day protein to the consumer, so it's about, again, keeping the price consistent to the wholesaler so that they can promote around it and, I suppose, which lends itself to then there's not the fluctuations again with the wild fish that is sometimes happening, so for a restaurant where most of our product will end up, they are able to put salmon on their menu at a specific price because they know buying from the wholesaler they are getting it at a specific price, and they

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realise that unlike wild fish, where you only get a 30-33 per cent recovery off the whole fish, with salmon, it's 60, 65 per cent.

5 So for a value for money for a restaurant, and that sort of thing, it is quite appealing; so then that allows restaurants to promote around it, have specials, blah, blah, blah.

MR O'DONOVAN: So in terms of - so there isn't, like there is for certain fresh fruit and veg - you don't sort of send it down to the fish markets and say, "Oh, I wonder what the price will be today?"

10 MR RYAN: No, we don't. You can work off, say, the Sydney Fish Market auction floor.

MR O'DONOVAN: Yes.

15 MR RYAN: But we've obviously got sales and marketing teams throughout Australia and, you know, we go in and do our work within each of the retailers as we do with the wholesalers, promoting our fish, and it is very much a standard price that goes in, and it doesn't - you know, historically it might have varied once every year, year and a half type of thing; so, again, it's been about making sure that we get the volume to lower our cost to growing and, you know, working with the wholesalers to make sure that they are able to sell as much salmon as they possibly can.

MR O'DONOVAN: Okay. So you'll agree a price with the wholesaler, and then supply to the wholesaler at that price, and then the wholesaler will deal with restaurants and the - - -

MR RYAN: Correct.

30 MR O'DONOVAN: - - - the other.

MR RYAN: And it may very well be that, you know, time from time they'll come back and ask for some price relief and, you know, if it's an opportunity we think's worth pursuing, then we'll pursue it. If not then we continue on our business.

35 MR O'DONOVAN: Right. Okay. So in terms of the relationship between, say, the Sydney Fish Market, who sells into that market?

MR RYAN: We do. Our competitors do. You know, the wild fish.

40 MR O'DONOVAN: Fixed prices on salmon.

MR RYAN: Yes. So what you'll find is within the Sydney Fish Market, there's a number of smaller wholesalers/retailers that operate fish businesses out of it. So they'll supply to the food service, they'll supply to restaurants, and they'll supply to the public who walk in and buy fish.

MR O'DONOVAN: But the auction floor - does any salmon go through the auction floor?

MR RYAN: No.

5 MR O'DONOVAN: No, okay. So how many other suppliers of salmon are there; Tasmanian - - -

MR RYAN: There's effectively three Tasmanian suppliers of salmon.

10 MR O'DONOVAN: Okay. And that's the whole of the Australians - - -

MR RYAN: That's it. You can only grow salmon in Tasmania, because of the water temperatures.

15 MR RYAN: Yes. I am sure none of you went for a swim this morning, so it will give you an idea of how cold it needs to be so - - -

MR O'DONOVAN: Okay. And it's always been that way; that there isn't sort of a supply - effectively an auction house supply and demand for the product?

20 MR RYAN: I think the industry, if you go way back to the start, might have started doing that, because it was actually that 90 per cent of the sales went across to Japan, and only 10 per cent to the domestic market, so it's flipped to back round obviously with the domestic's grown in the fact that the FX level's gone the wrong way if you are an exporter.

25 MR O'DONOVAN: Okay. Now, in terms of pricing, is pricing driven much by the price of other proteins like chicken and beef.

30 MR RYAN: From our end?

MR O'DONOVAN: Yes, from your end.

35 MR RYAN: I think up until now feed prices have been fairly stagnant on a global basis.

MR O'DONOVAN: Sorry, no, no, I was thinking more in terms of what you can buy chicken in the - - -

40 MR RYAN: Yes, I was going to lead in.

MR O'DONOVAN: No worries.

45 MR RYAN: I've got to give you the story behind it. Traditionally, that's been why you probably haven't seen as much movement in beef, lamb, chicken, turkey and

fish, apart from wild fish, so let's call it salmon - hasn't changed much over the last couple of years.

5 Obviously with the increasing demand on biofuels and the like, and just oils in general, Omega-3 oils and that sort of thing, what you are finding now is that the raw materials's underpinning our feed, are going up, and so in light of that you'll see that, you know, farmers and other suppliers will be looking to, you know, pass some of that price increase on to consumers, in the fact that, you know, you've had a period where you've had stable prices so the price has been kept stable.

10 Now that you've got a period, your raw material costs are going up; you know, someone has to ultimately fund that raw material cost - whether it's the actual supplier or consumer or a combination of both. I think that's what you are seeing. I think chicken's probably had three price increases since October, and that sort of
15 thing, because of the fact that we've had droughts and grain prices and, you know, have been literally going through the roof; so I think you'll start to see now more; that you know salmon and the like, you know, we'll probably look to take price increases over the course of this year because of the fact that we've had price increases on our feed.

20 MR O'DONOVAN: Okay. And fish feed is grain based.

MR RYAN: No, it's actually - it's a combination of fishmeal and fish oils, and other protein sources like feathermill and that sort of thing, and also then grains including
25 lupins and soy and wheat and canola and all those, so it's almost like a - it can be as low as a sort of 30/70 mix, and it can be as high as a 70/30 mix between the two, so there's quite - the actual feed pellet itself is quite substitutable.

MR O'DONOVAN: Right. So does that insulate you from the impact of grain
30 prices going up as much as they have?

MR RYAN: From grain prices, but also fishmeal and fish oil have been going up significantly.

35 MR O'DONOVAN: Of the same order of magnitude as wheat?

MR RYAN: Probably quicker, which has been something - so what you are doing is you are trying to balance your - albeit that they are not exactly at the same price per tonne, the actual magnitude of the growth has been equivalent, and so what you
40 try and do as a producer is look at your raw material inputs in your feed, and try and balance that out to try and keep the price down of that actual fish pellet.

So you might increase more chicken meal and lower the fishmeal combination because even though chicken meal is going up, fishmeal is \$1700 a tonne, is a
45 significant part of your cost of the fish pellet.

MR O'DONOVAN: Okay. So what proportion of the wholesale, or the price at which you sell a salmon - what proportion of that would be affected by feed?

5 MR RYAN: So feed's probably half the cost of the fish, if you look at it that way. That's the actual growing cost. Then you have processing costs that sit on top of that, so out of our total cost base, feed might be 35 per cent of our total cost of running a business.

10 MR O'DONOVAN: Including the fixed cost components?

MR RYAN: Yes.

15 MR O'DONOVAN: Okay. So a doubling of feed price would have a very substantial impact?

MR RYAN: Yeah, it has a significant impact.

MR O'DONOVAN: And are you able to pass that through?

20 MR RYAN: Look, if it was double I think, again, we are at a process where we were the highest cost gross of salmon in the world. We are probably mid-tier now, and we are heading to global best practice, so by actually - even though the price of the feed pellet might be going up, we are taking costs out at the same time; so to give you an example, our - the companies that make up Tassal now, previously had about
25 2,000 people working, and now we have 420 doing four times the tonnages.

It's just that it was very manual process before, whereas now we've automated the processes, so, you know, able to take costs out from that, so we can balance it to an extent as it goes - as it goes through.

30 MR O'DONOVAN: Right. And there's enough competitive pressure from you, from the other salmon producers in Australia to - that you've got to do that?

35 MR RYAN: Yeah, that we've got to keep trying to take the costs out because effectively we are competing in a global market and so, you know, trying to be lowest cost producer would be great for us because then it opens up a lot more of Asia because of the air freight from here to Asia is probably, in a cost sense, not much difference between here and Cairns, so from that perspective it's incumbent on us to keep taking the costs out of our business, which has been why we haven't
40 actually passed on any price increases for the last two years.

MR O'DONOVAN: Right. Okay. Now, in terms of the retail - so basically the price that Coles and Woollies is paying has been roughly static.

45 MR RYAN: Yes.

MR O'DONOVAN: In terms of what's happening at the retail level, have you observed any weakening of retail competitions, the price has gradually gone up for salmon?

5 MR RYAN: I think in terms of - if you look at all the ASTEC and Nielson data and that sort of thing, and you go down to your local supermarket to check on prices, you know, there's been some fluctuations where yes, they have gone up, and there's also been some times when they've promoted and they've come down, so roughly has it affected our volume that we are selling through to them? Not - not significantly, no.

10 MR O'DONOVAN: Okay. But looking at it from a consumer's point of view, has - from your observations as retailing, is the retail sector - is there enough competitive tension there to - to keep margins static, or have you observed some - - -

15 MR RYAN: Particularly in fish, I think so, yes, because you are talking about - there's the supermarket selling maybe 30 per cent of fish, whereas there's 70 per cent out there that's interacting with the supermarkets, and at the end of the day, where we sold in a supermarket, which is behind the deli counter, I think the statistics are 1 per cent of shoppers actually shop from behind the deli counter; so
20 equally what you'll see, and Sydney's probably a good example, in the larger supermarkets there you'll have a Decosti's or another retail outlet right outside; so what you generally see is that the shopper then has a significant choice between, you know, the wholesaler/retailer outside the front door, and the fact that the Woolworths or the Coles that's in that complex

25 So in terms of undue pressure on the consumer - no, I don't see, particularly with salmon, that they are being faced with any undue pressure at all. I think, you know, like, Coles and Woolies realise they have to be competitive with the wholesaler/retailer that, you know, is operating straight outside; and, you know, they
30 are dealing with a perishable product, so at the end of the day they know they can't afford to make it too expensive because they've only got limited time to deal with it, and otherwise they need to dissipate it, throw it out, so again it has to be relative, and relative with the other proteins, I suppose.

35 MR O'DONOVAN: Yes, okay. And in terms of the payment terms, they haven't changed, they haven't asked you to accept worse - you know, longer periods without payment?

40 MR RYAN: No. You know, I wish all my customers would pay like Coles and Woolworths, to be honest, but when you are dealing with Greek wholesalers, sometimes you are dealing with a lot smaller operators that, you know, struggle with cash flow sometimes, so Coles and Woolies, again, for our business, have been extremely supportive because, you know, when the industry was in receivership, they were there, they continued to honour their commitment to the industry at that time, in
45 terms of sourcing Tasmanian product, in terms of the Tasmanian salmon; so, no, we've had nothing but good relationships with both retailers.

MR O'DONOVAN: Right. And in terms of their incentive, and in supporting the industry, is ultimately because they could see that was going to be a source of a quality reliable product that was easier for them in the supply chain sense, or the dynamic.

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MR RYAN: I'd say if you look at the product, in the Japanese market, we get about a \$1, \$1.50 a kilo more than anyone else in the world for our product, so our product is the premium product. It grows quicker than anywhere else in the world so it has less fatty oils and fats on it, and so - I won't go into Tasmanian jokes, but it has a smaller head which allows a better yield because you are getting more flesh off the body; but, in effect, so, you know, for those things it is a premium product that they continue, and I suppose for them, for both Coles and Woolworths, it presents very well behind the glass because it's a nice pink fish that sits there, where you've got, you know, effectively, white fish which can be white or can be grey at the end of the day, you know, depending on the different species, so from a presentation point it's certainly, you know, helps them to have - and I guess the more health conscious we all get, you know, the fact is that it's - you know, from a fish point, and Omega-3 point, it's about as good as you can get, so from that side of things they are happy to promote a good healthy quality premium product at the end of the day.

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MR O'DONOVAN: And in terms of negotiating, we sometimes slip into the habit of just sort of referring to the major supermarkets, but do you have distinctively different negotiations with Coles and Woolworths?

MR RYAN: No, not distinctively different at all. You know, roughly, you know, they trade on the same - pretty much the same terms with us, and that's, you know, for us because we've got two other competitors in the - in the market, you know, we've got to be cognisant of where the market's at and where they are at the end of the day, and so again, you know, we are happy with the price that we - that we've got to date, and obviously once we get out to 31 December 2008, we'll continue negotiations around a longer term agreement again with them, sort of in the next six months.

MR O'DONOVAN: Right. Do they insist or demand the terms they are getting are the best terms? Is that ever a requirement on you?

MR RYAN: No. When you say "the best terms", I think from our point - all I can say is we are happy with the terms that we - that we are getting and, yes, we sit down and negotiate with them, but at the end of the day they've got a choice whether or not we supply them, and we have a choice as to whether we supply them; so, you know, we are both happy with the prices that we come up with in terms of supplying each of them.

MR O'DONOVAN: Sure, but it is not a condition of supplying them - they don't say to you, "Look, we'll only buy from you unless you assure us that this is the best terms and no one else" - - -

MR RYAN: No, we do a lot more with them around marketing and promotions. It's really the whole package that we are able to put to them, pretty much like any other business relationship that either they are involved in or any other corporate's involved in. It's - you know, price is one point obviously that everyone negotiates around, but it's about getting products in for one time, and that type of thing, and keeping the quality up.

So we are audited according to their quality that they require in there for the products say from a food safety point and all that, so you need to be able to provide, you know, a whole package to them as to what you - what you are doing; and, yes, price might be one point, but it's one of maybe 10 things that you roll up into a package.

MR O'DONOVAN: Yes. Okay. All right, I think that was all that I had.

COMMISSIONER KING: Do you have anything, John?

COMMISSIONER MARTIN: Well, we have been asking questions about just on price issue, about the margins at different parts of the chain, but you might want to indicate that confidentially, given that it's a commercial issue, or would you - I mean - - -

COMMISSIONER KING: It might be best just to get a - would it be possible - just a written submission I think is probably better than going into a confidential session. Just in the sense of a track down through the chain, as far as you know it - - -

MR RYAN: Yes.

COMMISSIONER KING: - - - in terms of, "Well, this is a price, here is our basic cost, here is the price of our mark-up, here is what the supermarket site, here is what it is in the wholesale site, here is the mark-up as best as we understand it". Would it be possible to get something like that from you?

MR RYAN: Yeah, look, that is probably better, a written - - -

COMMISSIONER KING: Perhaps if we can draft a letter up and we'll send it through to you.

MR RYAN: Obviously we are a public company and we have competitors out there - - -

COMMISSIONER KING: We understand that.

COMMISSIONER MARTIN: - - - also at each level, so we are very conscious and have strived in these hearings to go to a confidential hearing.

MR RYAN: I think we are just a small bit, it's probably better.

COMMISSIONER KING: I have nothing more on the other part of it.

5 COMMISSIONER MARTIN: The only other thing is volumes. This seems to be a growth area.

MR RYAN: Yes.

10 COMMISSIONER MARTIN: You are looking - what's within the sort of volume growth levels?

MR RYAN: So we are sort of - so the industry is around about 22,000 tonnes of fish at the moment, and I would say by 2015 that that will probably go to probably 15 40,000 tonnes of fish; so, you know, it is a quick - it's - they are quick growing fish.

COMMISSIONER KING: Is that the export?

MR RYAN: No, the growth area will be the domestic market. It's still at 20 10 per cent per annum, so the compound effect of that's going.

COMMISSIONER MARTIN: It's mainly domestic still.

MR RYAN: Yes. It's going to take most of that. In different years you might have 25 to export a bit more, yes.

COMMISSIONER KING: What sort of pressures does that put on the fishmeal industry, and the fish oil industry? I mean, that's obviously - someone's got to get the products to feed the farm fish, so - - - 30

MR RYAN: Yes. What you need to take it back to is the actual feed conversion. So if you look at - if you look at salmon, world best practice will say a kilo of feed in gets you a kilo of growth out, so they are the best converters out of all of the animals by a long, long way. 35

I think the next best is actually chicken- it's sort of 2.2 or something like that, and then if you look at what goes into a fish feed, it can be as low as 40 per cent fishmeal and fish oil. If you are converting it one to one, and you use 30 per cent of that as fishmeal and fish oil, that is why a lot of research has gone into substitution in terms of, you know, over proteins and fats and oils that can go into a fish feed pellet, and that's what becomes - it is a sustainable. We argue it's a sustainable fish industry at the end of the day. 40

COMMISSIONER MARTIN: All right. Look, thanks very much. 45

COMMISSIONER KING: Thank you very much.

COMMISSIONER MARTIN: We look forward to following that up. Thanks for coming in.

5 MR RYAN: No problems.

ADJOURNED

[3.32pm]

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