

Public hearing –Launceston

14 April 2008

Time: 11.00am – 3.30pm

Address: **The Launceston Function Centre**
Cnr Lower Charles & Canal Streets

Room: The Atrium

Witness	Submission	Summons
Tasmanian Farmers & Graziers Association Ms Genevieve Turville Executive Officer Vegetable & Agriculture Industries Mr Nick Steel Industry Development Officer Mr David Byard Farmer Mr Rupert Gregg Board Director and Meat Council representative	n/a	No
French's Youngtown Supermarket Mr Ted French Mr Michael French Owner	n/a	No
Tamar Valley Dairy Mr Guaraci Matteo Owner	n/a	Summoned & compelled to appear by ACCC

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TRANSCRIPT OF PROCEEDINGS

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

MR JOHN MARTIN, Commissioner

GROCERY PRICE INQUIRY HEARING

**CONDUCTED AT: LAUNCESTON FUNCTION CENTRE,
LAUNCESTON**

DATE: 11.00 AM, MONDAY, 14 APRIL, 2008

MR MARTIN: Good morning, my name is John Martin. I'm a Commissioner at the Australian Competition and Consumer Commission and one of the presiding members of the public inquiry into the competitiveness of retail groceries, retail prices for standard groceries. I welcome those attending and declare the hearing open.

This hearing is an important part of the public inquiry process allowed for under part 7A of the Trade Practices Act. The inquiry follows a request from the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs received by the ACCC on 22 January 2008.

Matters to be taken into consideration by the inquiry include but are not limited to 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 at the supply, wholesale and retail levels of the grocery industry chain, the competitive position of small and independent retailers, the pricing practices of the National Grocery Retailers and the information on grocery prices available to consumers, factors influencing the pricing of inputs along the supply chain for standard grocery items, any impediments or 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.

I note that the ACCC has so far received 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 appreciates industry participants' contributions to this process.

We understand that the competitiveness of retail grocery prices is of significant concern to all Australians. The purpose of these hearings is to give the ACCC an opportunity to investigate in detail the issues raised as part of the inquiry with participants. The ACCC is organising hearings throughout Australia during April with several further hearings to occur in Melbourne in May. I must say that the public inquiry process is one that is aimed at giving everyone an opportunity to put their views and to make our inquiry process as transparent as possible.

I wish to emphasise that many witnesses at 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 companies. Therefore no conclusion can be drawn regarding a company's willingness or otherwise to participate in the inquiry from the fact that a company is appearing at the hearings.

Some of the material covered in hearing sessions may be confidential and commercially sensitive and, therefore, parts of the hearing therefore may not be open to the public. Questioning at all our hearings tends to start in public, but sessions can

move into confidential phase if the questioning moves on to confidential material relating to witnesses. The ACCC has been able to investigate issues that can commercially sensitive to witnesses without damaging the witnesses' competitive position and commercial relationships.

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The ACCC will be questioning organisations about their commercial relationships and about confidential documents the ACCC has obtained through using its information-gathering powers and that type of questioning we've ensured is not in public and it's not appropriate to be 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, the ACCC must be able to hear certain evidence in confidence.

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Transcripts of the public parts of the hearings are placed on the ACCC website and the ACCC may disclose some aspects of confidential components of the transcripts some time after the hearing if it is considered that some of the material should be in the public domain, but the ACCC will always consult with the relevant witness before doing this.

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As in the next case, or the first case today, industry associations or representative organisations are attending who are attending voluntary, it's most likely that most of the hearing session will be in public, but if things do move on to sensitive areas, we're more than happy to put that aside and have that in a private hearing towards the end of the process.

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In terms of procedural issues, all witnesses have received a document that outlines how we intend to approach these hearings, so I'm not going to go through the procedural points in detail.

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I wish to emphasise that although we're not taking evidence under oath in this hearing, it is a serious offence to give false or misleading evidence to the ACCC.

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A transcript of today's proceedings, apart from any proceedings held in private, at this inquiry will be made available on our website in a short period.

We recognise that some witnesses will be asked to give evidence that if disclosed could damage their competitive position and we will guarantee that that will be confidential.

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I note that although we're not using external counsel at this hearing, witnesses may be questioned by some of my colleagues from ACCC staff membership, depending upon the processes and whether they wish to raise matters.

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Now that concludes my preliminary remarks in relation to today's hearing. I thank all witnesses who are attending today, particularly those who have been summonsed to attend. We realise that you're all busy people and that attending these hearings can be a significant imposition on you and your organisation.

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Now the first witness, welcome to the Tasmanian Farmers and Graziers Association. What I'd like to do is run through and each of you state your name, the organisation and your role with the organisation, and just remind you that it is an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or omits any matter or thing without which the evidence is misleading. Do you understand that?

WITNESSES: Yes.

MR MARTIN: So perhaps starting from the right-hand side if you could introduce yourself.

MR BYARD: My name's David Byard, I'm a beef producer.

MS TURVILLE: My name's Genevieve Turville. I work at the Tasmanian Farmers and Graziers Association as their executive officer for vegetable and agriculture industries.

MR SWAIN: I'm Roger Swain, I'm Chairman of the Tasmanian Farmers and Graziers Association.

MR STEEL: My name's Nick Steel. I work at TFGA, the Tasmanian Farmers and Graziers Association as the industry development officer in the specific area of the dairy meat and wool industries.

MR MARTIN: Thanks very much for coming to the hearing. With your organisation it's perhaps three-pronged in terms of broadly covering what you do in terms of horticulture, the meat and dairy, but to start off perhaps one of you would like to outline the structure of your organisation and its coverage and membership and the role that it plays.

MR SWAIN: Okay, thanks Commissioner. Basically our organisation represents around about – and this changes on a monthly basis – 3,600 members. There are about 3,880 registered businesses in Tasmania who represent agriculture as such and have an income over some 10,000 a year according to the ABS statistics, so quite clearly we are fairly well representative of the Tasmanian farming community. Our organisation represents the sectors or the commodities of agriculture which are vegetables, dairy, beef and wool. We also do have some minor forestry interests and some chicken meat and some pork meat interests as well. We do not represent the grape growing sector nor the stone fruit sector.

MR MARTIN: I would expect that in those main areas that you cover in terms of the activities in the supply chain and issues that you'd like to make and would like to explain and we would be interested in, each of them would be quite different.

MR SWAIN: Absolutely.

MR MARTIN: So perhaps we could start off with the horticulture side. Do you have a preference? It sounds like you're in the meat game.

MR SWAIN: I'm a dairy farmer.

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MR MARTIN: Sorry, you're in the dairy farming game and you're in the beef side of things?

MR BYARD: Yes.

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MR MARTIN: Maybe we could start off with the beef side or what would your preference be?

MR SWAIN: We have no preference. Basically as long as we touch all the bases, we'll be happy.

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MR MARTIN: I think given that we've had, in terms around the country, talking to suppliers at your level, we have a bit of background. Let's start with the horticulture side and maybe you could explain how the horticulture industry has changed and what have been some of the issues facing it.

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MS TURVILLE: All right. TFGA is, I suppose, unique in terms of the other state farming organisations across the country in that we have collective bargaining groups where members meet together to negotiate prices with companies. This is vegetable products for processing rather than for fresh market. We do have members who do sell to fresh market to process, and packers, and also those who are small vertically integrated operations.

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MR MARTIN: What would be the proportions as to processor - - -

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MS TURVILLE: Those who are operating - - -

MR MARTIN: Or the market type or direct to retail.

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MS TURVILLE: Those who are growing for two large processing companies here, Simplot and McCain.

MR MARTIN: But what's the proportion among your members in terms of how much do they supply to the processors and how much do they supply to other parts of the chain?

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MS TURVILLE: I'd say 80% would be to processing.

MR MARTIN: So what are the sort of issues that – you mentioned collective bargaining, is that a new phenomenon or is it something that that's always been driven by a collective arrangement?

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MS TURVILLE: I think there's been a long tradition of approaching the setting of the contracts in that way. We have - TFGA has an authority from the ACCC for eight separate groups to negotiate their prices on an annual basis with companies.

5 MR MARTIN: So basically there are two processes, are there?

MS TURVILLE: Yes.

MR MARTIN: McCains and Simplot?

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MS TURVILLE: That's right.

MR MARTIN: Can you explain how that supply chain works for potatoes or peas?

15 MS TURVILLE: It's actually quite simple. There's a bargaining round once a year. There's a committee that's formed from the members of the organisation. Some growers aren't - don't participate in this process. They aren't members of TFGA, but on the whole most of them are.

20 MR MARTIN: So do they have direct contracts, do they?

MS TURVILLE: They, I understand, have the same contract as that which is negotiated through the TFGA committee, so that happens once a year on a commodity basis, so the processing potato price would be negotiated separately to, you know, the other vegetables, so peas, beans, carrots, brassicas, which includes broccoli and cauliflower.

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MR MARTIN: I'm glad you explained it. I didn't know what that term meant.

30 MS TURVILLE: The individual committee will work out what their input costs have been for the last season, what they look to be for the next season, and upon the basis of increase in those input costs, they'll ask for an increase in price. I don't think I've seen in the minutes of the different bargaining committees where they've actually achieved the price that they wanted. It's always negotiated down. Last year there was a range of increases across the commodities, however growers would put to you that the price increases haven't kept pace with the input costs, particularly recent increases in things like energy, fuel, fertiliser, labour, land, all of those things. Basically in this situation they've got two markets. If you're growing vegetables for processing, you've got two companies you can sell to.

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MR MARTIN: How much is that relationship then impacted by the processes of ongoing connection with the retailer end? I mean, have you done analysis as to - with some of these products, you know, what the retail level is, or is there discussion with the - - -

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MS TURVILLE: Obviously, the relationship between a processing company and the retailers or the food service sector, what happens there is a mystery to us. We can

see when we go in and look at supermarket prices and we try and work out where the products come from, are they our products or our members' products, we look at where products are being imported from and look at what the consumers are paying for it.

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At the moment, for example, one of the supermarkets has processed potato products for two of their lines which is being imported from the Netherlands, and we're look at that and sort of think well, you know, we assume that they would have similar labour costs and would have the same sort of burdens on them producing that product. It's difficult for a farmer, a potato farmer, to work out how is it possible that it's cheaper to - - -

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MR MARTIN: Is that a frozen product?

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MS TURVILLE: Yes, processed, frozen potato products. How it would be cheaper to have a product from Netherlands being sold in Tasmania rather than a locally grown Tasmanian product.

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MR MARTIN: Is it grown in the Netherlands?

MS TURVILLE: Yes.

MR MARTIN: Or is like bagged in the Netherlands?

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MS TURVILLE: No, it's grown and processed and imported.

MR MARTIN: It's a fierce price competitor, is it, that product?

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MS TURVILLE: It's not something that we completely understand how it's possible – you know, farm subsidies in European countries would be one thing that would make a product like that attractive for a retailer to purchase rather than purchasing locally grown product, but the fact that it's there and it's readily available and it's a mystery to growers and that makes the constituency that we represent unhappy and ask questions how it's possible, how can that be competitive when there's a locally grown product which is just as good if not better.

35

MR MARTIN: Just on that issue of whether good or better, these contracts that your members have with the processors, how fulsome are they about the quality side? I mean what's encapsulated by them in terms of what they require?

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MS TURVILLE: Those contracts have a number of specifications in them, and that is for a product which - I suppose they're not specifications - I suppose, you know, if you were, perhaps, a housewife, it's more is the product suitable for processing, is it suitable for storage, will it have the characteristics that once it's gone through that process through a factory, you know, in a particular state. So size of the product, there are quality specifications in terms of the way it's to be handled properly so that it would be bruise-free and the size and that sort of thing.

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MR MARTIN: That's all driven by systems that are followed consistently by your members?

MS TURVILLE: That's right.

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MR MARTIN: Or do they vary?

MS TURVILLE: That's right, but farming's not a perfect science, so they're targets.

10 MR MARTIN: The other thing is you've said that of your members probably around 80% are supplying into processing as opposed to going to fresh through either selling to the wholesale market or to direct to retail. What are the economics? Do you have any evidence in terms of the economics of that to your members, that they are better off supplying to the processors is it an issue of having certainty? What's the - - -

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MS TURVILLE: There's vast quantities involved in the processing industry, so it's not something that you can't just sort of say oh well, you can choose to grow thousands and thousands of tonnes for fresh market. It just doesn't work that way.

20 MR MARTIN: Is that because your fresh market is basically a Tasmanian market, or is of that 20% some it go to the mainland?

MS TURVILLE: Yes, some of it goes across Australia. For example, onions in Tasmania are exported overseas, yes.

25

MR MARTIN: What is the proportion – we're really talking about 20%, approximately because 80% is going to processing. Where does the 20% go? Is it mainly to local markets in Tasmania?

30 MS TURVILLE: No, one member for example grows tomatoes, cherry tomatoes and other tomatoes, for both retailers, and they are sold both here and on the mainland.

35 MR MARTIN: This may not be something in general you can make a comment on, but in terms of returns, is the compensation in return for growing fresh better, or is does it sort of even out with spoilage and returns?

40 MS TURVILLE: You'd probably have to ask individual growers to make those sort of comparisons. From what I understand, it's just simply not possible to compare the two industries, so it's something you'd need to speak about with different individuals about their relationships, either those contracts directly to retailers or through packing companies.

45 MR MARTIN: Do you have a view in general, then, about those relationships to the extent that obviously there's a choice to go to the wholesale market or to, in some cases, growers have direct relationships with the retail chains and do any of your

members have direct relationships in terms of the fresh products, or is this not something that - - -

5 MS TURVILLE: I should probably point out that if a vegetable grower decides that the market's not competitive enough, like they're not getting a good enough return on their investment, that they would seek to grow something like, you know, a different crop rather than start growing for fresh market. You're talking about a lot of ground, so you'll find that farmers will convert to different commodities, they'll grow grain, they'll do more fat lambs, they'll go into dairy, so it won't be stopping processing vegetables one day and converting to fresh market. It doesn't work that way.

15 MR MARTIN: That's an area, of course, where we're dealing a lot with farmers in terms of issues, so mainly Mr Byard, in terms of your meat supplier, maybe you could tell us a little bit about the various options that are open to you and your colleagues in the beef industry, and I have a few questions related to where you sell, whether the extent of which you or other meat growers sell direct to retail, but maybe if we can start off, if you can give us a bit of a run down to the structure of the meat side of the operations.

20 MR BYARD: Yes, okay. It's gone up interestingly well. What I'll do is I'll come to talking about the producer, how I sell my stock. I've got multiple choices. So in actual fact I can sell - there's a thing there that Genevieve's done that shows exactly how it works, but in actual fact in Tasmania we've grow the best cattle in the world, of course, according to me, but - - -

MR MARTIN: We'll be checking right that out. Probably the taste test like we've been doing with the TimTams.

30 MR BYARD: We export probably 70% of what we produce out of the State to overseas, to the mainland, mainly to overseas. 70% goes out. In actual fact, the supermarkets - it's very interesting with supermarkets, if I could go on to that.

35 Supermarkets have laid down various tight specifications if you're a producer. They give this perception, if I can get on to that quickly, but they give this perception that most of the meat probably comes from the producer out there. The producer actually takes the meat out, sells the meat to the supermarket. Now its got fat on grain for 60 days, and they're on incredibly tight specifications. If they're not right, when they're hanging in carcass form, they will knock them back. They will actually say "We don't take that".

40 MR MARTIN: Where the supermarkets enters, is this off the hook?

45 MR BYARD: Off the hook, after the hook, after it's been hung and the business is done, the skin's taken off, the carcass is actually hanging there, they check the fat, weight, colour, numerous things. It's very, very time consuming.

MR MARTIN: But who's the contract with?

MR BYARD: Who's the contract with, like - - -

5 MR MARTIN: Coles or Woolworths? Who do they have? Do they have a contract with a producer like yourself?

MR BYARD: Yes. I might have to put in on drain, especially Tasmania, through it's winter months and whatever.

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MR MARTIN: For our benefit, that means it goes to a feedlot?

MR BYARD: Well, you have numerous small foodlots around. Small feedlots, not a major feedlot. They might only have 50 cattle a fortnight goes through that feedlot.

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MR MARTIN: So how does that happen, how does that work?

MR BYARD: The nuts and bolts of it?

20 MR MARTIN: Yes.

MR BYARD: Okay, so they come to me and they say "David, we want you to raise it". We'll have to go through these specs and we realise that you go through certain terms, but the part gets me is that they jump through these hurdles, but once they get into the supermarket, if I can jump quickly to where they've got to the supermarkets and which upsets me, when the – the consumer, to buy your meat, you will go and buy your meat and you've got no idea whether the customer, they're buying back their livestock or it actually comes from the boxed meat they buy. They buy consistently heaps of box meat.

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MR MARTIN: So what you're getting at here is it's just one, there's no differentiation.

MR BYARD: No.

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MR MARTIN: Would you say or are you implying there should be some grading of meat?

MR BYARD: Yes, most certainly, and I'll get to that later if I may. Certainly I think they've got a back-door and a front door policy, and I make no secret of that fact. What the actually – their adverts on the TV, the little man sitting eating his orange, and orange grower's – actually this man is eating an apple actually, "Why are you buying your apples from Coles or Woolworths?" Now the perception is created that they are buying the absolute top of the grade.

45

MR MARTIN: But is there not a difference between the price of, say, your meat that's had all this good inputs and is top quality, and what they would sell as a budget meat?

5 MR BYARD: No, budget meant - sorry, budget is taken off a cow. Budget meat is strictly taken off a cow. So they're saying prime beef.

MR MARTIN: So you're saying they're mixing stuff that's absolute prime with something that comes in the back-door that's - - -

10 MR BYARD: I'll give you a quick example. Yes, I'll give you a quick example. If I take a beast in and they reject it, I've got it ready and it's sitting up there and they say "No, it's not acceptable", I will like - and I'm not making accusations here - but I would like this commission to ask the supermarkets is it possible that that meat
15 actually gets onto the supermarket shelves, that gets onto the supermarket shelves, along with the cousins and brothers, if you get what I mean.

So in actual fact, the other thing is sale yards, they say "We're going to buy sales yards". They don't buy through sale yards. They do have the best specifications
20 possible.

MR MARTIN: So there is a - just because these are sort of anecdotal suggestions that maybe they do this or maybe they do that. Is there not a grocery code that would
- if say you and your colleagues had some question about how this is done, that you
25 could apply to an Ombudsman and check out what they do?

MR BYARD: In 2007 the ACCC did a report into the - which you'd be aware. Now different statements were made there. The price of grain doubled in 2006, and that affected the price of livestock. I as a producer have got to absorb that price rise.
30 The supermarkets are not paying me any more for my beef over that period of time, since then. Since the price has doubled, we're not getting any more, despite the fact that it says in your conclusions here that in 2007 that the price - or in 2006, the price of grain doubled, but the price of grain doesn't get carried through.

35 MR MARTIN: Just explain to us how prices have moved over the last five years, say?

MR BYARD: In one term, down.

40 MR MARTIN: I want more than one term. Retail, what's happened?

MR BYARD: Retail the price's gone up steadily, and at wholesale - at the producer levels, we're down and we're forecasting further falls.

45 MR MARTIN: So just in terms of, say, okay steady retail increase, at wholesale or farm gate level, what's happened?

MR BYARD: At farm gate, the farmer, the producer, is going down, his prices are going down.

5 MR MARTIN: Right, and the Tasmanian Farmers and Graziers have figures on this?

MR BYARD: Yes, we have figures. Yes, I'm sure we have figures that indicate this. I can supply the figures anyway for that.

10 MR MARTIN: That would need to be - - -

MR BYARD: The MNA have got figures. The MNA have got various precise figures around to show you what's happening.

15 MR MARTIN: A lot of suppliers that we talk to who are dealing directly with the retail chains know what the category, what they call the category or average category margin is and the category margin of their product. What you're saying is that the – and we're talking here about what are some of the descriptions, is it rump steak or sirloin? I mean what are the products? What I'm trying to get at here is we want to understand this proposition that all of a sudden the retail chains are making these
20 massive margins out of this, so we need to understand what the products are that we're talking about.

MR BYARD: Genevieve, did we get a copy for the commissioner of the Weekly Times?

25 MR MARTIN: Can you describe for us what the cuts are?

MR BYARD: Okay, there's 80% – 80% of their carcasses is primals.

30 MR MARTIN: Is what?

MR BYARD: Primals. By "primal" I mean the rump, the stripped loin, the spinal cuts, the good cuts. The rest of it is the stewing steak and bits and pieces, but it's clearly stated in that thing that we've given you there. In actual fact, it's very
35 interesting there that you'll see there that they get about \$2,000, and that's not my figures, that's the Weekly Time figures, that \$2,000 they get out of a beast.

MR MARTIN: So we can trust it if we read it in the Weekly Times.

40 MR BYARD: Well, I've done my own figures, and I do have an interest in butcher shops and I've worked through that very carefully, so you can take my word for it. I'm like that.

MR MARTIN: You mentioned butcher shops.

45 MR BYARD: Yes.

MR MARTIN: Red meat is an area where the - as we understand it, the chains probably have something between 30 or 40% of the market?

5 MR BYARD: I think 50% of the market. According to the figures in ACCC, again in 2006 or 2007, and the graph's there and it shows you and it says 50% you've got, 51%.

10 MR MARTIN: Let's say it's 50%. What happens to the other 50%? And sorry, when I said the 30 to 40, 50% was supermarket.

MR BYARD: Precisely. Coles and Woolworths combined.

MR MARTIN: Not IGA?

15 MR BYARD: No, not IGA.

MR MARTIN: They have quality meat, though.

20 MR BYARD: Yes, they might have quality meat, but certainly in Tasmania, there's two majors. We're more reliant on the two supermarkets. They have 70% of the retail.

MR MARTIN: Of beef?

25 MR BYARD: Yes.

MR MARTIN: So there are less butchers, retail butchers?

30 MR BYARD: Yes, I think a few years ago the 47 butchers in Tasmania.

MR MARTIN: But less than the national proportion?

MR BYARD: Yes, there certainly were more, yes that's true.

35 MR MARTIN: Just from the industry point of view, can you tell me about what nationally is 50% of the supply at retail of the butcher industry, why don't they compete with these high margin retailers out of business?

40 MR BYARD: Again, the 3%, the term of high margin retailers - - -

MR MARTIN: I've used that on the basis that you've - - -

45 MR BYARD: Yes, but they claim, the supermarkets claim 30% on it. I'm not privy to that information, but they do claim that they make a 30% profit. Actually when we look at it, I find that rather hard to swallow, but I can give you an example.

MR MARTIN: Can you concentrate on the butchers?

MR BYARD: Yes, please.

MR MARTIN: What do you know about that side of the retail trade, who supplies to them? Do you supply the butchers?

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MR BYARD: Yes. They have individual contracts. They mainly buy through sale yards, wholesalers or processors.

MR MARTIN: So that they buy on the market.

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MR BYARD: Yes, on the market. Most it it's bought through the market.

MR MARTIN: We're trying to get to this issue of how much control of the market that the major chains have. Do you view them as having great control? You're sort of saying that in Tasmania they seem to have - - -

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MR BYARD: A line share of it.

MR MARTIN: A line share.

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MR BYARD: Yes, okay. Well, could I come back to it this way: if they've got 70% of the market, and so - each man, woman and child in Australia eats 37 kg of meat per man, woman and child. They should, all things being equal, they should go through to 56,000 cattle in Tasmania to supply the needs.

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Now as I see it, if my figures are anywhere near correct, there must be a fudged figure somewhere here, that they would be going through, bringing in 45,000/50,000 cattle into the State in boxed form, which is huge.

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MR MARTIN: So Tasmania is not sort of self-sufficient in red meat.

MR BYARD: We are because we export 70%.

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MR MARTIN: Yes, so what happens, this then raises - 70% goes out and you say then other beef is imported back in?

MR BYARD: Yes, I would say so. I would say from my figures, and we've got to allow for a fudge factor here, but I've done my figures very carefully, and I've used the department to go through them and check them, and I think that probably 86% of the beefs that we consume through the two large supermarkets is probably - can be imported. I'm not sure - I'd like to question fairly - - -

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MR MARTIN: This is just your guess.

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MR BYARD: It's a pretty educated guess.

MR MARTIN: But why would beef be shipped off out of Tasmania for other purposes and then other beef brought back here?

5 MR BYARD: You've got to understand in Tasmania that we have a very premium beef and we exported large amounts to Japan, and the Japanese like our beef. So as producer we get a discount, but as consumers they pay a premium in Japan.

10 MR MARTIN: So how much of Tasmanian beef is exported? This is all the primal stuff, is it?

MR BYARD: No, it can be 70% of our meat can be exported for chopper cows, bulls, anything, and a lot of it goes to America. So we accept 70% of our meat goes out.

15 MR MARTIN: So 70% is exported out of the country.

MR BYARD: Yes, out of the country, yes.

20 MR MARTIN: And that is because you get better prices?

MR BYARD: Better prices, yes. And we export live, we export 70,000 cattle out of this State a year live because we have better prices on the mainland.

25 MS TURVILLE: David means across Bass Strait rather than export overseas. When we talk about export, sometimes we're talking about just across Bass Strait to the mainland.

30 MR MARTIN: Okay, because I was then thinking everything was going to Japan or - - -

MR BYARD: No, sorry, I confused you.

35 MR MARTIN: So that's sold across the ditch into Australia, some of it, but that's to the chains and - - -

40 MR BYARD: 70,000 will go live out, and a lot of it will go. Particularly one processor in Tasmania has developed a very good restaurant through the food service sector and a very good reputation for MSA stile meat, which actually is grading system brought out by the MLA, that goes across to restaurants and you can buy it through out restaurants and they're getting quite a large premium for that sort of product.

45 But we're not alone. If I can make this point: we're not alone, Tasmania's not alone. Western Australia, Western Australian producers got together and they said "My, we're getting less prices than anybody else in Australia".

So they all formed a taskforce to find out what was happening. These are public document. They found out that they were losing and they found out that Coles were importing all their cattle from across the – all their meat needs from across the Nullarbor. Terrible fuss, publicity. Coles said “Right, okay, we will actually bring –
5 we will actually slaughter 500 cattle a week in Western Australia”, quite a large sum of cattle considering they’ve only got 5.2% of Australia’s beef population. We’ve got 2.8; they’ve got 5.2. So it’s not a huge population of cattle; large population of people, but that actually happens. So we’re not alone in that.

10 MR MARTIN: Do you or any of your fellow members have direct contracts with the chains?

MR BYARD: There would be people that I know, yes, people I know who have got direct contracts, yes.

15 MR MARTIN: And you mentioned things about when it’s up on the hook, there’s comments about it not meeting specifications. How does that all work? Do the contracts these people have specify - - -

20 MR BYARD: Yes, every good specs. Give Coles more their due, they’re very, very good specs.

MR MARTIN: What is this issue, like, how often is there a rejection and not meeting the specs and what would be the problem? Why wouldn’t - - -

25 MR BYARD: Okay. There’s several reasons they could face a rejection. One, they’re too light, one, they’re too heavy, there’s too much fat, too little fat, they’ve got too many teeth, they’re four tooth instead of two teeth, they’re cranking up four teeth, so they’ll reject them on that, and that can happen. If the gums are erupting
30 they’ll knock them back straightaway.

MR MARTIN: What happens then?

35 MR BYARD: They’re rejected. They go through the process of who will buy them, or they try and scurry around, and I’ve got friends that try and sell them off to other people or whatever.

MR MARTIN: But is this like a 1 in 20 head or something?

40 MR BYARD: I don’t know. Probably 10%. Let’s say 10%. 10%.

MR MARTIN: So Woolworths have said “They’re the ones we don’t want” and they’ve got to go somewhere else?

45 MR BYARD: Yes, exactly, for processing sector to buy them.

MR MARTIN: But that’s according to Hoile, in that it’s – the rules are there?

MR BYARD: Absolutely no doubt about that. No doubt. But what worries me, is that the box form, if they sell to the processor, the processor in turn will box that meat, put it back out there and sell it onto the market and Coles and Woolworths on that market.

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MR MARTIN: If you go back a step, how is the price set on the ones that do get through, the 9% that get through? How is that price set? Like, is there a contract for a - - -

10 MR BYARD: At the present time, for grass veg you can get about \$3.20, I think, is probably the best price going around. Woolworths and Coles are paying \$3.90/\$3.95 per kilogram.

15 MR MARTIN: But how's that sort of laid out? What's the process by which you get the 3.90? Do you have to have a contract?

20 MR BYARD: Yes, you've got a contract. Yes, you've got a contract and you have to have specified standards. Coles and Woolworths, Mr Coles and Woolworths will come to you and say "Your QA will have to be this. We'll have to actually come and have a look at your place, we'll have to make sure that everything's going right, you're clean, green, everything's honky-dorks". They will make sure everything's right, but just Joe Blogg down the road, who's next-door, has a pretty - this is a pretty smicky farm, next-door the Hillbilly farm, he might end up on - his meat might end up on the supermarket shelves. I'm not saying it does, but I'd like to know.

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MR MARTIN: So you meet all those things, you get the 3.90.

MR BYARD: Yes.

30

MR MARTIN: Is that somebody has a contract for a year or it's just an ongoing thing?

MR BYARD: I think they have a three month contract.

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MR MARTIN: You don't have one?

MR BYARD: No, I don't have one, no.

40 MR MARTIN: So this is in a general sense, I mean is it uncommon for people to have contracts with Coles and Woollies? Why does somebody have a contract and someone like yourself not have a contract?

45 MR BYARD: Because they're set up, because they insist on grain feeding for 60 days, and that takes a specific sort of farm to do it, and you've got to be set up to do it, feeders and everything else.

MR MARTIN: So just for us that don't know the industry, you've got a two-year-old or something under two years old? What stage does all this happen?

5 MR BYARD: Yes, they've got to be below two years. Now here it's naught to two teeth, up to 13 months old. So that's up to 13 months old, according to AusMeat standard.

MR MARTIN: When does this lot feeding start? Is it 60 days?

10 MR BYARD: Lot feeding starts at 60 days. So it can start anywhere from 12 months onwards. They like them about 400 kilograms, so it would be unlikely a lightweight, so they will probably be 18 months old, somewhere around that region.

15 MR MARTIN: So they like them around 400 kg, or the specs.

MR BYARD: Yes, that's to fatten up. That's the farmer that buys from my farm and puts them in his feedlot. He likes them about 400 kg lightweight.

20 MR MARTIN: So somebody buys them off you to go to the feedlot?

MR BYARD: Yes.

MR MARTIN: So you get a price per kilo on the 400 kg animal or whatever is?

25 MR BYARD: Yes, I as the producer will get it.

MR MARTIN: So who are you dealing with there?

30 MR BYARD: Who am I dealing with?

MR MARTIN: Yes. Somebody's going to fatten the thing up, so they're taking ownership of it?

35 MR BYARD: Yes, they take ownership. They take all the ownership. They have deaths – any deaths incur, any deaths they have the things, anything goes wrong, the price of grain goes up and they pay it at all. They absorb it. So in actual fact the supermarkets do not take ownership until the carcass is hanging there and they checked it all out.

40 MR MARTIN: So if that feedlot treatment's required, you don't do it and put it on the market, you just pass ownership to - - -

45 MR BYARD: Yes, because I'm not set up to do it, and most people would not be set up to do it. There's probably only a handful - - -

MR MARTIN: So who is set up to do it in Tasmania?

MR BYARD: Well, there's different individuals around. There's people over here, just over the river, there's people all around the place.

MR MARTIN: And they're people who would also be growing their own?

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MR BYARD: Yes, some of them are growing their own, but they buy a lot of stock in too.

MR MARTIN: So just to understand the relationship between the stockyard sales and the retail price, can you shed any light on your saying that the price seems to range from 3.20 and 3.90? Is this prime - for what a grower receives, is that the range? I'm just trying to now explore it a bit more.

10

MR BYARD: Yes, yes that would be, but the different specifications, of course, if you'd be selling cows or bulls you'd get a different price, or dairy cow is a different price, but for prime, reasonably prime sort of cattle I think that the price of the processing plant, our exporting rights would be about \$3.20, 3 to 3.20.

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MR MARTIN: But you're getting a price for the animal, aren't you? This is the price for the whole animal?

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MR BYARD: The carcass, yes.

MR MARTIN: Now out of that you get all different type of meats. 18% of it is prime meat and the rest of it's - - -

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MR BYARD: Yes.

MR MARTIN: One of the challenges for us in this inquiry is to understand how, with something as complex as this, as an animal to start off with, you get a certain amount per kilo and there has been concern expressed about at the other end, at the retail end, it's \$20 a kilo for this type of beef and it's \$10 for - - -

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MR BYARD: I think you'll find it's \$14 average on that sheet we've given you. It's about \$14 average over the whole beast.

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MR MARTIN: Maybe you can explain to us what your take on what actually happens from that point of the supply chain where you sell the animal and get a certain amount per kilo, what happens after that at retail? Your \$3.20 or \$3.90, or whatever it is, gets converted, you say, to \$14 on average?

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MR BYARD: Yes. Let's take a beast that the processor is paying \$4 a kg for it. 203 kg is obviously about \$812 worth. Then he's got to pay \$60 for it to be slaughtered, \$60 it will cost the supermarket if they accept it, it will cost them \$60 to actually bonk it the head and get the skin off it. They'll get a \$45 rebate for that hide, so that will leave them \$15 for the cost of killing it. So then the supermarkets will say to the processor "We want it boned and put in boxes", like loaves of bread. So you've got

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all the primals, your rumps, your scotches, everything put in, your trim put in another box. So they'll actually put in that box – for that they'll pay 79 cent a kg for the actual meat off that, so we've got a carcass that's probably about – a carcass that weighs 203 kg, which comes back to about 140 kg, and 70% of that will be meat, so
5 140 kilograms of meat multiplied by 79 cents, it will cost you about \$114 to kill it and actually have it done.

MR MARTIN: So that's not the slaughter?

10 MR BYARD: That's the boning, boning, in boxes, presented to you. I come to you with boxes of meat off a full carcass and I put it into your hands, put it onto your desk, and that's going to cost you about a thousand dollars. That's what it's going to cost you. Then they get it into the shop and that's where it gets tricky because I don't know how much it costs them to slice and retail it.

15 MR MARTIN: Even between that, there's the transportation, storage and all of those things.

MR BYARD: Very, very small, very small, because the processor will have it there,
20 the boxes will be marked out in box form and taken very quickly, and it might be a \$20, and I built that into that factor of a thousand dollars landed onto your bench to cut up like loaves of bread.

MR MARTIN: But has there been much work done, then, on loss during
25 transportation and spoilage at retail?

MR BYARD: Very, very little because these people have got it down to a very, very fine art. They've got refrigerated vans, the people know what they're doing, they have state-of-the art precision.

30 MR MARTIN: Yes, but spoilage is not just how well you handle things, it's how well you pick the market to have things, you know, sometimes you see supermarkets handing out even rump steak at a third of the price because it's - - -

35 MR BYARD: Could I ask you a question? It's a bit unusual but could I ask you a question: what would you regard as rump steak? If you buy rump steak, would it be off an old cow or would it be a prime calf?

MR MARTIN: Whatever it is. I'm just talking now about retail practices. I'm no
40 expert in meat.

MR BYARD: I know, that's why I asked the question.

MR MARTIN: Whatever the meat is, quite often at retail they do have to – it's
45 getting close to the use by date.

MR BYARD: Use by date, and they'll pull it down, they'll pull it down.

MR MARTIN: What you're saying is that they're getting so good at measuring how much to put through, that they don't have much of that any more?

5 MR BYARD: Yes, I would have thought so. They're very good at it. They're very, very good. Whatever they are, they're professionals.

MS TURVILLE: I just asked David whether he wanted to mention the cryovac prices and that it's, you know - - -

10 MR BYARD: Yes, that's good. When I've taken in your box and have it boned at the processing works, that's a shelf life of three months, those primals, like loaves of bread, and so they're actually chunks of meat, muscles, and they're delivered to you in cryovac form and they're going to last three months, and that is a very interesting point.

15 MR MARTIN: Back down the chain, the row of abattoirs. How much influence do they have, like are they just a service that - - -

20 MR BYARD: No, they're quite large. They're quite large because they've got bits and pieces. In the shape of things, in the scheme of things they're quite large because they've got very good arrangements with the supermarkets and the supermarkets will actually - they're very good at what they do and they will say to the supermarkets - I'm taking the cost of the small butcher. We're not taking the major sort of - I'm taking a butcher who is doing one or two cattle a week. I'm not
25 doing a hundred cattle. So if you had someone come to you with 100 cattle a week, you'd be looked after a better. Obviously you're down in your pencil on costs. So I think they've got enormous - but they will say to the processing works of Coles and Woolworths, will actually go through an export works, an export licence. There's
30 two different sorts of abattoirs, a local abattoirs and an export licence, someone's got an export licence. So they will pick the man with the export licence because they can sell the trim off that carcass. There's a lot of trim on a carcass, and they can sell it on the export market.

35 MR MARTIN: So where does it go?

MR BYARD: It will be exported out, probably to the US or whatever as grinding beef.

40 MR MARTIN: Hamburger.

MR BYARD: Yes, exactly. Uncle Sam's Hamburgers.

MR MARTIN: So in terms of your costs you mentioned many of them.

45 MR BYARD: Yes, and I'm saying about a thousand - - -

MR MARTIN: Only going in one direction, like the grower's costs.

MR BYARD: Growers costs, yes, sorry.

MR MARTIN: So how much impact has there been from the drought, grain prices, cost of fuel, I mean clearly that's - - -

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MR BYARD: Price of phosphates is another one, huge, it's going to get worse. I noticed the MLA, as I said before, the MLA are forecasting a drop in prices next year, which frightens me.

10 MR MARTIN: We're certainly very interested in the history of prices and price inputs.

15 So how do the chains, then, or the very big customer, how are they dealing with all these costs increases? They want suppliers presumably to be sustainable. Are prices to growers going up?

MR BYARD: To supermarkets?

20 MR MARTIN: Prices that they pay?

MR BYARD: To the producers or their fatteners, no, they're not going up.

MARTIN: The market forces.

25 MR BYARD: Yes, that's the market forces at work, they would say, and the last 12 months I think you can check, so I wouldn't swear on a stack of Bibles, but I'm absolutely certain in my own mind that they hadn't risen in the last 12 months despite the feed of grain prices going up and everything else, but what has happened is the price has come back to the producer and that's allowed the fattener to get that
30 bit more margin and keep themselves viable.

MR MARTIN: One of the things that's been suggested to us is certainly in the US, the retail price is much lower to consumers, but the price that producers get is higher.

35 MR BYARD: Well Mr Carter, I can't answer that, I'm sorry. I'm not sure.

MR MARTIN: That's something suggested to us by the Australian - - -

40 MR BYARD: Mr Carter, I said that, yes.

MR MARTIN: Sorry, yes, Mr Carter.

MR BYARD: I was having a go at you. Sorry.

45 MR MARTIN: You're aware of some of the claims that Mr Carter - - -

MR BYARD: Yes, I'm very much aware.

MR MARTIN: You don't have a comment on - - -

MR BYARD: No because, you know, that's a bit out of my field. I've concentrated on what I'm trying to do here, trying to get that straight.

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MR MARTIN: Okay. In terms of - I think that probably covers off most of the things I wanted to ask. Do we have anything else on the beef side?

MS HIRD: No, I don't think so.

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MR MARTIN: The one thing that we haven't looked at is with the supermarkets, and it's something I might go more on the dairy side, but the house branding, so the private label, does that come into the beef area at all, where they, you know, Coles own?

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MR BYARD: No, because in Tasmania, if I'm correct with my figures, and they may be fudged, but I would say 86% of their meat may be imported into Tasmania. If that's not there, they don't want people knowing that.

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In actual fact, we had an interesting thing because we brought out a thing called "Blue Label", which caused a terrible fuss, and we caused our own Tasmanian label, and one of the supermarkets came out and said "Look, we've got 96% of our meat is Tasmanian", and I said "Prove it" and I actually rung your office in Canberra about three years ago and asked the question. You're probably aware of that, and they came back and said "Well, look, they've taken all their signs down, they didn't want to substantiate".

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MR MARTIN: We actually had a matter in another region in Australia where that was an issue and ACCC took action against a supermarket in relation to that claim, but your evidence is that, in fact, most of the meat goes to the mainland, so what you get - - -

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MR BYARD: Most of it goes overseas, actually, exported.

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MR MARTIN: Yes, a lot goes overseas, but 70% goes - - -

MR BYARD: Across the water.

MR MARTIN: To the mainland.

40

MR BYARD: Yes.

MR MARTIN: What is the proportion that goes beyond Australia, do you know?

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MR BYARD: I think I've got the forecast figures there. I think it says about 70%, actually, went across the - you know, two years ago went across, and I haven't got the updated figures.

MR MARTIN: But your view is that at retail a problem area is that the supermarket chains are effectively, you think, representing that these products are top quality but they're really a mix?

5 MR BYARD: I would say so, yes. What you take as a mixed – I might have cattle in Queensland that I put through Queensland and might not be, you know they might be grass fed or whatever - - -

10 MR MARTIN: What is the claim that the supermarkets are making, or are they just saying this is – are they making claims that we could be able to look at and say hey, if this is just something any old cow.

15 MR BYARD: I think what they're saying here is that the meat, the adverts on TV give – insinuate that the meat they're getting is off their own cattle. What I'm saying is probably very little of it's bought off their own cattle, comes off their own cattle.

20 MR MARTIN: But isn't this something the industry could actually approach itself and have a system where there's grading that clearly identifies where a piece of meat comes from, you know, if it's an equivalent piece of meat?

MR BYARD: They have tried through MSA, but people will not adopt MSA systems, but with all due respect to you, I think that's why we've got a watchdog out there in the ACCC to sort of - - -

25 MR MARTIN: No, but what I'm saying is what we're good at doing is finding areas where there's a misrepresentation. So there's got to be some framework to, you know, so that's why I was asking were Woolworths and Coles misrepresenting - - -

30 MR BYARD: I've got to be very careful here, but I would think, I would argue from the fact that the adverts coming on TV, you actually believe, most people out there believe that most of the stock comes out of their own livestock purchases.

MR MARTIN: Have you conducted a survey of what consumers believe on this?

35 MR BYARD: No, but I'm saying as a consumer myself, seeing it on TV annoys me because I see this sort of thing coming on the television set to say they're looking - - -

40 MR MARTIN: What sort of thing?

45 MR BYARD: Well, the man looking at the cattle saying that he's jolly fussy, he knows his stuff and they're creating this perception that they're actually getting out there. They don't tell us they're putting in humongous amounts of box meat, and they've actually said to the ACCC "We will not buy cattle in sale yards because it's not the quality". Now I'm saying, I'm asking, I'd like to ask Coles and Woolworths and I'd like to ask - - -

MR MARTIN: We will be asking them.

MR BYARD: Yes, but can the meat on those shelves be actually originated from
5 cattle that came from sale yards, or reject cattle knocked back from their purchasers,
that has been actually rejected.

MR MARTIN: Before I go on, then, to dairy, back on the abattoir level, what is your
view of that end of the chain, how abattoirs perform, how many abattoirs are there in
- - -
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MR BYARD: In Tasmania we've got two export abattoirs. We've got three,
actually because we've got King Island, but I don't class King Island as part of
Tasmania, they do when it suits them, but I don't. For these circumstances, anyway,
we've really got three, but there's two on mainland Tasmania and there's one on
15 King, and then we've got two are rather large domestic abattoirs. So really we've
got four, so there's very little competition.

MR MARTIN: So are their prices higher in terms of the cost for slaughtering, is it
higher in Tasmania than on the mainland, or don't you know?
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MR BYARD: No, I don't know. I think it's very much close to it. I think it's close
to it, but they certainly pay less. Their prices are less. The same individuals
operating in Tasmania, I've checked their prices in the main and certainly we're
below their prices that they're paying the producers.
25

MR MARTIN: What's happened to that structure about - like in the mainland I'm
aware that there are less abattoirs, far less abattoirs now than there were 20/25 years
ago.

30 MR BYARD: Yes, and the same thing's happened here.

MR MARTIN: But have they got more efficient?

MR BYARD: It's debatable. I wouldn't have thought here, no. We're in a period of
35 change now because we've got Swift Meats coming in and they're obviously huge..

MR MARTIN: Sorry?

MR BYARD: Swift Meats coming in.
40

MR MARTIN: Who are they?

MR BYARD: The Brazilians.

45 MR MARTIN: What's their - - -

MR BYARD: Claim to fame? They're probably the biggest processor of meat in the world, and they bought AMH, and now they've bought into Tasmania.

5 MR MARTIN: So AMH is one of the main - - -

MR BYARD: Players in Australia.

MR MARTIN: And they own abattoirs in Tasmania?

10 MR BYARD: No, in Queensland, but Swift Meats own them and then they're brought into Tasmania, they're brought into the Tasman group, so we may see change.

15 MR MARTIN: I think it's part of this inquiry that we may be talking to some of those. We haven't yet.

MS HIRD: Trying to.

20 MR MARTIN: Ok, we'll keep trying.

Thank you very much, Mr Byard.

MR BYARD: I hope it was of some help.

25 MR MARTIN: It was very helpful.

Mr Swain, we'll move on to dairy. Maybe the same sort of issues, you could explain the structure of what occurs with the Tasmanian dairy supply market and who the customers are and how it all works.

30 MR SWAIN: Could I make an overarching statement before I begin?

MR MARTIN: Yes.

35 MR SWAIN: And that is that I would suspect the farming community simply does not want to see as a result of the inquiry a reduction in supermarket prices that simply drives the bottom end of the market down further. That's the not the aim of our input at least, I should say.

40 MR MARTIN: One of the arms of the inquiry clearly is that there has been a claim that prices have been going up more rapidly than in other overseas equivalents. It's part of our job to find out, get behind that, but we're really looking at the competitiveness and efficiencies in the supply chain. So we have an open mind as to what would happen and hear what you say.

45 MR SWAIN: Thank you. Basically, if I gave you an outline of the Tasmanian dairy industry, historically we have had an enormous emphasis on export. Around about

92% give or take of our production is exported by the way of cheese, powder, butter, et cetera. We have to remember at all times that in Tasmania we've got a population of around about half a million people and we simply cannot consume all of the foodstuffs we produce. It is our view in Tasmania that we have an opportunity quite
5 clearly at this point in time, if we look at what's happening in the Murray Darling and other sections of Australia in agriculture, that we have an opportunity to drive our production to Tasmania further and to produce more of the nation's food. So there are opportunities there.

10 Basically in Tasmania we have, and this is even been shown in recent times, we have four main collectors of milk: that's Pura Milk, which is the National Foods group. They now own Lactos as well, which is another collector of milk in the State, and the other collectors are Cadbury's and Fonterra. Fonterra, I think, collects around about
15 60% of the State's milk and that depending on time of year and product mix is basically converted into cheese, powder and butter.

The arrangements with Pura and Cadbury's, I'm not certain is on Lactos, they have contractual arrangements with their farmers. With Fonterra they'll take ever litre of
20 milk you produce. If I produce a million litres this year, they'll take it; if I produce two million next year, they'll take it; if I produce three million the following year they'll take it, and what's more they'll pay me more for it. So there's opportunity for expansion.

MR MARTIN: Sounds great.
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MR SWAIN: It does sound great at the moment. As you're well aware, the dairy industry is going along quite nicely because of – and no other reason – because of world demand for protein in the form of milk products.

30 So that's a reasonable snapshot. We do have now under 500 dairy farmers in the State. The average herd size is around about 320, and that's continuing to increase, and as always in the farming community, whether it's beef, whether it's dairy, whether it's cropping, we've still got the process occurring, of farmers trying to
35 achieve scale by amalgamating farms and getting bigger, et cetera, so that process still continues

MR MARTIN: So that 320, where does it come from? Did it used to be 200 20 years ago or - - -

40 MR SWAIN: 20 years it would have been around about 80. I mean, I can go back in time to that period of time when I was small boy in my own valley where we had 19 dairy farmers. We now have one. I suspect the production from that one is probably almost ten times more than it was for the 19.

45 MR MARTIN: With the contracts for each of these, so National Food, although it owns Lactos, would they have – like Lactos would have its own set of contracts?

MR SWAIN: Yes.

MR MARTIN: Are they done on a collective bargaining basis?

5 MR SWAIN: National Food Suppliers organisation does have a collective bargaining arrangement. They did get approval for that, I understand, and that does occur.

MR MARTIN: It's a national umbrella agreement.

10

MR SWAIN: Yes.

MR MARTIN: Which I assume covers Tasmania.

15 MR SWAIN: Yes. I wouldn't comment on how successful it is.

MR MARTIN: Well, I'd like you to comment.

MR SWAIN: Perhaps I'm not in the – I'm no longer a National Food supplier, so I'm not absolutely equipped to comment.

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MR MARTIN: Okay, so what you're saying is Fonterra, for example, it's individual contracts?

25 MR SWAIN: Fonterra do not have contracts with their suppliers. Basically, as I said, there's no restriction on how much you can supply and you'll be paid a price dependent on your season of supply. Currently they still have available - - -

MR MARTIN: They must have some overriding thing that sets this out?

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MR SWAIN: What you would call the opening price for the year, is that a term that's familiar to you? Each year the co-op - - -

MR MARTIN: Explain to us how Fonterra do business?

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MR SWAIN: Each year the co-op basically budgets on what it can pay for its milk, and it opens with what it determines to be the opening price for the season and that's usually struck in about August.

40 MR MARTIN: And then the grower will work out - - -

MR SWAIN: You work out your budget on what they're going to pay you.

MR MARTIN: If you want to supply them.

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MR SWAIN: Yes. The opportunities to supply other companies are fairly limited because Fonterra is the catchall company, if you like.

MR MARTIN: So what happens with Cadbury?

MR SWAIN: Cadbury's are on contracts too, because bear in mind they have a set market for their produce and they know how many bars of chocolate they can sell a year, so they have a set market on how much milk they want to provide those bars of chocolate.

MR MARTIN: But they process it.

MR SWAIN: They process it, yes. We do have the processing factory in Hobart.

MR MARTIN: Are you aware of then as it moves up the chain, forgetting Cadbury for the moment because it's a slightly specialised area, what actually happens to all this milk product?

MR SWAIN: Physically what happens to it or financially what happen to it?

MR MARTIN: Physically, what are the products going through the supply chain. Is it mainly milk or you've got - - -

MR SWAIN: No.

MR MARTIN: - yoghurts and cheeses.

MR SWAIN: No, because of the ditch, there is no physical milk as such exported across the ditch. We did have a very small company some years ago who were physically exporting milk in tank-tainers to Victoria. The only exception to that now is when the Fonterra factory capacity is not of a size enough to take the spring flush of milk. Fonterra have put in place the ability to export milk in tank-tainers to their other factories on the mainland as a sort of emergency means.

MR MARTIN: Just because they're overwhelmed?

MR SWAIN: Yes. Over the last two seasons it's my understanding that they had the need to use that because of the drought. So production's been down a little bit.

Beyond that, basically they run – if we exclude Pura Milk, because their main focus is on Tasmanian milk production for milk consumption. They do also own King Island Cheeses. King Island stands on its own. Basically they have their own arrangements there where the farmers are tied to the factory with contract arrangements and they market as much of that King Island Produce as they can.

MR MARTIN: So it's Fonterra and King Island?

MR SWAIN: No, that's National Foods. So National Foods own King Island dairies, Lactos cheeses and Pura milk.

That then leaves Cadbury's and Fonterra.

5 Fonterra produces, depending on the time of the year, and they again have a product mix that is far more profitable to make cheese because they do have some award winning cheeses out of Wineryard, where their cheese factory is, and they do have a churn and burn factory at Spreyton that basically produces powder for that time of the year when they need to process large volumes.

10 So that's basically where most of our milk goes and 92% of it is exported.

MR MARTIN: So let's move from the physical to the financial. What have been the trends in terms of - - -

15 MR SWAIN: Farm gate trend?

MR MARTIN: Yes, and it seems to be mainly driven by world prices.

20 MR SWAIN: Absolutely, and that's exactly what I'm going to tell you, is that currently we've seen a 40 to 50% increase in the farm gate price of milk, purely and simply on the back of the world market price. I suspect that when the world market price goes down again, as it did many years ago, we'll see a trend back down again.

25 MR MARTIN: So 50% increase in farm gate prices. That's from what to what? What's the per litre?

30 MR SWAIN: Very difficult that one, because they do have an opening price which they set in August. We've had about three or four step-ups already this season and basically the co-ops run a step-up process where they basically, because it is a co-op, their intent is to pay back as much of their profits as they can to the farmers who own the co-ops. We don't own them as much as we used to because Fonterra now own Bonlac, but I'd suspect we're looking at a price per litre, somewhere in the vicinity of 50/52 cents for the season.

35 MR MARTIN: And it's gone from what? 32?

MR SWAIN: It's gone from 30 to that. It's travelled the journey from some five years ago at about 17 to 20, to 30 and then now at about the 50 mark.

40 MR MARTIN: So can you comment, as Mr Backyard did, about how costs have been going? Obviously for the past couple of years your returns are a lot better, but how have costs?

45 MR SWAIN: Well, there's no need for me to emphasise the fuel costs, you've obviously had some dealings with those. Our grain price, I think our last grain bill was \$505 a tonne. That compares to this time last year at \$250 a tonne. Now that's driven purely and simply on the pack of the drought. The grain supplies in Australia are at an all-time record low level, and quality of grain as well.

MR MARTIN: The other element we're very interested in that I was exploring on the beef and vegetable side, is the role through the supply chain, and I know to some extent dairy will probably be like the vegetables here where 80% goes to processors. You go totally to processors.

5

MR SWAIN: Almost, yes.

MR MARTIN: You don't deal direct with the retailers, but how much of an impact has there been on generic milk for the Tasmanian processors? Are they supplying milk or other milk products, yoghurts?

10

MR SWAIN: That is a question you would be asking National Foods. I've no doubt you've already asked them or whatever, but the fact is I don't have any understanding on that.

15

MR MARTIN: Is there a view about the role of house brands? Is this something that you and your fellow members have discussed?

MR SWAIN: There is a view that - and quite clearly the supermarkets do exert pressure on the processors via their contractual arrangements. You would have noticed with interest that the main contract for the supermarkets does move backwards and forwards between Pura and Dairy Farmers, for example, on the mainland, so there's quite clearly an opportunity for the supermarkets to exert pressure to their suppliers of liquid milk via that process.

20

MR MARTIN: I wouldn't have thought in the last 12 months the processors would be happy if they didn't have a generic contract.

25

MR SWAIN: That probably could be the case, yes.

30

MR MARTIN: In terms of other matters, I think I've probably covered off most of the things that I wanted to ask you.

MS HIRD: Just one thing with regard to vegetables, you were saying that 80% of Tasmanian vegetable produce goes to processing. Is there a reason why they've preferred to do that rather than go onto the fresh market? Is it because there's a guarantee of sale or it's too difficult to get it across to the mainland where the bigger markets are?

MS TURVILLE: I think it's about the history and the scale. The tones that are produced - for example, if you look at the way peas are harvested and the amount that's harvested, it's a completely different process, harvesting peas and packaging them, you know, the farming method compared to what you'd be doing if you were producing peas for fresh market. They're shelled in the field when you're processing them. They go straight into a truck and then they're, you know, within an hour or two, being, you know, frozen in a factory in Davenport. So it's just, you can't compare the two. It's completely different.

40

45

MS HIRD: So is there some sort of sense of security as well if you're going to a processor then you know that you're definitely going to make that sale rather than if you're going sort of trying to sell through the retailers, there's that risk of rejection?

5 MS TURVILLE: That's something - because I haven't been involved that long, that's a question about agriculture and about history and about why we have a strong processing sector here in comparison to, you know, perhaps what's happening in WA or Queensland. I know there's some good information, there's some very interesting
10 ABARE reports going back, you know, pre-50s which also potato production during World War II. I mean, there's a long history of it. I'm not quite sure, you know, why it was thus, but it's been there for a long time.

MR MARTIN: Thank you very much for all those in-depth comments. It's been
15 extremely useful to have the comments across the line and some more explanation as to how the supply chain works. We will be doing a lot of analysis, as I said, on some of this, but we do appreciate the input you've made today.

Was there anything else anyone wanted to raise?

20 MS TURVILLE: I was trying to get some figures for you from the levy revenue service, which is a bureau within the Department of Agriculture in Canberra. Primary producers pay statutory levies on their products. They don't calculate them themselves. It's the first agent, the first purchaser that usually pays. So for example
25 if I can use boiler chickens as an example, in 2007 I think 6,500,00 boiler chickens were hatched and raised in Tasmania. So if you're looking for specific figures about how many of a particular, you know, if you're talking about yield or number of
30 depending on what the primary product is, that would be an excellent place to get information, particularly with beef production, there's a transaction levy. So you can actually see the way a beast changes hands and who owns it at any one time.

MR MARTIN: These are levies where they fund research and - - -

MS TURVILLE: R and D, yes, it's the R and D system.

35 MR MARTIN: You mentioned the chicken industry, so how big is the chicken industry?

MS TURVILLE: I can't speak with any great amount of knowledge about that. I've
40 only just started working on that..

MR MARTIN: The chicken growers aren't your members?

MS TURVILLE: Yes, they are. Some are. I could put you in touch with the
45 Chairman of that group who'd be able to speak knowledgably.

MR MARTIN: Thank you very much. Sorry it's taken a long time.

ADJOURNED

[12.30pm]

RESUMED

[1.32pm]

5

MR MARTIN: Thanks very much for coming in. I won't go through the spiel I went through this morning. You know the background to the inquiry and nature of the hearings that we're conducting.

10

Maybe to start off I'll just get you to state your name and the organisation you're with and your role in it.

MR T. FRENCH: The company is French's Youngtown Supermarket. My name's Ted French and my son Michael. We are just a small family company, just operating an independent supermarket.

15

MR MARTIN: I'll get you to tell me a bit more about that in a moment.

20

Thank for coming in to talk to us.

I just remind you that it is an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or omits any matter or thing without which the evidence is misleading; do you understand that?

25

MR T. FRENCH: Yes.

MR M. FRENCH: Yes.

30

MR MARTIN: So it would be helpful if you could explain the nature of your business in terms of is as a retailer?

MR T. FRENCH: We're a Value Plus supermarket and we virtually come under TIR, Tasmania Independent Retailers, which is, I suppose, the governing body as regards our price setting and setting our specials. It's a cooperative, who in turn work in conjunction with Statewide Independent Wholesalers, which is our main supplier of dry goods.

35

40

MR MARTIN: Do all your products come via that chain?

MR T. FRENCH: There's roughly about 38, I think it's 38% come through Statewide. There's a charge-back facility that operates through TIR, that's for direct suppliers. That's about 37%, so all up there's about 75% comes through that group but 15% is from direct suppliers.

45

MR MARTIN: The second lot, 37%, I didn't quite get that? Is that Metcash?

MR T. FRENCH: No, Metcash is virtually in conjunction with Statewide .
Statewide is 51% owned by Woolworths and I think it's 49% owned by TIR.
Metcash - obviously they can only house so many items. What they don't house
there's an arrangement whereby we can get them through Metcash.

5

MR MARTIN: That's the 80%?

MR T. FRENCH: No, 38%. The 37% is an arrangement that suppliers have through
TIR whereby like, say, Pura Milk, we get our milk delivered direct by an
independent, but they charge it back through TIR who make the invoices and charge
us through direct.

10

MR MARTIN: So of the 38%, there is some proportion of that, that is Metcash?

MR T. FRENCH: Yes, and a very small proportion.

15

MR M. FRENCH: It's mainly the items that we cannot get from the Statewide's
warehouse.

MR MARTIN: So you've got 800-odd items that you get through Statewide.

20

MR M. FRENCH: Approximately.

MR MARTIN: So what do you think are the main competitive advantages and
disadvantages of your – maybe explain the Value Plus, is that part of the banner
group?

25

MR T. FRENCH: Yes. At the moment there's three banner groups. There's Super
IGA – no, four: Super IGA; Festival, Value Plus and Friendly Grocer, and then there
are stores that don't meet the requirements to come under that, and so they're just
independents.

30

MR MARTIN: So I'll go on to my next question. In broad terms what are the major
competitive advantages and disadvantages?

35

MR T. FRENCH: We all operate under, and as I understand it, a different price file.
There's three or four of them that are available to us. The stores like Super IGA
would have their own butcher, I think fresh fish, I don't quite know the requirements
to be honest with you, and it comes down to, to become a Value Plus you've got to
have your own delicatessen and greengrocer, and your price files are - - -

40

MR MARTIN: Does that determine what wholesale price you get as well, ultimately
in a net sense?

MR T. FRENCH: No. The wholesale price that we get is basically determined on
what we buy out of the warehouse. On top of that there's a service fee that ranges – I
don't know, 1 or 2% through to 4 or 5%.

45

MR MARTIN: Are you aware whether as a Value Plus customer you get a different deal than what the Super IGA get?

5 MR T. FRENCH: No, we all buy out of the warehouse at the same price, as I understand it, except the service fee that Statewide put onto it, obviously, if somebody's getting a 2% service fee and I'm getting a 4% service fee because of - - -

MR MARTIN: And that's a volume thing.

10 MR T. FRENCH: Yes,

MR M. FRENCH: As a general rule of thumb. This is average groceries. Most certainly there will be exclusive specials under different banner groups.

15 MR MARTIN: That's the mainstream supply that you get. What about other arrangements with - where you're getting direct, is that based on the - - -

20 MR T. FRENCH: There's two directs. If we get a King Island cheese that Statewide do not provide, then that supplier has a charge-back facility through TIR which gets put onto our weekly account through Statewide. However if it's, what would I say, fresh fruit and veg, say, from - we get one delivery from farmers up in Spreyton and we pay them direct.

25 MR MARTIN: That's a deal between you and them?

MR T. FRENCH: That's right, yes.

MR MARTIN: How do you negotiate the price on that?

30 MR T. FRENCH: No negotiation. He just tells us the price.

MR MARTIN: What he's going to charge.

35 MR T. FRENCH: Yes.

MR MARTIN: And you decide how much you want or whether you want it that week?

40 MR T. FRENCH: Yes.

MR MARTIN: How often for that type of product do you have contact with them? For instance, do you order that weekly - - -

45 MR T. FRENCH: Yes, they come in weekly. Over a period of time you build up a rapport and if you feel that the price is not right, obviously you negotiate and you get to know your supplier and they get to know you, and being a small family business it's very hard to keep track on everything that comes through the door, but we do

continuous checks on things, and if we find that they're not doing the right thing by us we front them and try and negotiate a better price, and if we can't, we go somewhere else and find another supplier.

5 MR MARTIN: How big a floor space have you got?

MR T. FRENCH: That's a good question. Off the top of my head, approximately 600 square metres.

10 MR MARTIN: So you're sort of medium size.

MR T. FRENCH: Yes.

MR MARTIN: You're certainly not small.

15

MR T. FRENCH: Yes.

MR MARTIN: What I was wanting some comment on was what are the strengths and weaknesses of something of your size in a market like this, what are the challenges? So I think you mentioned, you know, in terms of your scale of operations, product range, that you can supply as against your competitors, when you can open and where you beat them to the punch or you feel you're struggling under the weight of the competition.

20 MR T. FRENCH: That's a pretty encompassing question. When seven day trading came in, I think most retailers believed it was only going to be on the Sunday and that was as far as we were concerned a bit of a con job anyway, but we find now that they're opening at 7 in the morning and closing at 9/10 o'clock at night and there's no way that we can match that.

30

MR MARTIN: You can't open the same time?

MR T. FRENCH: No.

35 MR MARTIN: What are your hours, 7 to 8?

MR T. FRENCH: 7 to 7.30. It all depends on, I suppose, where you're situated. In Launceston we're situated at Youngtown. Just over the hill we've got probably two of the biggest stores of Coles and Woollies. We haven't got the floor area to give a wide variety of products that I suppose consumers are looking for, so we virtually concentrate on the service area, trying to keep our prices as best we can determine reasonable within them. We can only go on what feedback comes back to us and we're also in the price range there.

40
45 MR MARTIN: Do you match on some things like milk?

MR T. FRENCH: In as far as I'm aware, yes. Some things I understand – we don't go out actively checking their prices; it's only just what customers are relating back to us. In some areas there's no way we can match. However, most of their prices we're within cents of them. However, we are getting a little bit of feedback at the moment that they're not happy with these new generic lines that are coming through.

MR MARTIN: So who's not happy?

MR T. FRENCH: The customers, they're coming back to us complaining that they can't get this and it's all kind of going down that generic road.

MR MARTIN: What's happening there? In terms of choice, are you saying generics are crowding out the other things that might be on your competitors' shelves?

MR T. FRENCH: That's the feedback that we seem to be getting back, yes.

MR MARTIN: And in terms of you mentioned the type of service, is there anything elsewhere you beat the - - -

MR T. FRENCH: Really, no. We try to keep our price into the – you know, the old saying “We've got a right to earn a dollar but not to be greedy”. We're very conscious on wastage. We try not to have any wastage and we keep that to a real minimum, which means that we keep our prices down.

MR MARTIN: Do you do fresh products?

MR T. FRENCH: Yes.

MR MARTIN: You'd be competitive with the chains on that?

MR T. FRENCH: As far as we're aware, yes. However, the chains because of their buying power and their unlimited kind of funds, they can go out and buy a crop. That puts pressure on the market so when we need to buy the same product, we're buying it at a premium, so obviously we're always going to be charging a little bit more than that. So in those instances, you know, we try to go out and support local suppliers.

MR MARTIN: Getting back to this mainstream of products that you mainly get through Statewide, how does that work in terms of you get a wholesale price, but as I understand it, they only keep a certain margin at wholesale, so how does the actual price to you work in terms of you get something that's based on the wholesale price? Do you then get rebates?

MR T. FRENCH: No, I don't – sorry, I can't answer that. I don't know.

MR MARTIN: Is there one listed price for this mainstream of products and then - - -

MR T. FRENCH: We choose a price file when we order a product, for example, a new product, that is available through our software program at a point of sale level.

5 MR MARTIN: Does that specify the net - - -

MR T. FRENCH: The price is specified in that particular file and we sell it at that particular price.

10 MR MARTIN: Then Statewide in terms of their operations, there's no further rebates or - - -

MR T. FRENCH: Yes, once a year the proportion of what the holding of TIR have got in them, I think - - -

15 MR MARTIN: They do, yes.

MR T. FRENCH: I think the Statewide can only run at, I don't know, 1 or 2% profit. There's a margin there that they run. What else is left goes back to TIR, and they virtually give us a rebate once a year.

20

MR MARTIN: Do you have a view, and you might want to express some of this privately, but in terms of the products you buy, with Statewide and Metcash, how competitive are those products, vis-à-vis your competitors?

25 MR T. FRENCH: Once again, as I understand it, what we buy out of Statewide is exactly the same price as Woollies. However, Woollies would pay the lower service fee compared to us, so there's probably, I don't know, a 2/3% difference in margin there.

30 MR MARTIN: I think they would obviously be in the best category.

MR T. FRENCH: Yes, but you don't know what's happening behind the scenes. That's evident in some of the buying things that we do do. I mean, here last year we bought Coke in for 91 cents and sell it out to 99 cents, and that was applicable to

35 Woollies and us as well. However, Woolies had done something from head office, sorry this is what I understand, whereby each end they put up they got X number doing it Australia-wide, so they weren't on the same margin as us because of their buying power and scale of operation, where our margin's virtually negligible and that's was what they were looking for.

40

MR MARTIN: With the wholesale arrangement, you're reasonably happy with it at present? It is a different arrangement to what your counterparts experienced on the mainland.

45 MR T. FRENCH: We have to be happy with it. We've got no choice.

MR MARTIN: Tell us where the shortcomings are.

MR T. FRENCH: We don't know because we know nothing else.

MR M. FRENCH: From our understanding, the alternative is to go direct to Metcash. I think that's an option that two stores in Tasmania take up. However, to
5 us that is very unfeasible. For example, we have daily orders for regular items such as cigarettes and fast moving lines that we go up to the distributors to get. Now if we were getting an order weekly or we only had access to that after the distributor weekly, that would affect how we operate our business. So most certainly having the distributor in the State is crucial for us to how we operate our store.
10

MR MARTIN: Why would these two stores have gone to Metcash?

MR M. FRENCH: They operate through different banner groups. Instead of going through the IGA banner, as I understand it, they've decided to go elsewhere.
15

MR T. FRENCH: I think they were originally with David's, and then they are taken over by somebody and they just went with that.

MR M. FRENCH: To us we wouldn't even consider that.
20

MR T. FRENCH: You see the other thing too is I suppose Tassie's a little bit unique insofar as when Roelf Vos started up down here, he had, I don't know, 10 or 20 stores or whatever it was, but Woolworths actually bought him out, so it was really an arrangement between a large independent retailer and other private - - -
25

MR MARTIN: He was at Launceston, we were told.

MR T. FRENCH: Yes, that's right.

MR MARTIN: Which store is that?
30

MR T. FRENCH: That's Woolworths now. Woolworths bought him out and in doing so bought 51% of the area, so when you have a look at it, which makes our job a little bit more difficult, in Launceston, I don't know, there's probably eight or nine
35 Coles and Woollies stores, servicing 80 or 90,000, so it's a one to 10,000.

MR MARTIN: Eight or nine.

MR T. FRENCH: Yes, there would be that many.
40

MR MARTIN: Moving on to some of the other things that I want to question you about, shop-a-dockets, how have they impacted your business? Fuel docketts?

MR T. FRENCH: We haven't got them.
45

MR W. FRENCH? We don't run them ourselves, but most certainly noticeable things that we see is when, for example, Woolworths membership has got a frequent

shopper card, I believe, when they offer triple points day or double points days. Certainly on those days that affects us from a competitive point of view. We have considerably less customers. We can tell, not that we actively look for when those days are, but we can tell just by the number of customers that comes through our store that that affects our bottom line.

MR MARTIN: Elsewhere some of the independents have offered something to compete with shop-a-dockets but there's been nothing in Tasmania?

10 MR T. FRENCH: Well, we did have it, but it proved too expensive to run.

MR MARTIN: What was that?

15 MR T. FRENCH: I don't know. It was arranged through TIR. I understand that they're looking at another scheme, but yes, not at the moment. I also understand that Tassie's the only State that's got the frequent shopper card customers.

MR MARTIN: The other thing that we may have slightly touched on is the pricing behaviour of the chains. Have you found issue with that in terms of the competitive nature of it?

MR T. FRENCH: We really don't worry about it, to be honest with you.

25 MR W. FRENCH: We've got a very simple structure on how we price things. We look at a price and get a clear idea of it all, and that's what we sell it out for.

MR MARTIN: I'm talking about your competitors, in terms of do you have experiences where you feel that there could be predatory pricing or - - -

30 MR W. FRENCH: Most certainly we scratch our heads sometimes and look at some of the stuff they sell. For example, bananas or high impact goods such as those that we don't even come close to buying at that level, let alone selling it at that price.

MR MARTIN: In terms of these must-have products, that's a really big influence on whether people come to you or to Coles or Woolworths?

MR W. FRENCH: Most certainly.

40 MR MARTIN: What sort of products are they, bananas?

MR W. FRENCH: Bananas, apples, pears, bread milk.

MR MARTIN: Coca-Cola?

45 MR W. FRENCH: Coca-Cola, yes.

MR T. FRENCH: Chips.

MR MARTIN: You do specials on chips and things too>

MR T. FRENCH: Most certainly.

5 MR MARTIN: Is that done as a special deal most of those things? Like I understand bread and milk, and I might ask you about that in a second, but chips and Coca-Cola, they seem to do the rounds of independents one day and Coles the next, you know, three weeks later.

10 MR T. FRENCH: Yes, we've found that the number of reps that we've got in the State is diminished greatly, so we're only talking about the bigger type of – and a lot of the reps are wearing two, three or four caps, but I think the big companies or even the big manufacturers actually set when they're going to do this, so really they conflict too much with one another. If we're putting bananas out at 1.29, then
15 Woollies will put it out next week at 99 cents.

MR MARTIN: Why is something like bananas something of a must buy?

MR W. FRENCH: We find we most certainly try it ourselves. We've done trials on,
20 for example, hot chickens that we sell them out for \$9.50. What they will do is they buy a hot chicken and also a Coke or a salad or value adding on top of that particular special. So it enables you to get more customers in during that period.

MR MARTIN: Look, I can see it with a product like hot chicken. So with
25 something like that, are you competitive with the chains on hot chickens?

MR T. FRENCH: Yes, we're more than competitive. We would be selling our hot chickens out \$9.50; Woollies I think are nearly \$11.

30 MR W. FRENCH: But it's also how they're marketed. We can't compare our chickens to their chickens because we might be selling 13 sized chooks as a family chook and they're selling size 11 which is unstuffed, for example. So there's mostly differences in these type of products.

35 MR MARTIN: Now the other issue is what has happened with the trading hours? Trading hours is now the same as the mainland?

MR W. FRENCH: Yes.

40 MR MARTIN: In Tasmania, and the impact has been that you can only economically trade certain hours and the supermarkets because they are – why is it that they're able to have longer hours?

MR T. FRENCH: They just put in a manager, a couple of 16-year-old kids and do
45 their night fill at the same time and they're open all hours. To me it's been the biggest disaster as - - -

MR MARTIN: What's been the impact? It's cut your business back?

MR T. FRENCH: I can't speak about this business because we've only just moved out to Youngtown in the last 12 months, but when we were out at Trevallyn - - -

5

MR MARTIN: Where's that?

MR W. FRENCH: It's in Launceston. It's another section of Launceston.

10 MR MARTIN: So did you close that down?

MR T. FRENCH: No, the landlord wouldn't renew our lease, so we moved out to Youngtown.

15 MR MARTIN: Talking of the commercial tenancy side of it, what sort of rates do you get? You said you have a five by five or something that was all over - - -

MR T. FRENCH: Yes. Trevallyn they wanted us to virtually convert it to a gourmet sort of supermarket and I just couldn't justify the expense.

20

MR MARTIN: So what happened to that property after you left?

MR T. FRENCH: The owners actually converted it into a gourmet-type supermarket.

25

MR MARTIN: Which operates?

MR T. FRENCH: Yes.

30 MR MARTIN: So how would Trevallyn compare to the supermarket you're in now?

MR T. FRENCH: It's just a straight independent. It's not a part of the TIR group, it's not an IGA supermarket.

35 MR MARTIN: So the jury's out on this new theory on gourmet?

MR T. FRENCH: I think all supermarkets have to have a bit of a gourmet to them, depending on the area, and you only get to know the area after a certain number of years being in there.

40

We've got a very open policy that if customers come in want a product, we can get it, or we try to get it for them.

45 An example of this is junket. You can't get junket through the main group, but we traced that out to South Australia, and because we have an old people's respite home across from us, yes, it's a good seller for us, but Woolworths won't stock it.

MR MARTIN: How long have you been in the grocery industry?

MR T. FRENCH: Just on two years.

5 MR MARTIN: One of the areas that we need to have a look at in the industry has been this suggestion that retail prices have been going up way above the level of inflation, the general level of inflation. What has been your, be it anecdotal, experience of - - -

10 MR T. FRENCH: I don't know if they have, to be quite honest with you. We need to run at around a minimum of 15 to 17% margin to be at the break even point. Then, yes, prices are set by TIR in the majority in our purchases, so yes, I suppose prices have gone up, but the margins most certainly haven't.

15 MR MARTIN: That 15 to 17%, that's an average, what sort of lines do you get higher margins on and what lines do you get lower margins on?

MR T. FRENCH: Well, your deli, you would try to get probably a margin of 35% on that with probability of a 10 to 15% wastage on it. Fruit and vegetable, probably
20 30 to 35 again with a wastage of 10 to 15% on that, so if you could run your business at 20 to 25% margin.

MR MARTIN: That's about stable? Nothing's changed?

25 MR T. FRENCH: No. The only thing really that's changed is the wholesale price to us, and we really don't have much say in it.

MR MARTIN: What's been your experience with that, that there hasn't been - - -

30 MR M. FRENCH: We mainly get told in letters about the drought and how they have to pass on the increase to us.

MR MARTIN: What about generics. You sell home brands?

35 MR T. FRENCH: We mainly have Black and Gold and there's a new IGA range that we're starting to tap into now. Tassie's a little different, as I understand it once again. Tassie's not really confirming with the IGA standards set by Sydney. That's why we've still got the Festival and the Value Plus brands, but I understand that has to be worked out over a period of time. There's a lot of places down here like, say,
40 with your meat. I mean we can only - we buy from locals and we try and arrange a margin that we get out of that.

MR MARTIN: When you say "locals", local abattoirs?

45 MR W. FRENCH: Local butchers.

MR T. FRENCH: Local butchers.

MR MARTIN: So their butchers are operating as wholesalers.

MR T. FRENCH: No retailers.

5 MR M. FRENCH: Retailers as well.

MR T. FRENCH: We virtually buy from retail - - -

10 MR M. FRENCH: In actual fact, basing it on margins and then they give us a 10 to 15% margin on that.

MR MARTIN: So they're also running retail butchers?

15 MR T. FRENCH: Yes. Once upon a time, I can remember when "how to kill a fatty", which is the local stockyards, Woolworths actually had their own buyer that would go out there. Now we understand that Woollies virtually bring most of their meat in from the mainland. Here a few years ago we tried to have Tasmanian bread and we weren't allowed to continue to do that.

20 MR MARTIN: So all your suppliers is basically local.

MR T. FRENCH: Yes. As best we can, you know.

25 MR MARTIN: But back on the generics, the Black and Gold, it's not generic or it's not an IGA meat or anything?

MR T. FRENCH: No. They've negotiated milk through Pura, a 1 and 2 litre

30 MR MARTIN: So are the margins lower on generics or higher?

MR T. FRENCH: No, higher. Generally they are higher, yes.

35 MS WONG: I've just a got question to ask you about when you started the new premises at Youngtown. After you closed off Trevallyn, did you encounter any difficulties finding a suitable alternative site to start up a new supermarket?

MR T. FRENCH: This was already an existing business and they just sold it to us as a going concern.

40 MS WONG: So it wasn't finding a site to start up afresh as such?

MR T. FRENCH: No.

45 MS WONG: Was that an option that you actually considered or you were actually looking for a going concern to buy?

MR T. FRENCH: You'd be a pretty game person to start a supermarket in Launceston afresh. It's just – there's too many at the moment and as we understand it, I think Woollies are looking to put another one in the CBD somewhere, so that would bring it up to nine or ten supermarkets.

5

MS WONG: The other thing I wanted to explore just a little bit more is that I understand that there are, in fact, two major supermarket stores which are very close to your supermarket. I think within a 2 k radius; is that right?

10 MR T. FRENCH: Yes, that's right.

MS WONG: I know that you said you were trying to keep your prices practically on a par with those ones, and you also tried to focus on service, but what do you think makes customers come to your store as opposed to the Woollies or Coles down the road where they might be able to get a bigger range of stuff and they might be able to get these cheap products?

15

MR T. FRENCH: Mainly it's the proximity to where they are. It's out at Kings Meadows, which insofar as the parking is concerned, they have to walk quite a distance to get to the supermarkets from their parking – that's if they can't park right at the front. To get in there it's very congested down the main highway, so we do a lot of our business say from 4 o'clock to 6 o'clock, so a lot of people try to by-pass that and come to us where they can virtually park at the front door, get their basic necessities and get home nice and early, rather than go to those ones which will add on probably an extra half an hour, three-quarters of an hour on their trip.

25

MS WONG: So the locality, access parking all of those you would consider your key strengths so to speak?

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MR T. FRENCH: Yes. Prices I've got a really determined buyer, TIR.

MS WONG: One final thing also along the lines of this competitive advantage, would you say that your range of products or the variety of products that you stock, is that something that you try to differentiate from the majors so that people might come to you, apart from the specialty like the junket?

35

MR T. FRENCH: Yes. Woolworths with their computer system they drop off, I don't know, extra thousand a week or whatever it might be out of the warehouse and they replace it with something. Now with the stores that they supply it's not a seller, but to our seller it could very well be a seller. We might only be buying a carton a week whereas for it to stay in the warehouse, they could just get rid of it and we've really got no say in it.

40

MS WONG: So you say you have got a bigger range than they do?

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MR T. FRENCH: No.

MS WONG: You've got a smaller range?

MR T. FRENCH: Much smaller range, yes.

5 MS WONG: Would you really try and stock something that's a little bit different to their stock?

10 MR T. FRENCH: We try to. Once again because we pull out of the warehouse the same goods that they do, except what they bring in from Melbourne over on the boat, that goes straight into their stores, and I think a lot of that is their, I don't know, their hardware type stuff, then yes.

15 MS WONG: How do you decide apart from when customers actually go up to you and say "Can I have this brand?"

20 MR T. FRENCH: We know that it's – that Woollies have probably discontinued it when people come into us and saying "We want this. Can you get it for us?" Then we try and if it's not up at the warehouse, then the odds of us getting it is pretty remote. Woolworths just get rid of it and that's it.

MR MARTIN: Just on the tenancy side, so you bought another business?

MR T. FRENCH: Yes.

25 MR MARTIN: You've upgraded it?

MR T. FRENCH: Yes. Spent a lot of money to date.

30 MR MARTIN: Presumably increased the turnover?

MR T. FRENCH: Yes.

MR MARTIN: What sort of lease do you have?

35 MR T. FRENCH: 15 years at the moment.

MR MARTIN: Thanks very much for that. We don't have any more questions. We appreciate you coming.

40 We will probably go straight on with Mr Matteo.

Thanks for coming in. For the record if you could state your full name and your organisation and your role in it.

45 MR MATTEO: My name is Guaraci Matteo and I'm the manager direct of Tamar Valley Dairy, yoghurt producers.

MR MARTIN: Before we start, it's part of the process to remind you that it is an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or omits any matter or thing without which the evidence is misleading; do you understand that?

5

MR MATTEO: Yes.

MR MARTIN: Maybe we could start off, if you explain for us what your company does, how it operates and what products it has.

10

MR MATTEO: Okay. We produce a range of product under our own brand, Tamar Valley Dairy; we produce a range of product under Coles brand and under the Aldi brand, which is Dairy Bliss.

15 MR MARTIN: In terms of volumes, what sort of share of National Foods milk would you take?

MR MATTEO: Probably about .2%.

20 MR MARTIN: So not big on their radar screen

MR MATTEO: Not big on the radar screen, not at all.

MR MARTIN: Do you have a contract with them, with National Foods?

25

MR MATTEO: Yes, we've got a 12 months contract – with National Foods, yes – and the price of the minimum is based on what they call the open end price, and the open end price is normally what is the normal company front, and the price is based on availability, whether the weather's been good to us, able to sell, so they've got a lot of different - - -

30

MR MARTIN: But there's an opening price. You have a contract that they will supply you a certain amount or how does it all work?

35 MR MATTEO: In my case we have to nominate the minimum.

MR MARTIN: By the way, given that we're interested to find out how this works, is there any part of this you feel it's commercially sensitive, we can put it aside and close the hearing, so let us know if there's anything you feel touchy about in terms of it being public.

40

MR MATTEO: Yes. I normally have to nominate a number I would take. If I take less, there's no penalty whatsoever. We sit in a nice situation which the milk we purchase from them is skim milk reduced by 50%, and it's almost a by-product, more fat than any skim milk, so the more I can take the happier it makes them.

45

MR MARTIN: So where does the fat go?

MR MATTEO: Cheese, cream cheese. National Foods, Lactos, and they make a lot of cream cheese and they make a lot of milk with extra cream.

5 MR MARTIN: So you only get the healthy stuff?

MR MATTEO: Basically, yes.

MR MARTIN: What do you do with it?

10 MR MATTEO: We make yoghurt. What we do is reduce the volume by half, and that milk is used to manufacture yoghurt.

MR MARTIN: So you make other products?

15 MR MATTEO: No, just yoghurt. We do market other products.

MR MARTIN: You market the cheese?

20 MR MATTEO: The cheeses and cheddars and - - -

MR MARTIN: So when you say you reduce the skim milk by 50%, how is that process worked?

25 MR MATTEO: By an ultra filtration plant which removes the water, just very, very fine filter removes it, and when we are short of milk volume, we use skim powder to dissolve to increase the solids.

30 MR MARTIN: So you're all about yoghurt, so tell us about the yoghurt market. Who do you supply, flavoured or what?

MR MATTEO: We manufacture different types of yoghurt, a normal product which is gelatin and sugar, and then a Greek style yoghurt with all the sugars, all the fats, all the unhealthy bits, and of course that sells more, and then we make other yoghurts under different recipes from different companies.

35 We also package it at our premises and we've got our own warehouse and then we dispatch it.

40 MR MARTIN: So most of what you produce goes under the Tamar Valley Dairy area label?

MR MATTEO: About 90% of what we produce - - -

45 MR MARTIN: Who do you mainly sell to?

MR MATTEO: Woolworths is 42% of our market. Another 45 to 46% goes to Victoria Foods out of which percentage about half of it goes to Coles. We only supply direct to Woolworths.

5 MR MARTIN: You supply it to Victoria Foods and they then on-supply it.

MR MATTEO: On-supply to Coles, direct.

MR MARTIN: I'm going to ask you a bit about your margins, so I think that would be better in the confidential part, so we'll put that aside for the moment.

10

So in terms of your getting supplied, you say that the price that you have to pay to get the skim milk, you're fairly happy it's competitive and the situation you deal with National Foods and you get a competitive price out of that arrangement?

15 MR MATTEO: Absolutely. It's a set national price which I pay here and some other purchaser will pay in Victoria and the same in New South Wales. There's no big chain as far as I'm aware of.

MR MARTIN: Fonterra, you said put the opening price, not necessarily the same price in Tasmania.

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MR MATTEO: Yes, I was speaking about National Foods. We don't purchase from Fonterra. National Foods, as far as I'm aware, they set a wholesale selling price for reselling price.

25

MR MARTIN: Anyway, you've been fairly happy with whatever you were paying.

MR MATTEO: Absolutely, yes.

30 MR MARTIN: Now you said you supply to Aldi.

MR MATTEO: Yes.

MR MARTIN: They have Aldi products?

35

MR MATTEO: Yes, they only have their own brands, yes.

MR MARTIN: Does your product go to Aldi throughout the eastern states?

40 MR MATTEO: Victoria, New South Wales, yes.

MR MARTIN: Are you the only yoghurt supplier to Aldi?

MR MATTEO: No. We only supply one particular, we just supply Greek yoghurt with fruit on top.

45

MR MARTIN: Is that your specialty? How many types of yoghurt do you have?

MR MATTEO: Probably about four different types, but yes that is our best.

MR MARTIN: What is it, it's got fruit?

5 MR MATTEO: It's got fruit laid on top of the yoghurt.

MR MARTIN: So where do you supply the fruit from?

MR T. FRENCH: From a company called Agrana.

10 MR MARTIN: It's all processed in Launceston?

MR MATTEO: Yes, all processed here.

15 MR MARTIN: So you've got four yoghurt products. Are they sold in different types of packaging or you package them?

MR MATTEO: Absolutely. We've got our retailer packages, and we've got three different varieties there. We've got actually four, the Aldi variety, which is their own formulation, we've got our own variety Greek style, which is one formulation, and we've got the Tamar Valley Dairy classic light and no fat range which is the same formulation only with different levels of fat, and then we've got a diabetic style yoghurt which is only sold in bulk and we also supply - - -

25 MR MARTIN: When you say "bulk", you put it up in, what, ten gallon containers?

MR MATTEO: From five kilo weight, and we supply manufacturers in the mainland which purchase the yoghurt.

30 MR MARTIN: You have an agreement with Woolworths, did you say?

MR MATTEO: Not an agreement. There's no written agreement; it's just every six months.

35 MR MARTIN: An arrangement?

MR MATTEO: Yes, and provided the product performs, we stay on. If the product falls below certain levels, it's not commercially viable to stay on the shelf. They only have a limited amount of shelf space.

40 MR MARTIN: Do they take all of your products, Woolworths?

MR MATTEO: No. They only take a certain percentage.

45 MR MARTIN: When I say "all", all those categories, or do they only take one or two categories?

MR MATTEO: Four or five. They only keep what sells the best. At the start we had quite a lot of varieties there, but some don't sell, others sell more than the others, so the shelf space gets taken.

5 MR MARTIN: Reviewed every six months, if it's performing okay, it's fine. What happens if you've found something, new type of fruit to put it in or something else? How do you get it on to a Woolworths' shelf?

10 MR MATTEO: Make a nice presentation and take it up to them and try and convince them it's the best on the market and going to sell a lot on the shelves, and they look at it, taste it, sample it and then, of course, they review it against all other new lines from the other companies that have presented and they make themselves a decision whether they say "Yes, this is a good product, we will sell lots", or "No" we don't.

15 MR MARTIN: How do they go about it if there's - it may not have happened to you, but something's not moving that well, they wait until the six monthly and say "Look, this is not going well. We're going to de-list it".

20 MR MATTEO: They give you a warning on the first six months and saying "This product isn't selling to our standard. It's up to you to get behind it and see if you can move it", and then it's up to us to do a store demonstration of the market product. So they give you 12 months and if it doesn't perform, they say "Look, I'm sorry, this product's really not performing".

25 MR MARTIN: This is general knowledge, the price at retail for yoghurt has been going up?

30 MR MATTEO: Sorry?

MR MARTIN: Has the price of your type of product, yoghurt product, over the last year or two, have there been significant increases in the retail price? I'm not asking you at this stage the price you get, but at retail level are you aware of what's been happening to whether the price has gone up?

35 MR MATTEO: Tamar Valley Dairy was the first to move on our - what we call the deli or Greek Style yoghurt. We were all seeking about the 2.99 point. Nobody wanted to cross the 2.99 mark. Tamar Valley Dairy was losing money, so we were the first to cross. The minute we crossed, all the other crossed the line as well.
40 Nobody wanted to get to the \$3 mark.

MR MARTIN: So what's it now, 2.99?

45 MR MATTEO: No, 3.25, so we had to go up.

MR MARTIN: I think now we might just ask a few questions about margins.

We don't have anyone from outside here. While we keep recording from now on, we won't publish the material.

5 CONTINUED IN TRANSCRIPT-IN-CONFIDENCE