

Public hearing – Port Lincoln
29 April 2008

Time: 9.30am – 1pm

Address: **The Port Lincoln Hotel**
1 Lincoln Highway, Port Lincoln

Room: Ball Room (*first level*)

Witness	Submission	Summons
Port Lincoln Tuna Processors Pty Ltd	n/a	Summonsed & compelled to appear by ACCC
Clean Seas Tuna Limited	n/a	Summonsed & compelled to appear by ACCC
Regional Development Board	n/a	No

AUSCRIPT AUSTRALASIA PTY LTD
ABN 72 110 028 825



Level 10, MLC Court, 15 Adelaide St BRISBANE QLD 4000
PO Box 13038 George St Post Shop BRISBANE QLD 4003
Tel:1300 308 420 Fax:(07) 3503-1199
Email: orders@auscript.com.au Website: www.auscript.com.au

TRANSCRIPT OF PROCEEDINGS

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

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

GROCERY PRICE INQUIRY HEARING

**CONDUCTED AT: THE PORT LINCOLN HOTEL,
PORT LINCOLN**

DATE: 9.30 AM, TUESDAY, 29 APRIL, 2008

COMMISSIONER MARTIN: Good morning. My name is John Martin. I'm a commissioner with the Australian Competition and Consumer Commission and one of the presiding members of the public inquiry into the competitiveness of retail standard groceries. I welcome you to this hearing here in Port Lincoln. This hearing
5 is an important part of the inquiry process and is convened under part 7A of the Trade Practices Act. The inquiry is being held pursuant to a request from the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs which was received by the ACCC on 22 January this year.

10 Matters that are to be taken into consideration by the inquiry include but are not restricted to the current structure of the grocery industry at the supply, wholesale and retail levels, including mergers and acquisitions by national retailers. It also covers the nature of competition at the supply, wholesale and retail levels of the grocery
15 industry and the competitive position of small and independent retailers. It covers the pricing practices of the national grocery retailers and the representation of grocery prices to consumers and factors influencing the pricing of inputs along the supply chain for standard grocery items. We'll also be looking at any impediments to efficient pricing of inputs along the supply chain and the effectiveness of the
20 horticulture code of conduct and whether the inclusion of other major buyers such as retailers would improve the effectiveness of the horticulture code.

I'm pleased to say that the ACCC has so far received over 180 submissions to the inquiry as well as confidential submissions. The ACCC will endeavour to take into
25 account all of the information that has been provided and thanks the industry participants for the contributions that they have made. 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 industry participants.

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

Transcripts of the public parts of the hearing are placed on the ACCC website. The ACCC may also disclose some aspects of confidential components of the transcript some time after the hearing if it considers that some of the material should be in the
45 public domain but the ACCC will consult with the relevant witness before taking that decision. Where there are industry associations or representative organisations who are attending voluntary, it's most likely that all of the hearing sessions will be public.

Now, just in terms of process for today, all witnesses have received a document that outlines how we intend to approach these hearings so I won't go through the procedures in detail. I just need to emphasis that although we are not taking evidence under oath at this hearing, it is a serious offence to give false or misleading
5 evidence to the ACCC. We recognise that some witnesses will be asked to give evidence that if disclosed would damage their competitive position or which may, for other reasons, be confidential. As I said, we are prepared to take some of those issues on a private basis. If a witness believes that a particular question or a series of questions are likely to require disclosure of such sensitive information, we'd ask that
10 the witness indicate and objection to answering the question on that basis and I'll then consider whether the inquiry should take evidence on that matter in private as opposed to in public.

We4 aren't using external counsel at this hearing but I am joined by some of the
15 ACCC staff here today and some of our staff members may also ask questions. So that concludes my preliminary remarks and the first witness today is the Port Lincoln Tuna Processors company representatives. Perhaps for the record, if you could both state your name – the name of the organisation and your role in it please?

20 MR VALLANCE: Larry Vallance from Port Lincoln Tuna Processors. I'm the operations manager.

MS TRAEGER: Lea Traeger from Port Lincoln Tuna Processors and I'm the
25 general manager.

COMMISSIONER MARTIN: Well, thanks very much for coming in. I just have 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. You understand that? Thank you very
30 much. You were summonsed to come in today?

MS TRAEGER: Yes.

COMMISSIONER MARTIN: Okay. Look, thank you. Perhaps we could start off
35 by getting a bit of an understanding for the commission of the overall operations of your organisation.

MR VALLANCE: Basically our core business is tuna canning. We're the only surviving tuna cannery in Australia and we also process a range of plastic pouches
40 for brands such as Leggo's Pasta Meals, Nestle gravies and cooking sauces, Cerberus gravies and custards and a range of baby foods. We deal totally as a co-packer, we don't have our own brands. We just manufacture under another company's brand on their behalf. So we have no direct dealings with supermarkets at all.

45 COMMISSIONER MARTIN: So where does all the input for these – quite a wide variety of product, where does that all come from?

MR VALLANCE: The majority of the tuna that we process, depending on what's caught in Australia, is imported from Thailand. If the catches are good in Australia, then we supplement those volumes because Australia doesn't have a sufficiently large enough resource for us to totally process the volumes we need to from
5 Australian caught fish. All other ingredients in general are sourced from Australia unless they're unique to the customer's requirements in which case they're imported. In general terms, the cans are locally sourced, labels are locally sourced, cartons are locally sourced.

10 MS TRAEGER: The pouches are imported.

MR VALLANCE: Then, on the pouch side, most of the pouches – the pouches are all imported and the same applies with the ingredients. In general terms, probably 80 to 90 per cent would be locally sourced and then the balance of the ingredients would
15 be imported as they're unique to the recipes.

COMMISSIONER MARTIN: So what is – with the co-manufacturer, as you call it, how does that operate, and if we get into commercially sensitive aspects we can put that aside and come back, but what is the arrangement between yourself and these
20 ones that – do you do it on a contract basis or how does it work?

MR VALLANCE: Yes. Yes.

MS TRAEGER: They are contracts but we basically supply them the finished
25 product so we are buying the packaging, the ingredients and so forth and deliver it into their warehouse.

COMMISSIONER MARTIN: Okay.

30 MS TRAEGER: So the cost is based from their warehouse - - -

COMMISSIONER MARTIN: So then they – the contract covers a landed price to
- - -

35 MS TRAEGER: Their warehouse.

COMMISSIONER MARTIN: - - - to their warehouse.

MS TRAEGER: Yes.

40

COMMISSIONER MARTIN: Okay. Because it is quite a wide range of product from - - -

MS TRAEGER: Huge.

45

COMMISSIONER MARTIN: - - - custards and gravies.

MS TRAEGER: Yes.

COMMISSIONER MARTIN: So, for instance, the ingredients for gravy, where would they be sourced from?

5

MS TRAEGER: We do have some premixes that the likes of Cerberus do supply us.

COMMISSIONER MARTIN: Right, so.

10 MS TRAEGER: So we actually don't know all the secret ingredients in there.

COMMISSIONER MARTIN: No.

15 MS TRAEGER: We probably have about 300 different ingredients on site.

COMMISSIONER MARTIN: Okay. What's the employment, the labour level?

20 MS TRAEGER: They're Port Lincoln's biggest employee with around 280, if not more. We're working two shifts at the moment seven days a week.

COMMISSIONER MARTIN: Is the tuna by far the largest element?

25 MS TRAEGER: Yes. We're doing about 40 million units, which is the smaller cans, a year compared to about 15 million units of pouches a year. So pouches are pretty new to our business. Canning is probably 25/30 years but pouching is probably only six years. So we're just trying to diversify.

COMMISSIONER MARTIN: The pouching, that's kept refrigerated, is it?

30 MS TRAEGER: No.

MR VALLANCE: No. They're all shelf stabled.

35 COMMISSIONER MARTIN: Okay. What's the – if you can comment on it, how do you see the competitive landscape for tuna processing in Australia in - - -

40 MS TRAGAR: It's extremely difficult to compete with the likes of Thailand, so when I first started at Port Lincoln tuna processors, there was probably about seven canneries in Australia, and about six years ago, there was only two, us and Heinz – Eden, and they then went offshore, we maintained their smaller gram can for about three years until they took that offshore, but just with the labour and overhead costs, it's extremely difficult to compete, so even now, we're basically out of contract and looking – well, competing profusely to maintain that business.

45 COMMISSIONER MARTIN: When you say out of contract, out of contract with that particular - - -

MS TRAGAR: With the canning side. We're in negotiations now.

COMMISSIONER MARTIN: Okay, so what's the period contracts supply for, are they a year or - - -

5

MS TRAGAR: We're looking for another three years.

COMMISSIONER MARTIN: Yes. So they're three year with extensions or?

10 MS TRAGAR: Yes.

COMMISSIONER MARTIN: You've mentioned costs, what have been the major – what's been the experience in the last two to three years in terms of your costs, is it labour - - -

15

MS TRAGAR: It differs, with canning, it's definitely the price of tuna. Tuna has dramatically increased over the last 12 months.

COMMISSIONER MARTIN: So what's – give us an example.

20

MS TRAGAR: Last year, we were buying imported loins. The whole fish price at that stage was around 900US a tonne, it's now 1700US a tonne. That's if you can get it.

25 COMMISSIONER MARTIN: Okay. So that's like – that's the international price?

MS TRAGAR: Yes, Bangkok price.

COMMISSIONER MARTIN: Yes, and why has it gone up so much?

30

MS TRAGAR: Just with global warming - - -

MR VALLANCE: A combination of weather.

35 MS TRAGAR: Price of fuel.

MR VALLANCE: Yes, fuel costs, boats aren't going out to catch and – because of the climate change, the fish tend to be deeper, so it's more difficult for them to catch them, so because it's in shorter supply, the price goes up. Then recovering a lot of other costs that they aren't able to at the moment.

40

MS TRAGAR: With overfishing of other tuna species, such as the yellow fin and albacore, there used to be a lot of tuna that they – for America, that – they sourced the albacore and the yellow fin, but America seems to be highly sensitive on mercury levels, so they've moved species to the skipjack, which we can, so that's just put more fishing pressure on that species.

45

COMMISSIONER MARTIN: Do you only do tuna or do you do salmon as well?

MS TRAGAR: We used to do pink salmon which was imported from Alaska, but Simplot, who own the John West brand, have now taken it offshore.

5

COMMISSIONER MARTIN: Right, so you only do the tuna now for John West? What about other costs?

MS TRAGAR: Ingredient cost, lately, with the drought.

10

COMMISSIONER MARTIN: Yes.

MR VALLANCE: Yes, and with the - - -

15 MS TRAGAR: The prices effect – because we are in a local region, we have a lot of freight having to come here and going out, so that is effecting us as well.

COMMISSIONER MARTIN: So what's – I mean, that was a good example you gave us on the tuna, what's happened on freight costs over the last year or two?

20

MS TRAGAR: Well, just levies have gone anywhere up from four per cent to 15 per cent on a fuel levy that we're paying.

25 MR VALLANCE: Then with just the general costs of transport, in general, have gone up over the last two to three years, and there's obviously a lot more pressure on at the moment with the price of diesel going up and international fuel.

COMMISSIONER MARTIN: So on the other side of the coin, then, how have the prices for your tuna product, have they been going up commensurately?

30

MS TRAGAR: They have been going down, in order for us to maintain the business, we've actually had to forfeit our margin in order to maintain the business, so they've gone down.

35 COMMISSIONER MARTIN: Okay, well, I was going to ask you a bit about margins, but we might leave that to a private session. But it's been heading south, that's all, in terms of – and is that the situation you face in going for another period, what are you competing against?

40 MR VALLANCE: All the imports from Thailand.

COMMISSIONER MARTIN: Which would - - -

45 MR VALLANCE: Basically the company that owns the John West brand can import at a greatly considerable – lesser cost, so if we want to keep the contract, then we have to lower our price, not to totally match it but to certainly not have them lose the opportunity to make as much money.

COMMISSIONER MARTIN: What has happened, moving further down the chain, what's happened at retail level for the canned tuna?

5 MS TRAGAR: We don't really have that much to do, we can just see from ourselves what we - - -

MR VALLANCE: What's in the supermarket, that's all we're aware of.

10 COMMISSIONER MARTIN: It hasn't been heading south though, I wouldn't have thought, with retail - - -

MS TRAGAR: There has been - - -

15 COMMISSIONER MARTIN: Or has it got more competitive?

MS TRAGAR: It is very competitive, the tuna.

COMMISSIONER MARTIN: At retail?

20 MS TRAGAR: At retail, extremely, given that the on shelf price can be – I think it's up to \$1.65 a can now, on special it goes down to 99 cents, if not 89 cents, so that's a huge reduction, so I don't know how they can afford to do that, given that the price of the fish has – that is the main component in the product, has gone up so much.

25 MR VALLANCE: It seems to be that tuna is one of those ones that they do the – the 20 odd specials.

30 MS TRAGAR: Yes.

COMMISSIONER MARTIN: Get the people in the supermarket - - -

MR VALLANCE: Tuna seems to be the 99 cent - - -

35 MS TRAGAR: Tuna and Coca-Cola are the two biggest drawcards, apparently.

COMMISSIONER MARTIN: Is that – well, have you done any research as to why tuna – tuna is very popular, or – we'll ask the retailers.

40 MS TRAGAR: Yes. We don't really have a marketing division, that's all done - - -

COMMISSIONER MARTIN: Yes. What about the home brands, do you do home brands?

45 MR VALLANCE: No.

COMMISSIONER MARTIN: Never thought of it?

MR VALLANCE: Well, we had been offered it, but the volumes we were offered weren't that great and the style of packaging they required would require a large investment.

5 MS TRAGAR: We can't compete.

COMMISSIONER MARTIN: The chains do seem to be moving pretty well in that direction, though.

10 MS TRAGAR: Yes, we just can't compete with prices for what they're getting out of Thailand.

COMMISSIONER MARTIN: Okay, what they're wanting. I think that probably covers most of the issues that I wanted to raise. Apart from I would like to ask you
15 some questions about margins.

MR HENRY: Ms Tragar, you've mentioned that you don't have much to do with the retail side, but I was just going to ask, do you have – of the retail dollar in tuna, do you have any idea about the break up, where that goes as far as down the chain?
20

MS TRAGAR: No.

MR HENRY: I mean, your share of that, or - - -

25 MS TRAGAR: No.

MR VALLANCE: We have no idea.

MS TRAGAR: We would like to know, but, yes, no.
30

MR HENRY: All right, okay.

MR ZHIVOV: I'll just ask a couple of quick questions.

35 COMMISSIONER MARTIN: Sorry, maybe I – sorry, Eugen Henry, I should have introduced you, and - - -

MR ZHIVOV: I'm Nathan Zhivov, I'm one of the staff of the ACCC as well. I just wanted to ask you a couple of quick questions about your pouch business. I noticed
40 that it's actually quite diversified, in that you've got quite a series of different people that you sell to. I'm just wondering, and maybe this is for private as well, but how does that effect your ability to maintain the line on your prices, the fact that you are able to sell to a range of different people in the pouch business?

45 MS TRAGAR: Well, it basically just increases volume and hence can decrease our overhead.

MR ZHIVOV: Okay. So I suppose what I'm asking, to be a bit more direct, is do you find that the price pressure you are facing in the pouch business is the same as the price pressure you're facing with competition for imports in the tuna canning business?

5

MS TRAGAR: No, no where near, no. With our pouch side of the business, the pouches only have a 12 month shelf life, so that greatly impacts getting imported product. The supermarkets have to have a certain length of shelf life when they receive the product, so that greatly effects it, whereas tuna doesn't really have a best before date. Five years minimum.

10

COMMISSIONER MARTIN: Before we go on to the confidential aspect, the one thing that I just wanted to cover off that struck me as the others were questioning you. The specifications in your industry, I mean, how much – what are the requirements in terms of health and quality aspects and how does that come into play with the importing because I would imagine fish canning, if it is not done properly, can be problematic?

15

MR VALLANCE: Yes, well, we have to meet all the Australian regulations but also we have to meet the requirements of the people we are processing on behalf of. In general terms, because of the sorts of companies we process for, the likes of Nestle, Cyrabus, Simplot, etcetera, their requirements are far higher than what the Australian Government and local requirements are.

20

COMMISSIONER MARTIN: So what sort of factors are involved in that? Just give us an idea?

25

MR VALLANCE: Well, we get audited every year and the whole of the premises is audited on food safety, all the processing records, full traceability, so if there are any issues, then there is full traceability for product recalls. All those various things, all the occupational health and safety issues, it is just a total complete package that you get audited on. It has got to meet their requirements and with the likes of Nestle that are worldwide, they have very stringent standards all over the world. So that is basically what we have to process to.

30

35

COMMISSIONER MARTIN: Well, I'm just going to have to ask everyone who is not connected with Port Lincoln Tuna's Processors and the ACCC – I think we will only be five minutes or so. So we won't be too long in terms of what we have got left.

40

CONTINUED IN TRANSCRIPT-IN-CONFIDENCE

CONTINUED FROM TRANSCRIPT-IN-CONFIDENCE

5 COMMISSIONER MARTIN: We'll move on and have the representatives of Clean Seas Tuna Limited. Gentlemen, thanks for coming in. If we could start off by your identifying yourselves, your organisation and your role in the organisation.

10 MR R. EMES: My name is Rick Emes, I work for Clean Seas Tuna as the sales and marketing manager.

MR F. KNIGHT: My name is Frank Knight, I work at Clean Seas Tuna as the company secretary and chief financial officers.

15 COMMISSIONER MARTIN: Thanks, and I just need 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. You understand that?

20 MR EMES: Yes.

COMMISSIONER MARTIN: Thanks very much, look, thanks for coming in and we thought it would be useful to start off – we did have a little conversation earlier – to describe how the company works, what it does and where it fits in to the chain?

25 MR EMES: Sure, Clean Seas Tuna is an aquaculture company based on Ayre Peninsula. Its primary activities are the propagation of Yellowtail Kingfish, propagation grow out of Yellowtail Kingfish and Australian Mullaway for sale into domestic market and also export markets. It is also heavily involved in the research and closure of the life cycle of the Southern Bluefin Tuna with the outlook to place
30 that species into an aquaculture growout environment for supply to markets, not only domestically but also internationally.

COMMISSIONER MARTIN: In terms of your supply arrangements, you are largely supplying to export?

35 MR EMES: The split between our business, domestic and export, is roughly a 50-50 split at the moment. We expect growth in our business to come mainly from the export arena.

40 COMMISSIONER MARTIN: Setting aside the export for the moment. On the domestic side, where does it go and who does it go to?

45 MR EMES: We grow the fish out here and we harvest the fish on a weekly – daily, weekly format – to supply fresh to the Australian domestic market. We harvest the fish, process the fish with contract processors, the fish is packaged and then delivered to Adelaide fresh fishmongers and wholesalers, fresh fish markets. It is delivered by

road to Melbourne, Sydney and to wholesalers into Queensland and a small amount going through to Western Australia.

5 COMMISSIONER MARTIN: We might just shut that door. So just to help me understand that the – you say it's contract processors, but who – you don't have any links, you just deal with the contract processors, or - - -

10 MR EMES: Yes, no, we – we sell direct to the wholesaler. We grow out the fish, we then harvest the fish, we hand those fish over to a contract processor. The contract processor's responsibilities are to cut that fish in whatever form that we specify for the end customer, and to package that fish and have that fish ready for delivery to market. We then employ a transport company to deliver that product to whoever the end customer may be.

15 COMMISSIONER MARTIN: Okay, so there's a range of end customers. Are they all wholesalers, or are some of them - - -

20 MR EMES: There's mainly all wholesalers, the vast majority would be fish wholesalers, our products are mainly positioned or sold into the food service and hospitality markets. A small percentage of the customers that receive our fish are fish retailers in the traditional form, whereas they have wet fish in the counter. We do supply seafood processors with product who then further value add that for supermarket retail sales.

25 COMMISSIONER MARTIN: So they then package it?

30 MR EMES: Exactly, yes, they have a contract arrangement with a company like Simplot or a company like Angelakis who has an arrangement with a supermarket, then they process that in the form that the supermarket wishes to buy it, and then they on-sell that to the supermarket.

35 COMMISSIONER MARTIN: Okay. I might ask you some questions about where costs occur in the chain, but perhaps we will do that in the private session, because it might reveal aspects of – about your own returns that you won't want competitors or others to know. Just while we're in the public situation, how – what is the – what do you see is the competitive landscape, who are your competitors, how does the competition in the market work?

40 MR EMES: With our product, like I said, our product is mainly targeted to that food service, hospitality area, so it's sold in restaurants and at functions and cafes and things like that. The main competitor to our product would be the Tasmania Agricultural Salmon, again it's sold in the traditional type markets, and that would be our major competitor from an agricultural point of view, but also wild caught fish species when they run in season is also a competitor.

45 COMMISSIONER MARTIN: Are any of the retailers a direct – have a direct contractual arrangement with you?

MR EMES: Not direct as such, no. Through other third parties.

COMMISSIONER MARTIN: I see. So through wholesalers and these packers.
5 Okay, so in terms of your costs, what has been the experience, I mean, what are the major factors in your type of business?

MR EMES: Processing costs are a major part, and also transport cost to get them to market.

10 COMMISSIONER MARTIN: So in processing, what drives it, labour, fuel?

MR EMES: Yes, labour, packaging materials. We actually process, at the moment, on the Air Peninsula, we process in Port Lincoln and we process in Wyalla, and current what happens with the packaging materials, it's transported from Adelaide
15 around to the Air Peninsula, the fish is packed in that, then the product is transported back to that main hub, Adelaide, where it's distributed out to market. So, you know, you're carting the product from one hub out to a remote region, and then transporting it back. So there's costs involved in that, labour, the acquirement of labour is a difficult thing with the processors, and the transport costs.

20 COMMISSIONER MARTIN: With labour, we have had some evidence yesterday that in a rural area, labour costs have gone up from 12, 14 an hour up to 18 – is that the - - -

25 MR EMES: Yes, those are the things that we're starting to see on a more regular basis. There's been a huge skill loss and labour loss to the mining industries, right, the wages that the mining industries are offering for workers these days, it's difficult for the fishing industry to compete with, so we're starting to see a drift of man power away into that other area.

30 COMMISSIONER MARTIN: So in areas like this, is something being done to address this, the labour issue?

MR EMES: Every company, we're looking to address it. We're looking to look at
35 different benefits that we can offer to employees, you know, rather than try to match the large dollars that the mining industry is offering, we're looking at different options. Our company has just recently taken on a human resources manager to start to assess all of these and see what we can do about maintaining skill base and labour.

40 COMMISSIONER MARTIN: In terms of the other side, the prices, has that been – have there been increases in prices in recent years?

MR EMES: No – prices for the product?

45 COMMISSIONER MARTIN: Yes.

MR EMES: Yes, prices for the product, they have fluctuated slightly, but overall they have been maintained over the last 24 months pretty stable, stable prices across the board.

5 COMMISSIONER MARTIN: Okay. So, yes, which is consistent with what the previous witness was saying. So you don't have any direct relationship with any processor?

MR EMES: Only in the way that we contract a processor to cut and package our
10 fish ready for the end customer.

COMMISSIONER MARTIN: Yes. Is there anything - - -

MR HENRY: Yes, just going back to the start, gentlemen, if I may. So of the three
15 fish species that you have, you may have mentioned, I apologise if I missed it, just domestically, you mentioned a 50/50 split domestic sales, overseas, is that representative across each of the three species or is - - -

MR EMES: No, that's a split on the yellow tail kingfish and the Australian
20 mullet. Clean Seas Tuna, as such, does not offer for sale a southern blue fin tuna - - -

MR HENRY: Domestically?

MR EMES: Domestically or internationally. Another private company, Australian
25 Tuna Fisheries, which is privately owned by the Steer family, who are the major shareholders for Australian Tuna Fisheries, the major shareholder of Clean Seas Tuna. We ranch southern blue fish tuna and export 99.99 per cent of those to the Japanese and European, USA market.
30

MR HENRY: Okay. So it's really just the mullet and the kingfish that are - - -

MR EMES: Major domestic sales, yes.

MR HENRY: On those two species, you're competing against the imported product
35 equivalent, flavoured fish - - -

MR EMES: No, the – the yellow tail kingfish is a species native to Australia, and,
40 you know, there are season when – right at the moment is the season on the east coast for yellow tail kingfish, where they are heavily capturing those now and putting those into the market, so, you know, that's just a natural resource that we compete against from an agricultural point of view. Our main competition in agriculture is the Atlantic salmon out of Tasmania, barramundi out of far north Queensland, Northern Territory, which is an agricultural species, those are the main areas, you know, ocean
45 trout of Tasmania.

MR HENRY: So just returning to the mulloway and kingfish, if there was some sort of broader, you know, white fish market on the shore - I mean, does imported fish impact on your business, is it a constraint on pricing, etcetera, or it's not a factor?

5 MR EMES: Yes, look, as our business is growing and it starts to broaden its market base and starts to look at opportunities in the retail segments, a la with the major supermarkets, yes, we will be competing against those cheaper imported white fish products that come in from overseas, a la the tilapia, the Nile perch, all of those things that are sold in the supermarkets. Considerably cheaper product than what we
10 do, not as higher quality product as what we do, our products are fairly highly ranked culinary product, as far as the Japanese cuisines are concerned, and we're also looking to put that product into more white tablecloth restaurants, the more western style cuisine. So we're competing with that white fish.

15 MR HENRY: So did you say you are looking to expand into - - -

MR EMES: Yes, the Clean Seas - - -

MR HENRY: Your product in the retail - - -
20

MR EMES: The Clean Seas business is rapidly growing, we're increasing our business by 50 to 100 per cent per annum, that's not only in the domestic market, we're attempting to do that, but also into export markets. As we broaden from the food service hospitality area into retail, we understand that we'll be competing with
25 those other products.

MR HENRY: Yes. Mr Emes, how - by what method does Clean Seas and its affiliated companies - is it a difficult process for you to sort of move into the retail sector or I mean is it a different supply chain, etcetera, or how does that process
30 evolve?

MR EMES: Yes, look, as our business evolves, you know, part of the process to get there is product development. Clean Seas with the yellowtail kingfish is relatively a young business. Obviously, we've targeted that food service of hospitality area
35 through wholesalers and food service distributors. We need to develop products that - with our kingfish and our mulloway that suit that retail environment and it's going to be challenging, yes, it will be.

MR HENRY: Have you approached any of the major grocery retailers?
40

MR EMES: We supply fish that are processed by Simplot, right, for sales throughout Coles supermarkets, so in a small - and that's about 2 ton of whole fish per week - so in a small way there is kingfish already started to get out there into that retail environment and we do supply fish to Angelakis Brothers in Adelaide and
45 some of those fish do end up in some of the Woolworths supermarkets and Foodland stores.

MR HENRY: Okay, but directly Clean Seas hasn't entered negotiations or hasn't approached?

5 MR EMES: We do not have – no, no direct relationship with the supermarket chains at all.

MR HENRY: When you do there are various avenues that you could go down as far as to get your product into the supermarkets, could you go via a wholesalers or intermediary type body or also direct to a major chain. Or how would that - - -

10 MR EMES: That's an issue that can be addressed with different brands. But, yes, that is potentially possible.

MR HENRY: Okay.

15 COMMISSIONER MARTIN: But you haven't, for instance, had a retailer come and raise with you doing one of their brands?

MR EMES: Not directly, no.

20 COMMISSIONER MARTIN: Look, just going back up the chain, the sustainability, the increases that you're enjoying, can you tell us a bit about how you are developing the sustainability of the - - -

25 MR EMES: We're developing larger networks of wholesalers and importers internationally. We have people on the ground in Europe who are developing a network of major importers in most European countries and from that network we're expecting sales and increases in volumes to filter down through that network that we're working on. We're doing the same in the USA. We have a network of

30 importers in the South-East Asian region that we've been supplying with a volume of fish. Our production is lifting on an annual basis and we're working closely with those network of importers to get out and market our fish more to the food service, hotel chains, all those sorts of areas to increase the volumes in the sales of our products.

35 COMMISSIONER MARTIN: I was getting a bit – how you're going to supply all this demand?

MR EMES: We have our own hatchery, we increase the production of fish, so we

40 put more fish in the water each year.

COMMISSIONER MARTIN: Yes. But, that seems to be the key to what you're doing, but you are able to – we're in a situation where some of these species are difficult to get you're succeeding in - - -

45 MR EMES: Yes, well, the problems from Port Lincoln Tuna Processors being able to procure raw material, the aquaculture industry actually solves a lot of those issues,

right, because we can produce what we require for the market, so there is an ability there to satisfy market demands just by ramping up production.

5 COMMISSIONER MARTIN: So your growth in production has been quite significant over the last, what, three or four years?

10 MR EMES: Yes, yes. If you go back three years ago we were probably harvesting and selling on a weekly basis, maybe 5 ton of whole fish and now we're currently harvesting in the vicinity of 50 to 55 ton per week of whole fish.

COMMISSIONER MARTIN: Look, is there nothing else?

15 MS TEO: Just a quick question. What would you say is the main difference between the international market and the domestic market in terms of competition and margins?

20 MR EMES: Look, from an international we – one of the issues that keeps raises its head as far as the EU market is concerned is the import tariffs over there, 15 per cent on yellowtail kingfish is what the importers have to pay and also 22 per cent on southern bluefin tuna. So they're issues that we're facing all the time and we're currently in a lobbying process to try and lessen those import quotas or remove them altogether, so that our product is more competitive in those international markets. EU is the main one. The USA market, there aren't any real barriers there at the moment, except that the USA import a lot of cheaper product. The USA market is more a commodity driven market, so we have to be very price conscious and price competitive when we move into that market. EU tariffs, South-East Asian, that's just a high degree of marketing to get our product better known in those markets, in those areas.

30 COMMISSIONER MARTIN: So, yes, you seem to be saying then that you've got a highly competitive product, there are just barriers?

MR EMES: Yes, in certain markets.

35 MRS YEO: Okay and as far as the distance of Australia from the rest of the world is that a major factor?

40 MR EMES: Yes, freight – obviously we have to transport our product a long way. We supply fresh chilled product through to Europe, USA and South-East Asia, that's all by air freight – chilled air freight. The air freight costs are expensive. We're now beginning to process and freeze and sea freight product through to Europe, USA, obviously it's at a lower cost and the way we're actually processing our product and packaging it now we're finding success in that and we're obviously – the product is more affordable to the end user in those markets or the importer.

45 MS TEO: Thanks, that's all.

COMMISSIONER MARTIN: Well, we might now just go on to the private session if we could, which is just the Clean Seas and ACCC people.

5 **CONTINUED IN TRANSCRIPT-IN-CONFIDENCE**

CONTINUED FROM TRANSCRIPT-IN-CONFIDENCE

COMMISSIONER MARTIN: Well, we'll move straight on. We've now got the representative of the Eyre Regional Development Board. If you could identify
5 yourself and the organisation and your role in it.

MR CANT: My name is Mark Cant. I'm chief executive officer of the Eyre Regional Development Board in Port Lincoln.

10 COMMISSIONER MARTIN: Thanks, for coming in, Mr Cant. I just need to remind you, for the record, 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 about which the evidence is misleading. Do you understand?

15 MR CANT: Yes, I understand.

COMMISSIONER MARTIN: Thank you. Look, maybe you could just give us an idea of what the Regional Economic Development Board does and clearly you sit in a good position in terms of both things that come into the region and things that go
20 out of the region. If you could explain the role of the board?

MR CANT: Okay. The original board has been in inception since 1993. It covers an area between just south of Whyalla to the West Australian border and obviously to the southern part of the Eyre Peninsula at Port Lincoln. It's an area of about
25 55,000 square kilometres. It's main industries are agriculture, fishing and aquaculture, mining, renewable energy. We get focused on infrastructure needs, employment and skills, labour force, workforce issues, political issues at times. We help industries or associations lobby certain areas but we also help with export markets as well.

30 COMMISSIONER MARTIN: In terms of activities within the region, is the supply of – or the retail of groceries has that come across your radar screen in terms of issues?

35 MR CANT: Yes. If it do a presentation, I really want to get into the issues, I suppose, that the whole industry faces whether it's agriculture or seafood, our main industries, and their supply of goods going out of the region but also goods and services coming into the region. I'll just go back. Agriculture in this region is worth
40 about \$450 million and produces about 40 per cent of the whole state's grain product and they basically cover wheat, barley, canola and pulse crops. Seafood and fishing – and it's been incredible growth from that sector alone – but it produces about 80 per cent of the total state's seafood and they cover tuna, prawns, lobster, abalone, oysters, mussels, yellowtail kingfish and deep sea trawl fish and scale fish. They are our dominant food industries.

45 Eyre Peninsula is located in a very remote part of South Australia, in the far west of the state itself, and obviously that brings down challenges in tyranny of distance.

When you've got distance of about – you know, from Lincoln to Adelaide about 660
ks, so that has a cost to the industry. I want to talk about - - -

5 COMMISSIONER MARTIN: Just on that, is it largely sea freight or land? I mean,
what's the most costly?

10 MR CANT: Because of our isolation, we have an independent railway network on
Eyre Peninsula. It's not connected to the national grid at all so that railway network
is there dominantly for the grain industry and also provides a service in the far west
to the mining sector. The sea freight itself, the only goods and service that really
15 come in this region for sea freight is fertiliser and fuel and for export of grain and
minerals going out of the region and to a lesser extent, sometimes we might see the
tuna cannery bringing, you know, a supply of, say, 3000 tonne of tuna loins or tuna
whole fish that are supplied to the region.

20 Other than that, some tuna for export to Japan is freighted out through the Japanese
trading companies via sea freight but they'll come and process – they're a processing
boat and they'll come here during the tuna harvest and there might be two, three of
those boats come in a season. The majority of goods and services are actually road
freighted into the region and road freighted out of the region, both interstate and
intrastate. That's why, you know, the recent – I want to get into the recent decision
of the Australian Transport Council v ATO in February. Its increased registration
and fuel charges will drive an already increasing freight costs and charges and we'll
ultimately realise at the supermarket at the end of the day in prices and push inflation
25 pressures to a greater demand.

The increased charges amount to approximately \$170 million in additional tax hike
and the target of those additional charges is directly going to the most cost efficient
transport mode where significant investment has been made by companies - - -

30 COMMISSIONER MARTIN: The 170 million is on what?

MR CANT: That is on the registration fees and also - - -

35 COMMISSIONER MARTIN: But for whom, for the state or this region or - - -

MR CANT: No, across Australia.

40 COMMISSIONER MARTIN: Across Australia?

MR CANT: Yes. Across Australia.

COMMISSIONER MARTIN: Okay.

45 MR CANT: The target of that - the target, however, is the most cost effective
transport sector, where those companies have invested significant amount of money
into – to remain competitive, and through the investment into multi combination

transport units, and they were AB doubles, which has a gross mass of 62 tonnes, road trains, about 54 tonnes, and B doubles, with 42 tonne gross mass. The registration fees for B doubles will double over the next three years. I'll give an example. B doubles, currently, their registration fee is \$8041. In year 1, it will be \$9330, by year 3 it will be \$14,340.

For a road train, it will go from \$8731 to \$10,390. The registration fees increase will be followed by a 1.365 cent per litre tax height in diesel which comes in effect as of January. This charge has been indexed for the first time, meaning that the automatic annual increase rises will occur. These charges do nothing to curbing inflationary pressures that are already – inflationary pressures where consumers will ultimately pay at the end of the day, for every goods and service, and in turn will send spiralling inflation upwards. The trucking company currently manage the freight task as with limited profit margins, and are not able to absorb those additional costs.

Over the past few years, the majority of the freight companies have introduced what we call a fuel levy, whereby the companies have selected a benchmark, in other words, they've identified a benchmark at a point in time, so the price of fuel for that month was \$1.30, and that's the individual company's benchmark. For their operation each month they calculate a fuel levy, and that's an additional charge over and above their benchmark. Present freight costs, in 2004, Port Lincoln to Adelaide, we were looking at a \$50 per pallet freight. In 2008, Port Lincoln to Adelaide, it's \$77 plus fuel levy, plus GST. So the GST goes on top of the fuel levy, so it's a levy plus – so it's freight, pallet, plus, plus.

COMMISSIONER MARTIN: Sorry, but are we comparing the \$77 to the \$50?

MR CANT: No, I'm just saying, that's – this is where the industry has gone. So back in 2004 - - -

COMMISSIONER MARTIN: But are you saying in 2004, it was \$50 per pallet.

MR CANT: Yes.

COMMISSIONER MARTIN: Now it's \$77 per pallet.

MR CANT: That's correct.

COMMISSIONER MARTIN: That a lot of that is tax.

MR CANT: With the additional charge of a fuel levy on top of that.

COMMISSIONER MARTIN: On top?

MR CANT: That's correct.

COMMISSIONER MARTIN: So what, how does that translate to - - -

MR CANT: Well, today, costs are \$77 plus the \$14 – this month, for one company, it's 14.7 per cent, which is \$11.32, so that equates to an \$88.32 pallet rate, plus you've got the GST component on that, so it makes \$94.31 – sorry, \$97.15 which is a 94 per cent increase in freight since 2004.

5

COMMISSIONER MARTIN: This is road transport?

MR CANT: Road transport.

10 COMMISSIONER MARTIN: What happens with rail?

MR CANT: Well, rail we only freight our grain, and that has certainly had - - -

15 COMMISSIONER MARTIN: But if these costs are going in that direction, maybe rail will be - - -

MR CANT: This region is not connected to the rest of Australia by rail.

20 COMMISSIONER MARTIN: So where's the grain - - -

MR CANT: The grain – this region operates on a narrow gage rail system, it's not on a standard gage, but it – only extends as far as the northern grain growing region at Kombah and - - -

25 COMMISSIONER MARTIN: So the grain all comes into the Port Lincoln - - -

MR CANT: Correct, it either goes to Curbinade or it goes to Port Lincoln.

30 COMMISSIONER MARTIN: Okay.

MR CANT: It's not connected to the rest of Australia's network, so there's no choice, that's what I'm getting at. In regards to Adelaide to Port Lincoln, the freight rate is \$54 plus the fuel levy plus the GST, so \$54 plus \$7.94 for this month, plus the GST amounts to \$68.14 for a pallet of freight coming into the region. So, I mean, they have direct impacts on – whether it's building supplies or it's input materials for packaging or getting freight out of the region for sale, for market. Due to the relying on having an effective road transport for the transport of goods and equipment to the region, and for the transport of produce being livestock and seafood, both interstate and inner state, the regions rail system is not connected, as I've previously stated.

40

The average expenditure for a return trip from Port Lincoln to Adelaide and return on fuel usage alone is about 950 litres to 1000 litres, depending on if there's wind, because wind has a direct impact on fuel usage. At \$1.70, it equates to about \$1700 per trip just in fuel. This impacts directly on the cost of supplying seafood from Ceduna, Smokey Bay, Coffin Bay, Port Lincoln, where the touring distance is always a challenge. In relation to livestock, or supply of red meat to the area, continued fees and charges of those raw products is a key issue. I'll just give a case study. Sale of

45

135 prime lambs at \$84, the commission, the charges, insurance and cartage equated to \$1691. So that's just over - - -

5 COMMISSIONER MARTIN: Can you just say that again, the – what's the example?

MR CANT: For prime lamb going out of this region.

10 COMMISSIONER MARTIN: Yes.

MR CANT: 135 prime lambs, they average \$84.

COMMISSIONER MARTIN: Each?

15 MR CANT: Each. Less all the commission, charges that impact on – that the growers have to absorb, it equates to \$1691.34, so that comes off the \$84.

COMMISSIONER MARTIN: Do you know what it is per lamb?

20 MR CANT: Per lamb itself? I haven't – I didn't bring my calculator.

COMMISSIONER MARTIN: All right, that's okay.

25 MR CANT: But in relative terms for live weight, the prices actually come down. It was \$4.20, it's down to about \$3.20 at the present time. But that's not reflective in the supermarket at all, or at your butcher shop. So it's the charges in between or the margins in that supply chain that is having a direct effect. I'd say that, within this state alone, we have two main red meat abattoirs, TNR and Tattiya, both are located in the southern part of the state, being at Murray Bridge and Naracoorte. Previously
30 the expert abattoirs operation at Port Perry was in operation and provided service to the northern pastoral, mid north, Air Peninsula and York. That was purchased by TNR and closed down as a deliberate – how do you put it – strategy to ensure less competition within the state. Then - - -

35 COMMISSIONER MARTIN: So, just to explore that a little bit, where was that abattoir?

MR CANT: At Port Perry.

40 COMMISSIONER MARTIN: Are there no other abattoirs at Port Perry?

MR CANT: No, no.

45 COMMISSIONER MARTIN: So what's the nearest abattoir?

MR CANT: Nearest – largest abattoir is Murray Bridge, which is another about 100 K's further than Adelaide.

COMMISSIONER MARTIN: I mean, there has been a process of abattoirs closing throughout Australia, was this – so TNR own the one at Murray Bridge, do they?

MR CANT: Correct.

5

COMMISSIONER MARTIN: Where's the nearest one beyond that?

MR CANT: That would be at Naracoorte.

10 COMMISSIONER MARTIN: Which is where?

MR CANT: Which is on the South Australian, Victorian border, just adjacent to that.

15 COMMISSIONER MARTIN: Yes, okay, thank you. Keep going.

MR CANT: Okay. The pressures on compliance costs for local butchers has also impacted on the region, and we've had several local butchers and abattoirs close down, and it's inspections, the quality assurance, the pressure on getting labour force, they're key issues in maintaining local abattoirs in operation.

20

COMMISSIONER MARTIN: So just on abattoirs, the point you're making is that abattoir costs are rising?

25 MR CANT: I'd say pressure on abattoirs – yes, in compliance costs, inspection costs.

COMMISSIONER MARTIN: Yes, but the – are the – are you suggesting that TNR put up their costs of actually killing the animals?

30

MR CANT: I'd say that the way we're going, there's less competition in the abattoirs itself, less competition in the market, more dominated by a couple of companies within the state, and that obviously reduces competition.

35 COMMISSIONER MARTIN: How many abattoirs are there in the state now?

MR CANT: I couldn't say how many, like small abattoirs, I'm not including those, yes. But - - -

40 COMMISSIONER MARTIN: When you say registration or fees for wholesale butchering, is it?

MR CANT: Yes.

45 COMMISSIONER MARTIN: What is the example of that? The registration fees have gone up or - - -

MR CANT: Yes, the compliance costs, the – yes.

COMMISSIONER MARTIN: Compliance costs?

5 MR CANT: Yes.

COMMISSIONER MARTIN: What are they?

10 MR CANT: Like inspection costs, documentation. You know? The list is extensive.

COMMISSIONER MARTIN: Do you have examples of that?

15 MR CANT: No, I – I mean, I haven't got them with me, no.

COMMISSIONER MARTIN: This is – so, anecdotally, they are getting - the regulatory burden or the cost of the regulatory burden is going up significantly?

20 MR CANT: Yes. That is putting huge pressure on the local abattoirs to maintain – even to be open, yes. Individual operators or operators that operate under a partnership, supplying a local community with – as a local abattoir are under significant pressure, yes. Okay?

25 I will talk about the grain industry. Just following the deregulation of the grain marketing handling system, grain growers have faced an additional increase in costs over the last two years. 17 per cent for both those years in handling costs. That was in the 2006 and 2007 season. Effectively, those two seasons being drought periods. The issue with the storage and handling being that growers have limited option as it is dominated by AVB Grain. They have basically the whole bulk handling supply
30 chain across the state of South Australia.

COMMISSIONER MARTIN: Is the 17 per cent costs, is that storage and handling or - - -

35 MR CANT: Yes, storage and handling costs.

COMMISSIONER MARTIN: Okay.

40 MR CANT: Okay.

COMMISSIONER MARTIN: Does that have other costs that would have increased as well?

45 MR CANT: Yes, transport costs would have increased. Correct. Yes. It is the storage and handling I want to talk about.

COMMISSIONER MARTIN: Yes.

MR CANT: The charges remain the same for storage and handling, whether you deliver up country. In other words, if you deliver to your local silo site or you deliver directly to port. Now, obviously there is a saving if you deliver direct to port for the company but they don't reflect that in their charges. The charges at the moment are \$17.09. So, there is no incentive for any grower to deliver direct to the port facilities or to - - -

COMMISSIONER MARTIN: That is per ton, is it?

MR CANT: Yes. Or to store their grain on farm and then to deliver after harvest has occurred. Okay? There is new innovation within the storage/handling system, particularly within Argentina and Brazil with the silo bags themselves. They are like a - if you can imagine a sausage, but a large sausage. They hold about 200 tons. Farmers over there, farmers have adopted the system, and there is over - one company alone stores 30 million tons in these silo bags. If a system of changing the charges particularly at port, it would provide an incentive for growers to actually invest into this alternative.

More recently, just due to the adversity in the charges and the loss of control, growers across the Eyre Peninsula have formed a new organisation called Free Air. That is basically to address some of the inherent issues about marketing, storage and handling that impact on their individual enterprises. These include fertilizer and chemical charges. In 2005 this region was paying about \$390 for fertilizer. In 2006 it was 485. In 2007 it was 525. This year alone, if you bought fertilizer today it is \$1450 per ton. A lot of that is just through the dominance of - what do you call it? Consolidation of corporate companies and having that market power. The same effect - - -

COMMISSIONER MARTIN: Are these not - when you say the domination, are these not importable, these fertilizers?

MR CANT: Yes, they are. The issue the farmers have is that they can't get a price and then they are forced to make a decision within a very short time. The companies will post a price. Like in December you couldn't get a price. January, you couldn't get a price. February, you couldn't a price. It was early March that they actually released their prices. Those that supply the fertilizer, they all release their prices within one or two days of each other.

COMMISSIONER MARTIN: Is there an international price for fertilizer? I mean, is this - - -

MR CANT: No.

COMMISSIONER MARTIN: Is this just what the local companies - - -

MR CANT: What you see is I think most of the companies would sit and wait until the dominant player actually puts their - posts their price into the market, yes.

COMMISSIONER MARTIN: So, what you are suggesting here is that there was potentially tacit collusion in the – until the biggest player put their – posted their price. The others didn't move. Then they all placed at the same price?

5 MR CANT: Pretty much. The farmers feel that pressure. That they are not guaranteed even receiving their fertilizer. So, they have to make a decision with a very short time frame, yes.

10 COMMISSIONER MARTIN: They don't – there weren't options – I would have thought a group – you are talking about this Free Air Group. Why don't they get together and just import their - - -

MR CANT: That is definitely one of their objectives, yes.

15 COMMISSIONER MARTIN: Because they are quite entitled to do that. Particularly if they want to be a bit more pro-active, they could get immunity under the Trade Practices Act if they put a collective bargaining group even with these - - -

20 MR CANT: That is right. That is correct. Yes, they work on a model that has been implemented in Western Australia as a grower buying group, yes. Just because they can wrest some of the control that has previously been taken away from them and to remain competitive in their own enterprise - that they have been challenged to look at these issues.

25 COMMISSIONER MARTIN: Because this would be the issue the Chairman of the ACCC has been at pains to say there is an opportunity there. At the growing end, I think that – I have been thinking about it for a while and it is pleasing to hear that – so, this is an Eyre region group, is it?

30 MR CANT: Yes, that is correct.

COMMISSIONER MARTIN: You mention the – just back to what you mentioned about the packaging, the South American approach, the innovation there. Is this another area that the group are going to take on or - - -

35

MR CANT: Most definitely. The key issue is to be able to deliver to port and when you are dominated by one party at port and they reflect the same charges at port as they do up country, there is no incentive for farmers to implement another system.

40 COMMISSIONER MARTIN: Yes. Well, once again, it appears as though there might – the bargaining or negotiation sort of relativities may be addressed if they do it as a group as opposed to as individuals.

45 MR CANT: It is difficult to understand how – within the wine industry, they – you have – in delivery to a processor, you will get nominated a time to actually – for deliveries. Now, the same could be implemented to farmers. It is difficult to understand how a company can charge the same if you deliver say to Port Lincoln

when they are only handling the product once – they don't have to handle it twice.
How they can reflect that same charge.

5 COMMISSIONER MARTIN: Well, it sounds unusual. Sorry. You mentioned
fertilizers and chemicals. They are both ones this group is looking at?

MR CANT: Yes. A knock down chemical like Roundup, glyphosate, you know,
that – in 2005 it was \$75.0. Today it is \$15. Last year it was \$7.25. It has doubled
10 in price in 12 months. Obviously they puts severe - - -

COMMISSIONER MARTIN: This is the glyphosate?

MR CANT: Yes. It is a knock down chemical to – you know, for weeds. Like
15 when weeds first come up.

COMMISSIONER MARTIN: What is the – 7.50 is per?

MR CANT: Per litre.

20 COMMISSIONER MARTIN: Okay. It doesn't retail for that much more than that.

MR CANT: No, that is right. These pressures are putting an additional impact on
growers and added with that the climate variability or change is going to put pressure
25 on marginal country to the north and farmers will obviously be looking at longer
term and how much they actually crop because there is a huge risk with some of that
marginal country where they actually put that into a cropping program with those
costs.

30 COMMISSIONER MARTIN: What are – the crops are basically grains, are they?

MR CANT: Grains, yes.

COMMISSIONER MARTIN: Yes. No beef or – do you have beef?

35 MR CANT: Yes, we have got a small beef industry, yes. Mainly sheep, yes. I just
want to also give an example in one area in regards to the dominance of Coles and
Woolworths and in Port Lincoln. We had a local company that owned a local flour
mill and also owned a local bakery. Now, that company was seeking to supply bread
40 into both those stores. They were asked – the only way they could supply the store
itself was to – if they would go and actually fill their shelves. So, morning and night,
they had to actually go and fill their shelves. All right? Where clearly the other
competitors like Buttercup, Tip Top and the like, it was done part of the operation of
managing the store. It shows the challenges that a small company or a small
45 producer within a regional area has in supplying goods or food to a major retailer.

COMMISSIONER MARTIN: Yes. So, is that local bakery still supplying Coles
and Woolworths?

MR CANT: No, it has actually closed. It closed December last year, yes.

COMMISSIONER MARTIN: Is this – perhaps we might get some more details on that because this is something I don't think we have necessarily heard of until today.
5 Are you suggesting the closure was - - -

MR CANT: I just – I mean - - -

COMMISSIONER MARTIN: Had they previously retailed or what?
10

MR CANT: They were retailing obviously through – like seven day stores, other smaller independent supermarket chains. Clearly the biggest supermarket chains are Coles and Woolworths within Port Lincoln itself. Obviously the synergy between having a flour mill only 50 kilometres from Port Lincoln, having raw supply within
15 the immediate area and also having a bakery in Port Lincoln, you would think it was going to be competitive, yet larger bakeries were supplying bread from – or are supplying bread from Adelaide. They truck it around daily in vans, in designated vans. So, Tip Top run their own truck. Buttercup run their own truck. Yet clearly
- - -

COMMISSIONER MARTIN: So, they run their own truck to here?
20

MR CANT: Correct.

COMMISSIONER MARTIN: Your evidence is that – or you have been told that
25 the local bakery had to fill the shelves themselves.

MR CANT: Yes, the only way they could supply the supermarket stores was actually they had to go in morning and night, fill the shelves. Then what happened
30 during the day when the shelves were empty, that was just left empty and obviously consumers then had limited choice.

COMMISSIONER MARTIN: We have had evidence from other bread suppliers who have also told us that they have to – at least one of them, the retailers make them
35 fill the shelves themselves. So I'm not sure exactly what the policy is and we will check with the chains but we do have evidence that is a policy of the chains, to get the suppliers to fill those shelves. So I am not sure what conclusion we can draw on that.

MR CANT: I mean, it just goes to show that when you even have a smaller integrated business, the challenges they face in supplying the major supermarket chains when they dominate the market.
40

COMMISSIONER MARTIN: Sorry, when you talk about dominance, what is the
45 situation here? Are there no independent stores in - - -

MR CANT: There are smaller IGA stores, correct, but obviously the majority of consumers access both Coles and Woolworths. The majority of the sales would be through those two outlets.

5 COMMISSIONER MARTIN: And are you – I mean, what is the view in terms of the location of the chains in Port Lincoln? Are you saying that this is not a welcome thing in Port Lincoln?

10 MR CANT: No, I'm just saying that there is – it certainly puts out challenges to small producers of food to get access to the shelf or the shelf space of major retailers. Obviously, the strategy of most of the major retailers is less suppliers and larger scale.

15 COMMISSIONER MARTIN: Okay, thanks for that.

MR CANT: I will leave it at that.

COMMISSIONER MARTIN: Now, in terms of grocery prices in the area - - -

20 MR CANT: Probably the wrong person to ask.

25 COMMISSIONER MARTIN: Well, you have told us a lot about transportation costs. Clearly, there are greater costs for goods to be in Port Lincoln than, say, in Adelaide. Does that reflected or are you not particularly aware of grocery prices in Port Lincoln?

MR CANT: I'm probably not the main shopper in our family so - - -

30 COMMISSIONER MARTIN: You should have brought your wife.

MR CANT: Yes.

35 COMMISSIONER MARTIN: Okay, so I won't ask you any questions – I mean, you have given us some very helpful evidence on the transportation costs generally and we might follow up on some of those specific road costs, the new imposts and where they are coming from. You mentioned - - -

MR CANT: The main issue of transport is there is no alternative for this area.

40 COMMISSIONER MARTIN: In terms of rail.

MR CANT: Yes, in the terms of transport alone, yes.

45 COMMISSIONER MARTIN: In terms of sea freight, that's not viable for things like the sort of things that are between Port Adelaide and here?

MR CANT: Port Adelaide and here, it would take probably an 18 hour journey for an operation and it used to have a shipping service that used to come to this region and Kangaroo Island that obviously – and it was subsidised by the government. Road freight you can deliver, say, to Adelaide probably within seven and a half hour
5 timeframe. When you have got time sensitive goods like seafood, I mean, that's critical in its pathway.

COMMISSIONER MARTIN: Any questions.

10 MR HENRY: Thanks, Commissioner. Mr Cant, my name is Eugen Henry, I'm a staff member with the Commission. Following on from the discussion about the retail outlets in your jurisdiction. In the bigger centres such as Port Lincoln – and I must admit I am not sure of the other major population hubs within your jurisdiction – how well serviced are they by grocery retail outlets? Be they a major chain or
15 independents?

MR CANT: Yes, there certainly is a – in the wider region not the smaller communities – spread of IGAs and Foodlands across the region itself. So they dominate those communities. So most communities would have one or two of those
20 stores at least. Certainly, in Port Lincoln we have the dominant retailers, yes, and that provides benefits. There is not question that they do provide benefits.

MR HENRY: And as far as – just turning to – are you aware of any of the planning regulations inn the Port Lincoln region or the local council – have you heard – I
25 mean, is access to appropriate sites an issue for any of the majors or independents? Is that an issue?

MR CANT: Yes, it has been an issue. We have resolved probably a new Foodland being established in Liverpool Street. So that will give consumers a wider choice.
30 That will be a large scale Foodland supermarket. Talking about out in the wider reach – probably other areas, just fresh vegetables and fruit is a major issue in getting those to a lot of those smaller communities.

MR HENRY: Sorry, you mean in a transport sense or in a getting for an
35 independent fruit and vegetable outlet or - - -

MR CANT: Just getting quality of supplies is probably the – there seems to – most of the issues are, in the smaller ones, they probably get seconds or thirds in the standard of fresh fruit and vegetables just because it is small volumes, yes.
40

COMMISSIONER MARTIN: Do they come from Adelaide?

MR CANT: Yes.

45 COMMISSIONER MARTIN: So that's unlike the bakery, there is not local fresh fruit and - - -

MR CANT: Very small scale, you know, we have probably got - - -

COMMISSIONER MARTIN: Because we know the chains do accommodate that if they are available but obviously that's not a - - -

5

MR CANT: We have only got one or two fruit producer market material and that issue is related to water, access to water.

COMMISSIONER MARTIN: Yes, okay.

10

MR HENRY: So when you say there was an issue with the Foodlands that opened in Liverpool Street. Could you be more specific there? What was it?

MR CANT: It was basically trying to get available land and there had to be rationalisation of several operators and they had to be relocated and the developers achieved that. So it will be under construction in the next few months.

15

MR HENRY: So that wasn't a council barrier or people objecting, parties objecting, it was more a pure logistical matter of - - -

20

MR CANT: Yes, probably there is certainly a tightness in availability of large scale land like when you are talking three, four thousand square metres of retail space in one location in the CBD, that is an issue, yes.

MR HENRY: Thank you.

25

MR CANT: Plus car parks.

COMMISSIONER MARTIN: So you are saying that there is a Woolworths, a Coles and a significant IGA?

30

MR CANT: No, there's a smaller IGA in Port Lincoln.

COMMISSIONER MARTIN: Okay, so not a – just a small IGA.

35

MR HENRY: What size is the Foodlands, did you say?

COMMISSIONER MARTIN: Sorry, I meant Foodlands, sorry, Foodlands?

MR CANT: The proposed Foodland would be about – I think, it's just under three thousand square metres.

40

COMMISSIONER MARTIN: That's significant, and there's a Coles and a Woolworths of that size as well.

45

MR CANT: Yes.

COMMISSIONER MARTIN: It seems a lot of retail groceries then. Nathan, Shelly?

5 MS TEO: I would like to ask him a question. You mentioned that the increasing input by push some smaller player out of the market. I just wanted to ask whether you think or know whether a large player increase their price due to the lack of competition in the marketplace?

10 MR CANT: Sorry, you were saying?

MS TEO: You mentioned that the increasing input price pushed some small players out of the market such as butchers and such.

15 MR CANT: Okay, yes.

MS TEO: Would you say that the lack of competition - - -

20 MR CANT: I think what it reflects is, you know, there is obviously – having a dominant abattoir industry, whilst we have had high prices in red meat and everyone would realise, you know, when you go and buy lamb chops now you are paying \$22, \$24 a kilo. Those prices are not being reflected back to the grower and in the last six to seven months the price of lamb has come down from the peak at \$4.20 to \$3.20 and whilst those prices at the retail end aren't coming down.

25 MS TEO: Okay.

MR CANT: So you can surmise out of that. There is obviously increased margin in the supply chain.

30 MS TEO: Just one more question. Will you be able to compare the prices in Adelaide in the supermarkets compared to Port Lincoln, for example?

35 MR CANT: I think, well, put it this way: Port Lincoln would be competitive, I would say, to Adelaide, certainly, to a lesser extent in some of the smaller communities.

COMMISSIONER MARTIN: So despite these transport costs, the - - -

40 MR CANT: I would certainly say some of the goods like – the buying power of, certainly, Woolworths and Coles for some goods and services is of benefit, yes.

MS TEO: Thank you.

45 COMMISSIONER MARTIN: Okay, look, thanks for that. Just in terms of the Ayre Regional Development Board, how does that operate? Do you have a board and - - -

MR CANT: Yes, we have got 15 board members and that is spread across the entire region and they are made up of different industry sectors and business representatives. We are funded through both state and local government so we have 10 local governments across the region that contribute a third of our operational costs.

COMMISSIONER MARTIN: That's a big area to cover, 55,000 square kilometres.

MR CANT: Yes, it is the size of Tasmania for one region.

COMMISSIONER MARTIN: Well, thanks very much for coming in, Mr Cant.

MR CANT: Thank you.

COMMISSIONER MARTIN: We will close the hearing with that being our final witness, thank you very much.

MATTER ADJOURNED at 11.41 am INDEFINITELY