

Public Submission
to
ACCC Grocery Inquiry

By

Southern Sydney Retailers Association Ltd

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On

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**How Much More do Australians pay for a Sirloin
Steak ?**



Exaggerated Claims by “Self-Interested” Critics.

Submission No 146 by the Australian Beef Association is an example of the “exaggerated claims” about Woolworths’ and Coles’ impact on grocery prices in Australia by self-interested critics. The Australian Beef Association claims in its submission;

“Australian cattle prices are 25% lower than US cattle prices. At the same time, Australian retail beef prices are twice those in the US.

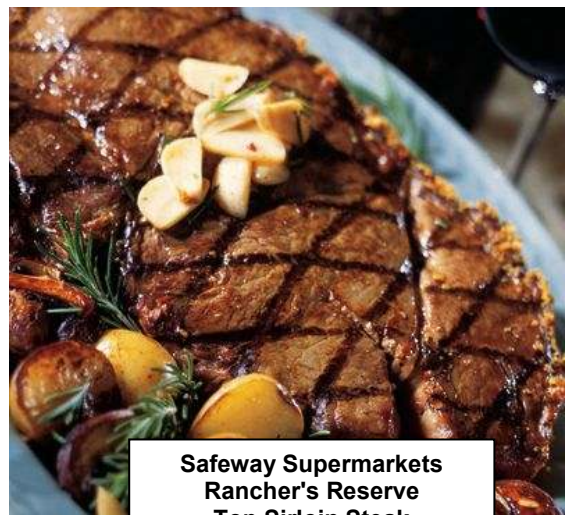
Australia’s high retail beef prices and low cattle prices are the result of an inefficient market chain between farm gate and consumers. There is a large body of evidence to show that the supermarket duopsony plays a key role in determining product flows and prices from farm gate to retail.

There is evidence to show that the supermarket duopsony has used its market power to limit competition and manipulate prices from farm gate to retail”

But this is simply not true. It is false to say that Australian retail beef prices are *twice* those in the US. This paints a false picture of Woolworths/Coles’ impact on grocery prices in Australia, which could mislead this inquiry.

The actual situation is much worse (i.e : worse for the consumer, not worse for Woolworths/Coles)

If you lived in Sydney (where the housing market is now the least affordable in the developed world¹), and had any money left after the Banks latest round of interest rate increases, and you wanted to enjoy a sirloin steak for dinner, thankfully as a result of the “highly competitive” market in Sydney, Woolworths/Coles had Sirloin steak on “special” reduced from \$21.99 to a bargain price of **\$16.99kg**.



But if you live in the San Francisco, you could pop on down to the local Safeway Supermarket and buy a Restaurant Cut of Rancher's Reserve Top Sirloin Steak for US\$2.99 lb². Which is equivalent³ to **A\$6.79 kg**

The “special” price charged by Woolworths/Coles supermarkets in Sydney, is actually an incredible **143%** higher than the price charged by Safeway supermarkets in San Francisco.

¹ <http://www.abc.net.au/news/stories/2008/03/18/2192181.htm>

² <http://shop.safeway.com/superstore/sixframeset.asp?mainurl=http://safeway1.inserts2online.com/storeReview.jsp?drpStoreID=972>

³ 1 pound = 2.20kg. Exchange rate US\$1.00 = A\$0.9432 (14th March 2008) http://www.rba.gov.au/Statistics/exchange_rates.html

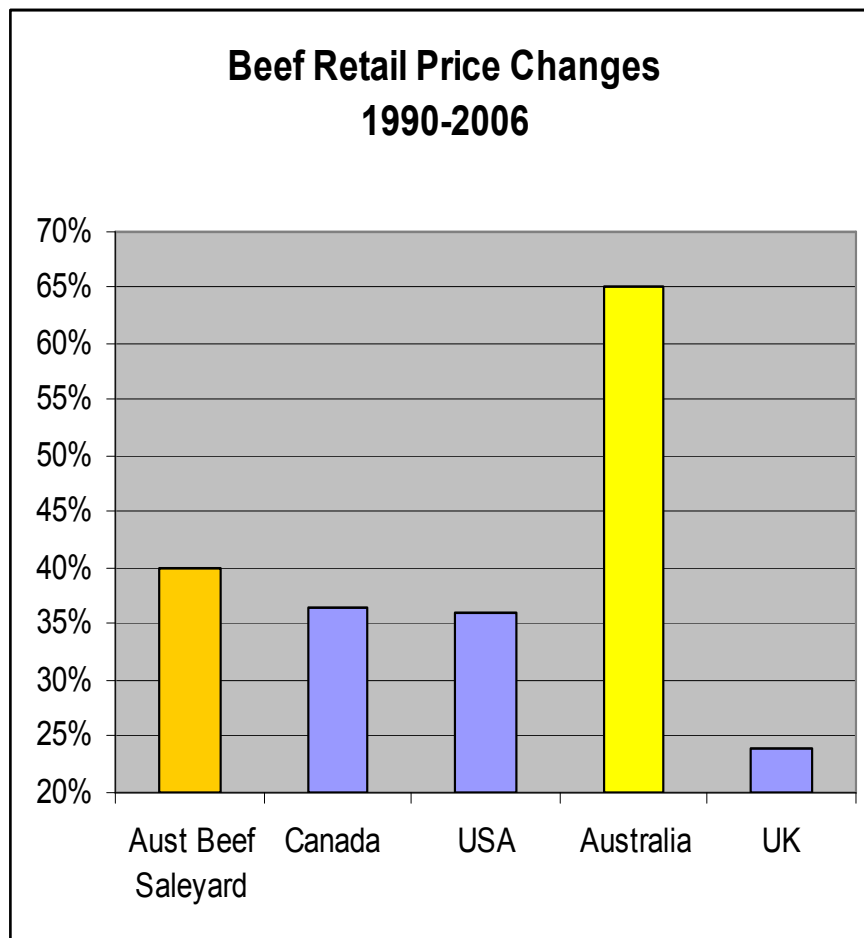
Therefore the claims by the Australian Beef Association of 100% higher prices charged by Woolworths/Coles is simply not true – it's closer to 150% higher.

Given that Australian cattle prices are 25% lower the American cattle prices, yet again the evidence is irrefutable; Australia farmer is being screwed, and the consumer shafted, under the weight of Woolworths/Coles market power.

All evidence points to the Collapse of Competition in Australia, with the winners; Woolworths, Coles and Metcash – and the losers; everyone else who lives in Australia.

The Competitive Position of Australia continues to deteriorate.

But what is even more disturbing, as a result of the collapse of competition through the failure of the Trade Practices Act and its Administration, the position of Australian consumers continues to deteriorate, as retail beef prices increase faster in Australia, than in the rest of the developed world.



The simply question is – why would retail prices for beef increase a massive 30% higher in Australia, than they have in the USA and Canada since 1990 ?

Simply, our Trade Practices Act has failed to keep up this rest of the world, and Australia remains one of the few countries without any effective prohibition against Price Discrimination, resulting in Australia's international competitiveness deteriorating, and consumers paying higher prices.

ACCC's Previous Inquiry

In the “issues paper” for this inquiry, it states that the ACCC’s previous inquiry, “*Examination of the prices paid to farmers for livestock and the prices paid by consumers for red meat February 2007*” – would provide a “useful background”

With respect, this previous inquiry provides a *useless* background.

This inquiry discovered unexplained retail price increases – but rather investigate these, the ACCC’s report stated;

“The ACCC has not sought to identify the reasons for these changes over time. It considers such an inquiry to be beyond the scope of the minister’s request.”

We hope that this time the ACCC will conduct a through inquiry, and that the ACCC will not look for excuses to stick its head in the sand like in the past, and fail to investigate “the reasons for changes over time”.

Woolworths/Coles told us so, therefore it must be true.

This report also demonstrated a highly disturbing trend at the ACCC, in that “Woolworths/Coles told us so, therefore it must be true.” The previous inquiry also stated;

“.....in retail markets, both Coles and Woolworths submitted that they operate in a competitive environment and that they face significant competition from independent supermarkets and butchers.”

Fortunately for both Coles and Woolworths, but unfortunately for the Australian consumer, the ACCC failed to investigate this “significant competition from independent butchers.”

The Competitive Environment

If the ACCC had of investigated the “competitive environment” rather than parrot the lines of Woolworths/Coles’ advertising departments, they may have discovered that independent butchers are crippled through price discrimination in retail rents, which has *destroyed* the competitive environment.



Following are just a few examples of the massive discrepancies in rent paid per m2 p.a in Westfield Shopping Centres⁴

Westfield Liverpool – Coles **\$245** v. Bush’s Meats **\$1,338**
Westfield Eastgardens – Coles **\$208** v. Beef Bullion Butcher **\$1,009**
Westfield Warrawong – Woolworths **\$211** v. Prime Quality Meats **\$1,529**
Westfield Hornsby – Coles **\$155** v. Joes Meat Market **\$1609**
Westfield Parramatta – Woolworths **\$218** v. Bush’s Meat **\$1,340**
Westfield Miranda – Woolworths **\$127** v Caper’s Deli **\$2,724**

⁴ Source : Leaseinfo.com.au

Such figures make a complete mockery of the claims by Coles and Woolworths that they face significant competition from independent butchers.

We would expect a small butcher to be paying a higher rent than Woolworths/Coles because they are leasing a small space. No one would complain about this. A higher rent per m² of 10%, 20% or even 40% paid by the smaller business would be natural and in the range of normal economies of scale – but when the difference is over a 1000% it is a complete distortion without any economic justification, and destroys the competitive environment.

How can *Joe's Meat Market* at Hornsby apply any competitive pressure to Coles, if Joe's is paying **\$1,529** per m² and Coles is only paying **\$155** per m² ??

How can *Caper's Deli* at Miranda bring any competitive pressure to Woolworths, if Caper's is paying **\$2724** per m² for rent and Woolworths is only paying **\$127** per m².

The only way that these independents can survive paying such rents is by having huge mark-ups on the meat they sell, and this results in Australian consumers paying prices 100% higher for meat than American consumers pay.

And as shopping mall retail rents in Australia increase faster than inflation, these independents are forced to continually increase their mark-up year after year, and this has resulted retail prices in Australia increasing at 30% higher than in the rest of the developed world.

This is the “excuse” for independent retailers as to why they have increased prices faster than anywhere else in the world - but what is Woolworths & Coles excuse ?

[Footnote on Following page.....](#)

Footnote :

If I lived in San Francisco, rather than going for Safeway Supermarkets "Restaurant Cut of Rancher's Reserve Top Sirloin Steak" at the equivalent of A\$6.79/kg, alternatively I could have settled for the "Butcher's Cut of Smoked Whole or Shank Half Ham" at US \$0.99/lb – the equivalent of **A\$2.32 kg**. Best price Coles Sydney **\$7.49/kg** (advertised special NSW Metro catalogue March 2008) – more than triple the price of Safeway.

Is it any wonder that Woolworths state, "We see no value in making comparisons with products sold outside of the Australian market" – because it simply exposes that competition has collapsed in Australia.



Butcher's Cut Smoked Whole or Shank Half Ham
Available from Safeway Supermarkets
(San Francisco)
at the equivalent of **A\$2.32kg**

To try and find meat at the equivalent price to Safeway's *Butcher's Cut Smoked Whole or Shank Half Ham* – at Woolworths/Coles in Sydney you need to go for a 700 gram tin of Chum "so chumpy you can carve it" Dog Food, which Woolworths sells at the everyday low price of **\$2.25 per kg** (\$1.57 per 700 gram tin)⁵



If the government relies on increasing interest rates to fix inflation (and they drive the economy into recession) rather than tackle the true inflationary evil - the collapse of competition in the retail sector, and failure of the Trade Practices Act and its Administration – Chum dog food is that what many of us will be forced to eat.

⁵ <http://www.homeshop.com.au/category.asp?catalog%5Fname=hs1378&category%5Fname=F490184&Page=1>