

Public Submission
to
ACCC Grocery Inquiry

By

Southern Sydney Retailers Association Ltd

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18th March 2008

**Comment on
COLES SUBMISSION
Australian's Purchasing Power for Food.**

“[Coles] is a unique company in so many ways.....its headquarters at Tooronga [nicknamed] Battlestar Gallactica – became a joke, complete with marble, gold taps, silver service and butlers.....”¹

**Alan Kohler
The Sydney Morning Herald**

*“.....experienced retail executives talk of how poorly **Coles** performs in terms of global metrics. It has disproportionately high overheads and is almost certainly carrying excessive inventory”²*

The Australian Financial Review

*“.....Mr Fletcher, former Myer chief Dawn Robertson and former food and liquor chief Hani Zayadi had received \$34.08 million in cash over the course of their employment at **Coles** up to the end of last financial year and were likely to have been paid a further \$8.04 million in 2005-06Mr Fletcher received a total of **\$46.9 million**, Mr Zayadi **\$34.4 million** and Ms Robertson **\$29.8 million**, with a possible further bonus to come.....”³*

**Coles Execs Rewarded for Lagging.
Fairfax Digital**

“Coles is promising to sack 2500 head-office staff – or one in three people – who could only dream if earning in their lives a fraction of the perks with which their former bosses walked out the door.....the actual day-to-day rorts [inside Coles] on the evidence are indefensible”

The Australian Financial Review

¹ *The Sydney Morning Herald*, 23rd Sept, ‘Fletcher Fails in Win of the Market’ p.41

² *The Australian Financial Review*, 19-20th Aug, 2006 “Coles, a Natural Target” p.20

³ <http://www.smh.com.au/news/business/coles-execs-rewarded-for-lagging-says-lew/2006/09/20/1158431782854.html>

COLES SUBMISSION: Australians Purchasing Power for Food.

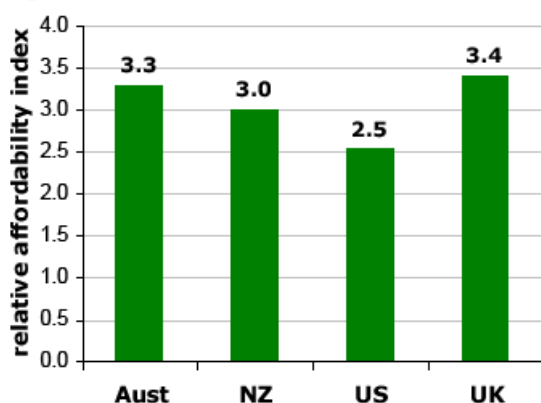
We are greatly concerned about the accuracy of the data that is the focal point of Coles' submission to this inquiry.

Coles refer to a study by "FreshLogic", which claims that;

".....we have undertaken further analysis of the relative affordability of food by comparing the relative cost of a basket of grocery items across a number of countries.....the comparison indicates that Australian supermarket prices provide purchasing power parity with other countries, being close to UK food prices in terms of relative affordability and less expensive than US and NZ prices..... the higher the number, the higher the spending power, and therefore lower the relative food prices."⁴

Then "FreshLogic" present the following graph.

Fig 1.7 – relative affordability of food costs



Anyone familiar with international trade, and the costs and relative affordability of food and other consumer goods between the USA and UK, will understand that the conclusions in "FreshLogic's" study are completely illogical.

It is a complete absurdity to claim that UK food prices are **more affordable** by a factor of 3.4 to 2.5 as compared to food prices in the USA, and this casts a shadow of doubt over the entire submission by Coles, and should lead any objective observer to dismiss their entire submission as a hoodwink and a fraud.

Findings by the Economic Research Service of the US Department of Agriculture

Data from the Economic Research Service of the US Department of Agriculture (USDA) exposes the sham of FreshLogic's study.

Every year since 2002, the USDA publishes data on the share of a household's expenditure of food, which accurately reflects the purchasing power parity in different countries for food.

I will leave it to the ACCC, and the Australian public to decide which data is more reliable, that of "FreshLogic" in study for which they were paid to push the Coles wheelbarrow, or that of the Economic Research Service of the US Department of Agriculture.

⁴ Report on the issues relevant to the ACCC inquiry into the competitiveness of the retail prices for standard groceries. Prepared for Coles Supermarkets, by FreshLogic. March 2008.

Contrary to voodoo economics of FreshLogic, which claims Australia and the UK have a greater purchasing power parity than the USA for food, the Economic Research Service of the US Department of Agriculture provides figures showing that in 2006, on average Australian households spend **11.2 %** of their income on food, compared to just **7.3%** in the USA, while the UK was **8.7%**

This study indicates **the complete opposite** of the findings by Freshlogic. The facts according to the Economic Research Service of the US Department of Agriculture, are that Australian food prices are now **substantially less affordable** than the USA, Singapore, Ireland, UK and Canada, UAE, Netherlands, Switzerland, Denmark and Austria.

Expenditures on Food, by Selected Countries						
Share of household final consumption expenditures spent on food						
2002			2006			2002/6
Rank	Country	%	Rank	Country	%	% Change
1st	United States ³		1st	United States		
	ERS estimate	6.5		ERS estimate	5.8	-0.7
	UN estimate	7.3		Euromonitor estimate	7.2	-0.1
2nd	United Kingdom	9.1	2nd	Singapore	8.1	N/A
3rd	China, Macao SAR	9.6	3rd	Ireland	8.2	N/A
4th	Canada	9.9	4th	United Kingdom	8.7	-0.4
5th	Australia	10.5	5th	Canada	9.3	-0.6
6th	Switzerland	10.9	6th	United Arab Emirates	10.1	N/A
7th	Netherlands	11	7th	Netherlands	10.4	-0.6
8th	Germany	11.9	8th	Switzerland	10.4	-0.5
9th	Sweden	12.5	9th	Denmark	10.9	-1.7
10th	Denmark	12.6	10th	Austria	11.1	-1.5
11th	Austria	12.6	11th	Germany	11.2	-0.7
12th	Finland	12.9	12th	Australia	11.2	0.7
13th	Belgium	13.3	13th	Sweden	11.9	-0.6
14th	China, Hong Kong SAR	13.4	14th	Kuwait	12	N/A
15th	Japan	14.4	15th	Finland	12.4	-0.5
16th	Italy	14.7	16th	New Zealand	12.5	-4.2
17th	France	14.8	17th	Norway	12.8	N/A
18th	Republic of Korea	14.9	18th	Hong Kong, China	13	-0.4
19th	Puerto Rico	15.7	19th	Belgium	13.2	-0.1
20th	New Zealand	16.7	20th	France	13.9	-0.9

Source : Economic Research Service, United States Department of Agriculture
<http://www.ers.usda.gov/briefing/cpi/foodandexpenditures/data/2002table97.htm>

The data from the Economic Research Service of the US Department of Agriculture simply expose FreshLogic's study as a complete nonsense.

But this type of deception was to be expected. Coles are an organization that has "form" in deceiving the public in relation to food prices. During the 2003 Dawson inquiry, Coles claimed that "consumers throughout Australia are benefiting from the intensity of competition in the retail sector." They lied.

The true facts were that in the decade before 2003, under the "intensity of competition" Australian consumers were being punished with food prices rising faster in Australia than anywhere else in the developed world.

In our Associations first submission (No.3 to this inquiry) we warned that;

"no doubt these same players, guilty of these past deceptions will be up to their old tricks attempting to again hoodwink this inquiry by claiming that they are reducing prices when actually the reverse is occurring"

US Department of Agriculture data exposes a highly disturbing situation in Australia

Further, what is even more highly disturbing, is that the USDA data exposes the appalling situation that has evolved in Australia under current legislative settings of the Australian Trade Practices Act. This failure of the Trade Practices Act has resulted in Australia has ***being the only country*** in the top twenty that has seen its purchasing parity power for food ***deteriorate***.

It is truly scandalous to think, that on the back of the mineral boom, and rising incomes in Australia, that Australian Households purchasing power for food has gone backwards.

Further it is just as scandalous that Australia, being one the world's leading food exporters, and one of the world's most efficient producers of beef, wheat and milk, has ***now slipped down to 12th*** in the world rankings of food affordability.

Clearly as a nation we are headed on the wrong track under the current legislative settings of the Trade Practices Act, and this is undermining national prosperity.

Governments of both political persuasions have allowed the Australian Trade Practices Act to be white-anted, a result of claims that the rising tide of concentration in our retail sector has been "benefiting the consumer". Data from the OCED, and Economic Research Service of the US Department of Agriculture, now exposes these claims as a fraud.

Simply, a group of charlatans have lied through their teeth, to hide the fact that prices in Australian supermarkets have ***increased faster than anywhere else in the developed world***, and Australia is going backwards in terms of food affordability.

Coles & FreshLogic risk further damage of the ACCC's reputation

The ACCC should be highly displeased about such sham studies being cited as "facts" by groups such as Coles. The ACCC should be one of the nation's most respected bodies, held in high esteem as the "consumer's champion", but currently the ACCC's reputation is in tatters around the nation⁵.

The ACCC's reputation is only further compromised when such misleading studies are included in a submission made to it by one of Australia's largest corporations. Such submissions muddy the waters, by hiding the true facts and prevent the ACCC even discovering there is a huge problem with the collapse of competition. This undermines the good work of the many hardworking individuals at ACCC, that deserve to be known as the consumer's champion.

Therefore no one would excuse the ACCC if they threw the book at Coles, as under part VIIA of the Trade Practices Act, it specifies that it is a serious criminal offence if a person gives false or misleading information to the ACCC.

We call on Coles and FreshLogic to release the full data behind their sham methodology, as so an independent analysis can be made of how FreshLogic's study resulted in the complete inverse findings to that of the Economic Research Service of the US Department of Agriculture.

Perhaps Coles and FreshLogic have simply muddled the numbers up.

⁵ Wuth, Robin. 'ACCC Asleep at Wheel' *Gold Coast Bulletin*, Saturday 29th March 2008

"Look up useless in the dictionary and you'll find the ACCC. Also try pointless, toothless, ineffective and a colossal waste of taxpayer's money - all labels seem to fit nicely on the ACCC. I ask you, what's the point of the ACCC ?. Honestly what does the toothless watch dog actually do and has it done anything for you ?"

COLES – Supplier Relationships

The ongoing charade of Coles' submission is evidenced by claims;

“the supplier relationship must be open, fair and ensure a reasonable, mutually beneficial return⁶.....Coles does not exert undue influence on suppliers⁷”

These claims will be of interest to one of Cole's suppliers *Dick Smith Foods*, whom had the courage to post the following on their website last year.

*“Over the past 36 months major changes have occurred as the two major food retailers in Australia.....the effect of this policy is creating difficulty for all the major Australian owned manufacturers.....the problem has been compounded by **Coles** suggesting to many of our manufacturers that unless they receive large sums of money by way of an upfront payment, which in some cases is up to **\$100,000** then they will no longer be prepared to carry our products.....there simply no way we could afford to pay these amounts and remain financially viable.”*

It is simply unhealthy for any organization to have such market power.

Coles' submission demonstrates the fact they are an organization with an institutional disdain for the truth. As in the past, their claims are the total opposite of the facts. Their entire submission should be dismissed as a sham and a fraud.

Footnote to Bunning's (the new owners of Coles) management: I'd be using my market power, and asking for my money back from FreshLogic for such a shambolic report, that can so easily be dismissed as either economically illiterate or a fraud, and one that has exposed Coles to claims of misleading and deceptive conduct in breach of the TPA.

⁶ Coles Supermarkets Submission No. p5

⁷ Ibid p9.



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Tues, Apr 01, 2008 1:40:49 PM

2006 Asparagus Crop

Dick Smith Foods is the only Australian company that sells Australian grown and canned Asparagus.

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New Muesli Product

We are pleased to announce our new delicious toasted Muesli.

[- read more <](#)

New Salad Dressings

The flavours of the Australian bush have been used to reinvigorate the boring selections of salad dressings available in Australia to this time.

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CAN'T FIND OUR PRODUCTS IN YOUR SUPERMARKET? **- THIS COULD BE THE REASON**

Over the past 36 months major changes have occurred as the two major food retailers in Australia move towards reducing the range of all products they offer customers. This is so they can maximize their profits and return to their shareholders.

One of the instigations of this change is the foreign owned (German) Aldi company. They offer lower prices by offering a very limited range and the big supermarkets will have to follow or go broke.

This policy, which is being adopted by both Coles and Woolworths (who together have nearly 80% of the market place) is to free up supermarket shelf space to allow for the introduction of their own private label range. In effect it is proposed to limit consumer choice across all products sold. For example the jam or tomato sauce category will include their two top selling products plus a range of Coles or Woolworths branded products.

The majority of the Coles and Woolworths private label products are sourced from overseas using significantly cheaper labour and where the agricultural and manufacturing standards and regulations are not nearly as strict as they are in Australia. We expect the number of overseas sourced products to increase even further in coming years as Coles and Woolworths find other supply sources.

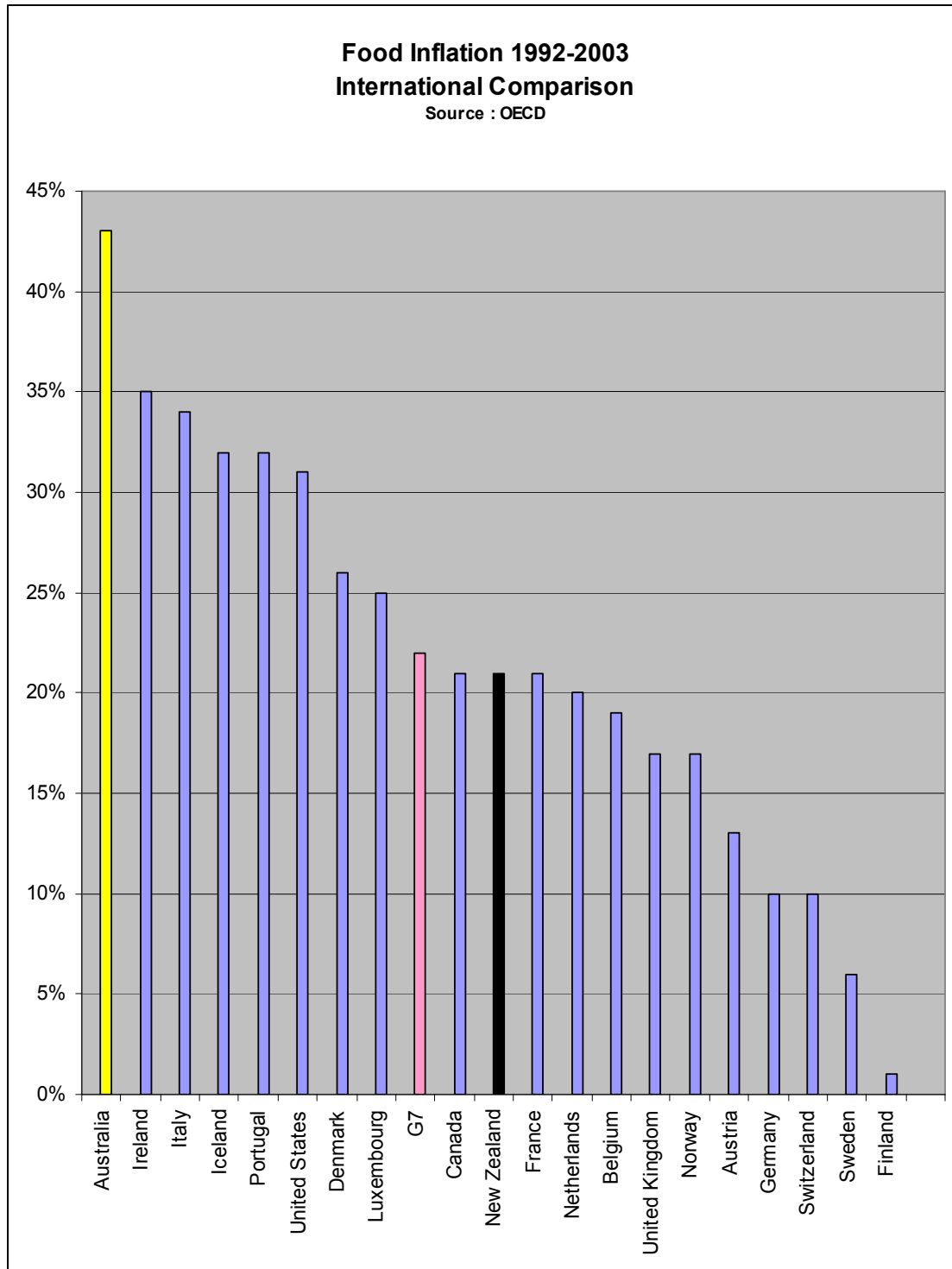
The effect of this policy is creating major difficulties for all the Australian owned manufacturers, including those that produce our products, to the point where we have been struggling to keep a large proportion of our product range available on supermarket shelves for our loyal customers to purchase.

Previously the problem has been compounded by Coles suggesting to many of our manufacturers that unless they receive large sums of money by way of an up-front payment, which in some cases is up to \$100,000, then they will no longer be prepared to carry our products. Interestingly, none of the requests for money are being sought in writing.

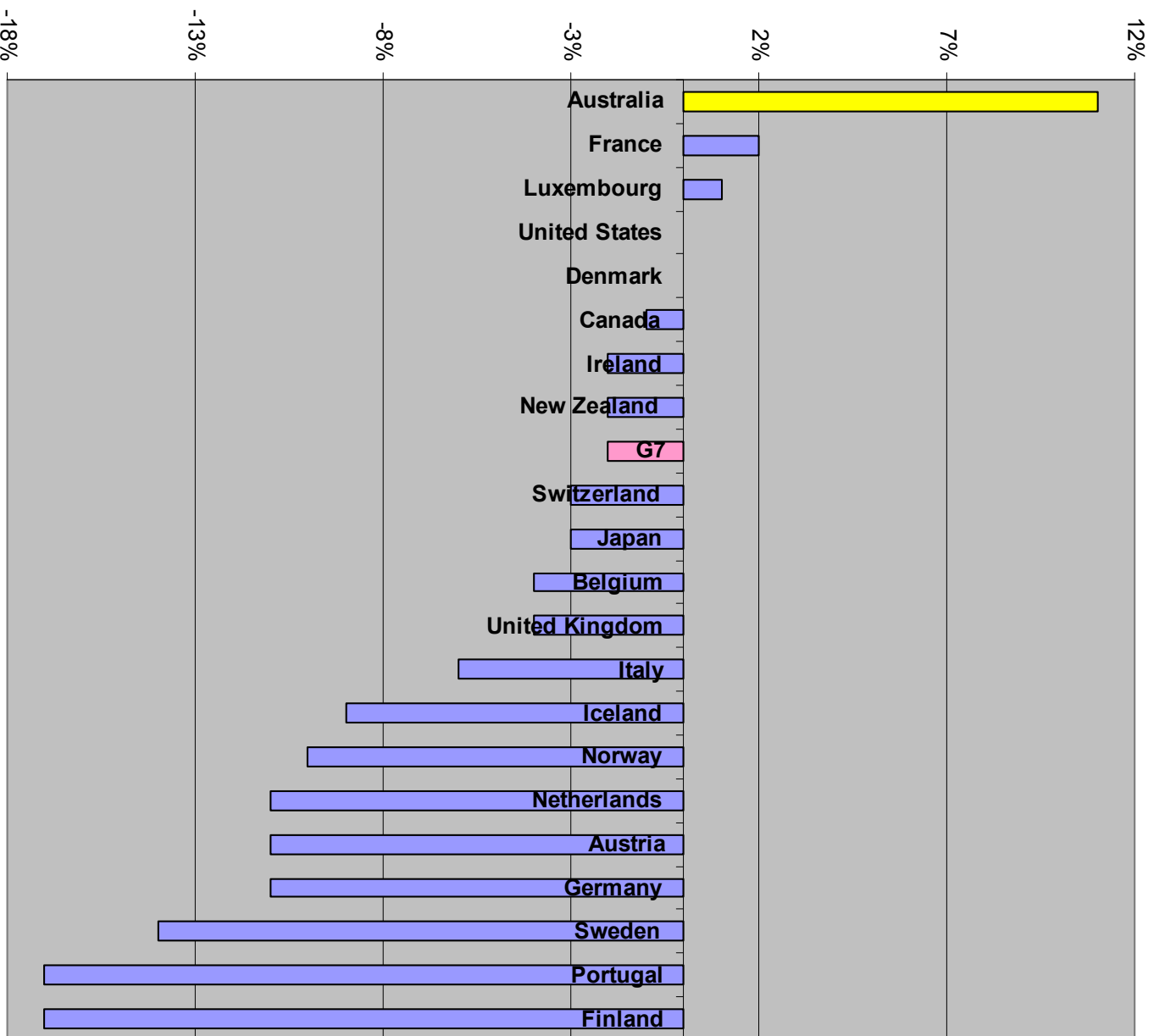
As our own company and most of our manufacturers are small businesses, there is simply no way we could afford to pay these amounts and remain financially viable. If this policy continues, it will force the remaining small Australian manufacturers out of business and open the door to even more products from overseas.

Whilst we will continue to strenuously fight for Australian owned and made products to remain available on supermarket shelves, it will be extremely difficult to compete with the wealthy multi-national companies and the increasing power and domination being exercised by the major retailers.

Please assist us in our fight to save the small number of Australian owned food manufacturing businesses which still exist by asking your local Supermarket Manager to stock our products.



Food Inflation v. CPI International Comparison 1992-2003



Source : Compiled from OECD statistic

