

Public Submission
to
ACCC Grocery Inquiry

By

Southern Sydney Retailers Association Ltd

Contact : Craig Kelly 0413 433 288

14th April 2008

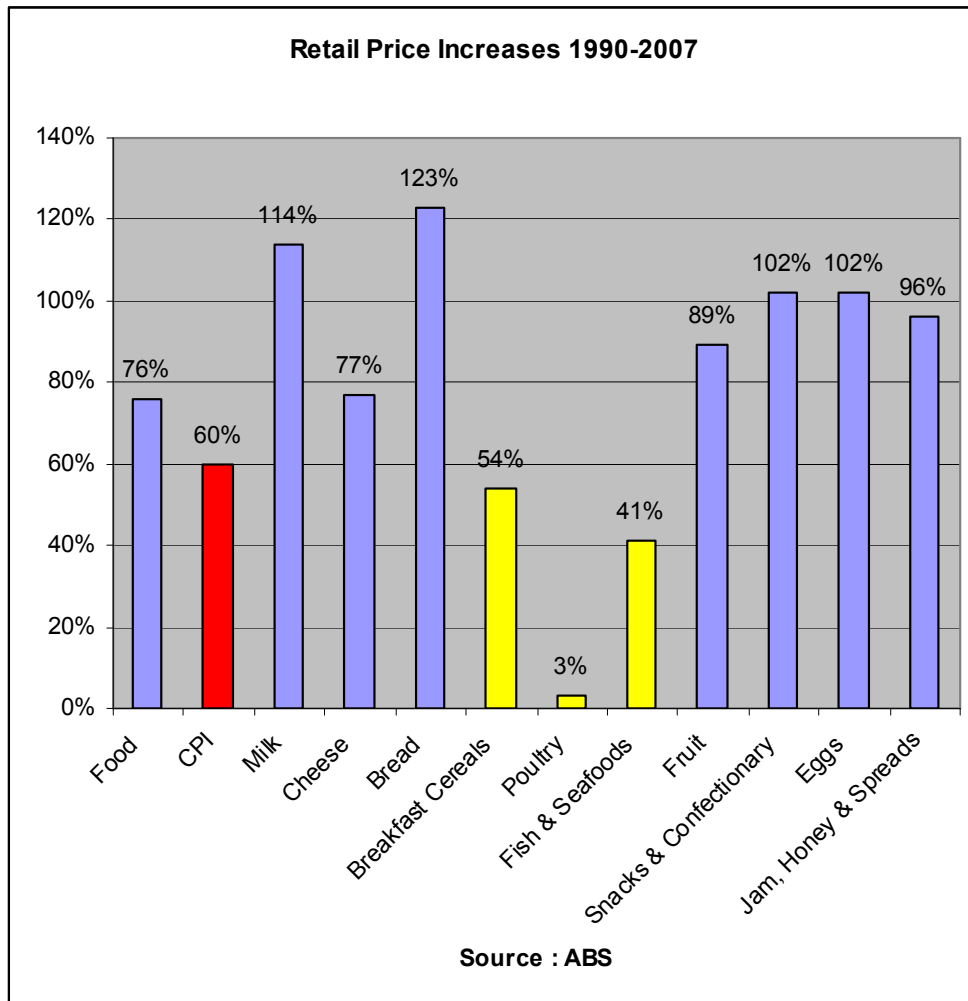
What About the Increasing Price of
Breakfast Cereals ??



What About the Price Increase of Breakfast Cereals ?

Looking at food prices overall, from the consumer's perspective, the competitive performance of Australia's retail sector is a national embarrassment, with Australia being the only country in the developed world to record food prices increasing faster than inflation (CPI) since 1990.

Drilling down further into individual food types, the numbers are even more appalling, with the supermarket basics leading the way with shocking price increases ; Bread has skyrocketed 123% , Milk is up 114%, Eggs up 102%, Snacks & Confectionary up 102%, Jam, Honey & Sandwich spreads up 96%.



Almost everything that Woolworths/Coles are dominant in, the retail price has spiralled out of control.

However, despite overwhelming and irrefutable evidence that competition has collapsed, and Australian consumers are being punished - there are a few items that *at first glance* seem to go against the scandalous trend. For example, 'Breakfast Cereals' have increased 54%, just below the increase in the CPI.

Undoubtedly, the retail sale of breakfast cereals is a highly concentrated market – dominated by Woolworths/Coles. Therefore, perhaps this provides *at least something* for the Woolworths/Coles apologists to cheer about and to proclaim that there is no relationship between the increasing dominance of Woolworths/Coles and skyrocketing retail prices.

During the forensic examination of the evidence before this inquiry, at the recent hearings in Canberra, counsel for the ACCC, Mr O'Donovan, questioned Mr Kelly of the Southern Sydney Retailers Association about this anomaly.

MR. O'DONOVAN : Sure, but if you were to pick another item, for example, breakfast cereal which you agree is an area in which the supermarkets do have a high level of concentration; you agree with that ?

MR. KELLY : Yes

MR. O'DONOVAN : And if you picked that, you'd find that breakfast cereal has gone up significantly less than the rate of the CPI in the period....

Continued.....

MR. O'DONOVAN : Well let's take breakfast cereal then, which doesn't exhibit any of those factors and has risen less than the CPI.

MR. KELLY : Yes

MR. O'DONOVAN : That would be inconsistent of your theory ?

MR. KELLY : Of one example, against probably with ten other examples the other way, probably, yes.

However, before Mr O'Dovovan or Mr Kelly jump to any conclusions, and the ACCC start handing out bouquets to Woolworths & Coles - to determine if Australia's competitive performance of a 54% increase in the price of breakfast cereals is; good, bad or otherwise - it is necessary to benchmark this increase with international comparisons.

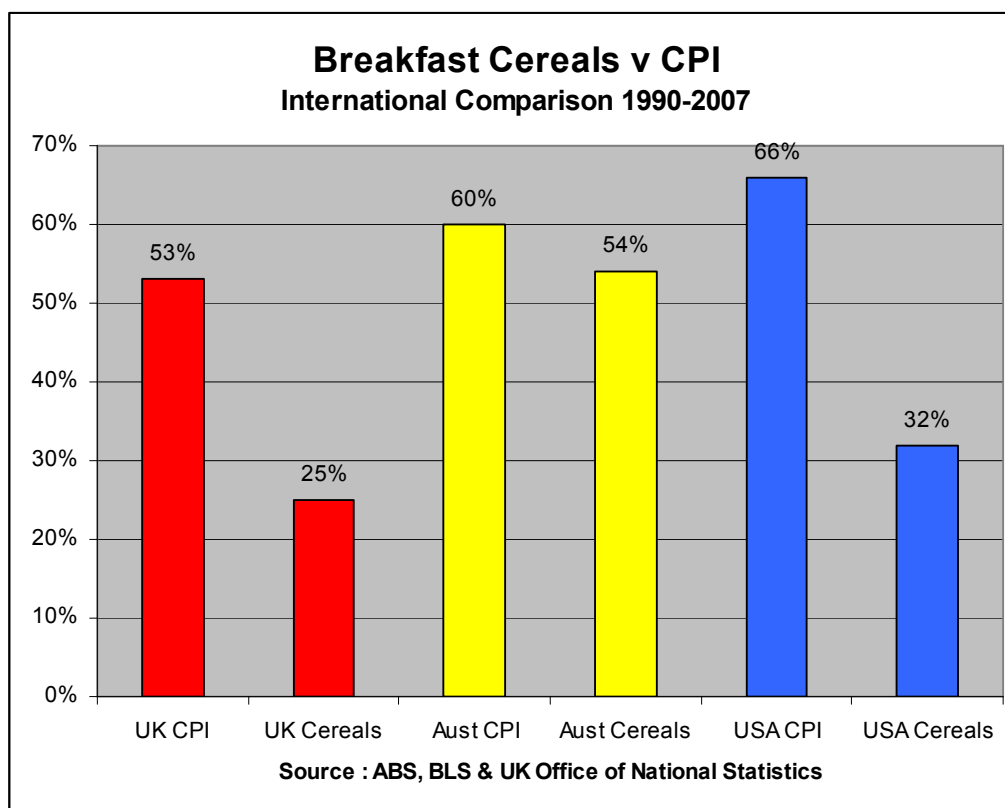
Breakfast cereals are a highly manufactured global product. It is estimated that the 'farmer's share' of the retail price of a box of cereals is less than 2%.(US Department of Agriculture 2000).

If Australia has a 'competitive retail market', as the Woolworths & Coles fanclub claims, then since 1990, given that Australia's currency has appreciated, and wholesale sales tax has been removed on all inputs used in manufacturing breakfast cereals - a competitive retail sector *should have* delivered a lower price increase in Australia than in other developed countries.

However, Woolworths/Coles have not let us down.



Just like every other food item where Woolworths/Coles are dominate in, the retail price of Breakfast cereals in Australia has skyrocketed approximately 30% higher than in comparison with the price increases that have occurred in the USA and the UK.



Clearly, a 54% increase in the price of breakfast cereals in Australia, is yet another appalling result, and a shocking indictment of the lack of competition in Australia. Yet again, the evidence is clear - the dominance of Woolworths/Coles doesn't lower prices as they claim – but in fact, such dominance increases prices substantially.

We congratulate the ACCC counsel, Mr O'Donovan for pointing out what at first glance appeared to be an anomaly and for being the catalyst for this further research to be undertaken, which has only confirmed the collapse of competition in Australia, the failure of the Trade Practices Act and its administration, and the undisputable fact that Australian consumers are being shafted in an overly concentrated market.

However, the appalling evidence of the collapse of competition, and how the current market structure operates against the national interest, doesn't end there for Breakfast cereals.

As the attached pricing comparison of a dozen popular brands of breakfast cereals between 'Woolworths supermarket in Sydney' and 'Safeway supermarkets in San Francisco' shows, Australian consumers are being had on the prices of Breakfast Cereals paying on average an incredible 51% higher price from Woolworths supermarket in Sydney than they would from a Safeway supermarket in San Francisco.

See Attachment A.

Fresh Fish and Seafood.



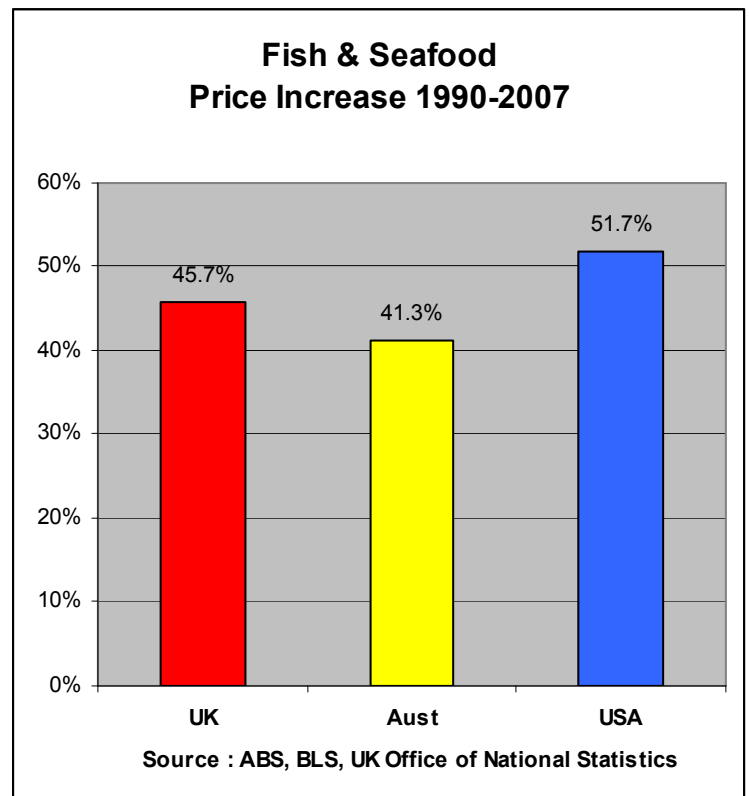
Another food item that appears to have gone against the trend is 'Fresh Fresh & Seafood' – which has only increased in price by just **41%** since 1990 – 19% less than the CPI.

But again, before jumping to any conclusions, it is necessary to benchmark this 41% increase with international comparisons, to determine whether such an increase in Australia is; good, bad or otherwise.

However, unlike Breakfast cereals, an international comparison against the UK and the USA shows that Australia has not only performed well, in fact our competitive performance for 'Fish & Seafood' is superior to that of the USA and UK

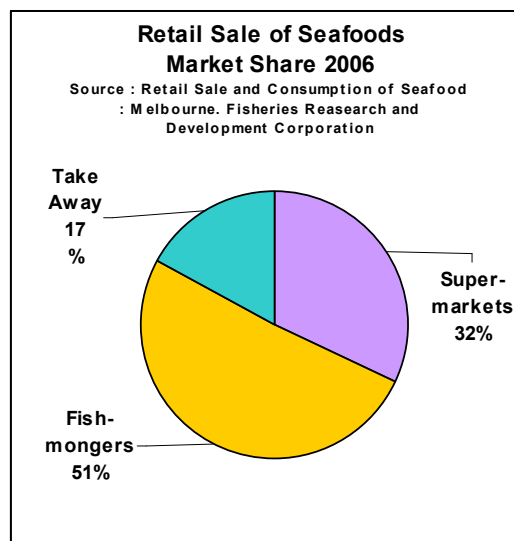
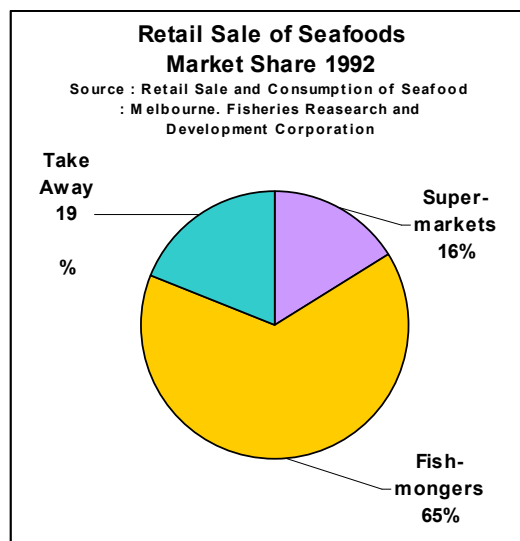
Unlike the vast majority of other food products, for 'Fish and Seafood', Australian consumers are benefiting competitive retail sector.

But what's different about the retail sector for fresh fish and seafood ??



Why would increases in retail prices of 'fresh fish & seafood' go against the trend of all other food products in Australia ?

The answer is simple – the retail market for fish and seafood remains diversified, and small business is still able to bring effective competitive pressure to the market.



A study by the Fisheries Research and Development Corporation states, that in Melbourne, although there has been an increase in concentration in the market, unlike other food items, the market for the retail sale of fish and seafood, remains highly diversified. If all supermarkets control 32% of the market it could be estimated that Woolworths/Coles market share is no more than 25%.

However, on anecdotal evidence, we would suggest that in Sydney (especially with the Sydney Fish markets), that Woolworths/Coles market share is substantially less than 25% for the retail sale of Seafood.

But even a combined 25% market share is not yet weighty enough for Woolworths/Coles to distort competition, and act against the public interest by forcing prices up, faster than anywhere else the developed world like they have for; milk, bread, cheese, eggs, meat, breakfast cereals, and just about everything else they wrap their tentacles around.

A diversified market, one where thousands of small businesses still dominate, has spared Australian consumers from the massive price increases in food items in markets where Woolworths/Coles dominate.

What has happened to the retail prices of Seafood in Australia gives an example of where all food prices in Australia would be today if the Trade Practices Act not been undermined by fraud and failed ideology.

Yet again, the evidence is overwhelming and irrefutable; where hyper-concentration occurs and Woolworths/Coles dominate, prices for consumers have spiralled out control faster than anywhere else in the developed world. In contrast, where small business has been able to survive and still dominates, Australian consumers benefit.

The Future for Seafood Prices

However, lovers of seafood have a great deal to be concerned about for the future.

Between 1992 and 2006 Fishmonger's have been the latest victim of the long line of small businesses that have been driven to ruin and bankruptcy by the anti-competitive practices of the major shopping centres and the supermarkets (that the Trade Practices Act is impotent to protect against) with one in three Melbourne Fishmongers closing their doors,¹ and their market share being stolen by the Woolworths/Coles duopoly.

In Melbourne, at least two large shopping centres are reported to have no independent fishmongers at all², leaving Woolworths/Coles with either a monopoly or cosy duopoly for the retail sale of seafood.



In the future, will seafood prices in Australia spiral out of control, faster than anywhere else in the developed world, once Woolworths & Coles drive enough small fishmongers out of business??

With government legislated special privilege of zoning laws protecting monopolistic shopping centre landlords from competition, and the appalling failure of the Productivity Commission's inquiry into the market for retail leases, Fishmongers located in major regional shopping centres, will continued to be exposed to the predatory conduct of monopolistic landlords, and their market share will continue to decline, as that of Woolworths/Coles increase.

Unless the Trade Practices Act is repaired, to restore equality of opportunity to small business, these trends are likely to continue and Woolworths/Coles seem destined to wrap their tentacles around the market for fish & seafood as well - and just like what has happened to the retail price for; milk, bread, meat, eggs, breakfast cereals, etc; the prices of seafood are likely to spiral out of control increasing faster in Australia than anywhere else in the developed world once Woolworths/Coles market share crashes through the over the 50% barrier.

¹ Fisheries Research and Development Corporation *Retail Sale and Consumption of Seafood*, 2006
<http://bookshop.frdc.com.au/download/RSACOS.pdf>

² Ibid

Chicken v Eggs

At first analysis one of the great mysteries of the increases in food prices in Australia, has been the different price increases between Poultry and Eggs.

Since 1990 while the retail price of Eggs has increased an incredible **102%**, the retail price of Poultry has increased just **3%**.

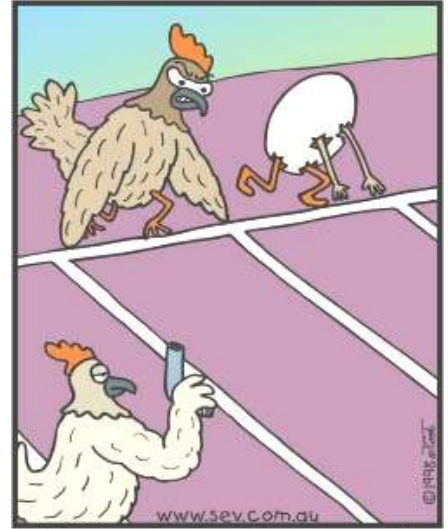
Although these are separate markets, at first thought this doesn't seem to make any sense. However, once again the differences in market concentrations explain the difference in the price increases.

Eggs are sold mainly through supermarkets, and it is estimated that Woolworths/Coles control at least 50% of the market for the retail sales of Eggs – a large enough market share to distort competition and operate against the public interest.

Therefore, it is little surprise that the retail price of eggs in Australia has spiralled out of control just like all other common supermarket items where Woolworths/Coles dominate such as; milk, bread, breakfast cereals, Jam, honey and sandwich spreads, snacks and confectionary, etc.

In comparison, on anecdotal the evidence, the market for poultry has remained de-concentrated. In fact, given that since 1989 the average Australia has increased their annual consumption of chicken meat by 50% a further study could demonstrate that the market for the retail sale of poultry has actually become **less concentrated** since 1990.

Today if someone desires a chicken dinner, rather than purchasing a frozen chicken from the supermarket as they would have twenty years ago, they now have the option of instead purchasing a BBQ chicken from any one of the thousands small take-away shops spread throughout Australia. Then there has been the growth in specialist takeaways such as Red Rooster, and KFC which all compete for the consumers that want's a chicken dinner. Further, specialist chicken meat retailers such as Lenard's Poultry that where almost unknown in 1990 are now in most shopping centres.



Unfortunately, the photo-finish only deepened the dispute.

Therefore on anecdotal evidence, for the consumer, the best performing and most competitive retail food market in Australia, is one where not only the Supermarket giants don't dominant, but the one market where their has been a decrease in concentration.

Conclusion – Solutions to the Woolworths/Coles problem.

The further one researches the more overwhelming and the more irrefutable the evidence becomes – the highly concentrated nature of the Australian retail sector, dominated by Woolworths/Coles operates against the public interest and has been responsible for prices increasing faster than anywhere else in the developed world.

It is only where the market has remained diversified and small business still dominates that retail prices have been kept in check.

For the benefit of Australian consumers and for the future economic prosperity of the nation, the “*Standard Oil Option*”³ must be considered to rectify the Woolworths/Coles problem.

³ In 1911 the US government said;



"The evidence is, in fact, absolutely conclusive that the Standard Oil Company charges altogether excessive prices where it meets no competition, and particularly where there is little likelihood of competitors entering the field, and that, on the other hand, where competition is active, it frequently cuts prices to a point which leaves even the Standard little or no profit."

On May 15, 1911, the US Supreme Court upheld the lower court judgment and declared the Standard Oil group to be an "unreasonable" monopoly under the Sherman Antitrust Act. It ordered Standard Oil to break up into 34 independent competing companies each with different boards of directors.


Author Charles Geisst concludes:



"Standard Oil's sins were too great when weighed against its benefits to continue to exist as it had. The company was ordered to break up, liquidating its stock and returning the funds to its shareholders. The individual companies went their respective ways, free to compete against each other when the holding company no longer existed."

**BREAKFAST CEREAL SUPERMARKET PRICE COMPARISON
SYDNEY v. SAN FRANCISCO**

WOOLWORTHS SUPERMARKET SYDNEY				SAFEWAY SUPERMARKET - SAN FRANCISCO					
No.	Item	Grams	Price A\$	A\$ Price per 100 grams	Item	Grams *	Price US\$	Eq. A\$ price**	A\$ Price per 100 grams
1	Kellogg's All Bran Original	655	\$6.15	\$0.94	Kellogg's All Bran Original	519	\$3.00	\$3.26	\$0.63
									
Result : Australian Families pay 49% higher price "Kellogg's All Bran"									

2	Kellogg's Special K	360	\$5.60	\$1.56	Kellogg's Special K	340	\$3.00	\$3.26	\$0.96
									
Result : Australian Families pay 62% higher price for "Special K"									

3	Kellogg's Fruit Loops	585	\$8.64	\$1.48	Kellogg's Fruit Loops	558	\$3.49	\$3.79	\$0.68
									
Result : Australian Families pay 117% higher price for "Froot Loops"									

4	Kellogg's Rice Bubbles	300	\$3.61	\$1.20	Kellogg's Rice Krispies	510	\$3.49	\$3.79	\$0.74
									
Result : Australian Families pay 62% higher price for "Kellogg's Rice Bubbles"									

5	Kellogg's Special K with Forest Berries	375	\$4.99	\$1.33	Kellogg's Special K with Red Berries	342	\$3.00	\$3.26	\$0.95
									
Result : Australian Families pay 40% higher price									





* Original Measurements in Ounces. Convert to grams at 1 ounce = 28.35 grams

** Converted at exchange rate of US\$1.00 = A\$0.92

**BREAKFAST CEREAL SUPERMARKET PRICE COMPARISON
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WOOLWORTHS SUPERMARKET SYDNEY					SAFEWAY SUPERMARKET - SAN FRANCISCO				
No.	Item	Grams	Price A\$	A\$ Price per 100 grams	Item	Grams *	Price US\$	Eq. A\$ price**	A\$ Price per 100 grams
6	Kellogg's Corn Flakes	310	\$3.22	\$1.04	Kellogg's Corn Flakes	340	\$3.00	\$3.26	\$0.96
									
Result : Australian Families pay 8% higher price "Kellogg's Corn Flakes"									
7	Nestle Cheerios	460	\$4.46	\$0.97	Cheerios	510	\$3.00	\$3.26	\$0.64
									
Result : Australian Families pay 52% higher price "Cheerios"									
8	Kellogg's Coco Pops	450	\$5.56	\$1.24	Kellogg's Coca Krispies	496	\$4.15	\$4.51	\$0.91
									
Result : Australian Families pay 36% higher price "Coco Pops"									
9	W'Worths Homebrand Corn Flakes	600	\$2.58	\$0.43	Safeway Homebrand Cornflakes	510	\$1.88	\$2.04	\$0.40
									
Result : Australian Families pay 8% higher price for "Homebrand Corn Flakes"									
10	Kellogg's Mini Wheat Blackcurrant Flavour	360	\$4.30	\$1.19	Kellogg's Mini Wheat Strawberry Delight	462	\$2.00	\$2.17	\$0.47
									
Result : Australian Families pay 153% higher price for Mini Wheats									

**BREAKFAST CEREAL SUPERMARKET PRICE COMPARISON
SYDNEY v. SAN FRANCISCO**

WOOLWORTHS SUPERMARKET SYDNEY					SAFEWAY SUPERMARKET - SAN FRANCISCO				
No.	Item	Grams	Price A\$	A\$ Price per 100 grams	Item	Grams *	Price US\$	Eq. A\$ price**	A\$ Price per 100 grams
11	Kellogg's Crispex	540	\$7.13	\$1.32	Kellogg's Crispex	340	4.49	\$4.88	\$1.43
									
Result : Australian Families pay 8% lower price for "Crispix"									
12	Kellogg's Sultana Bran	500	\$5.57	\$1.11	Kellogg's Raisin Bran	567	\$2.00	\$2.17	\$0.38
									
Result : Australian Families pay 190% higher price for "Kellogg's Sultana Bran"									

Average Packing Size

Woolworths Sydney 457.9 grams
Safeway San Francisco 458 grams

Average Price per 100 grams

Woolworths Sydney A\$1.15
Safeway San Francisco A\$0.76

Final Result :

Sydney Families pay 51% higher prices on average for a dozen standard types of breakfast cereals

Methodology :

Popular breakfast cereals were selected and prices were taken from Sydney's leading supermarket Woolworths from there website at:
<http://www.homeshop.com.au/category.asp?catalog%5Fname=hs1378&category%5Fname=F800152&Page=0>

The prices from Woolworths, where then compared with the closest equivalent from Safeway Supermarkets in San Francisco
<http://shop.safeway.com/superstore/>

Date of Survey : 14th April 2008

Survey by Southern Sydney Retailers Association Ltd
Ph : 0413 433 288