M T A
QUEENSLAND

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Secretary
Senate Economics Committee
Department of the Senate
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The Secretary

Submission regarding "the impacts of supermarket price decisions on the dairy industry"

The Motor Trades Association – Queensland (MTA Queensland) responds to the Senate Economics Committee's (The Committee) invitation for submissions regarding "the impacts of supermarket price decisions on the dairy industry." Our comments are confined to issues that have direct relevancy to our Service Station and Convenience Store (SS&CS) membership.

The Committee's primary focus is on the supermarket's (Coles, Woolworths, Aldi and Franklins) decisions to heavily discount non-proprietary branded retail packaged milk (home brand milk) and the impacts on the dairy industry. We comprehend this prioritisation but take this opportunity to draw The Committee's attention to collateral impacts to independent and the non-aligned SS&CS sector that do not have access to competitively priced non-proprietary branded retail packaged milk, which their competitors (Coles Express and Caltex Woolworths) are using in a predatory pricing action.

The independent and non-aligned SS&CS sector has incurred what could be called the double whammy as a result of the supermarkets' price discounting strategies. This comprises the home-brand milk price discounting campaign and the contiguous petrol price discounting programmes of up to 8 cents per litre strategies for Coles and Woolworths shopper-docket customers.

The petrol and home-brand milk pricing discounting strategies, generally, are used by the supermarkets to divert customers through their retail outlets groups - including aligned service station and fuel and food convenience stores - to increase market share. Casualties of these strategies in the near and medium term, include independent or non-aligned convenience fuel and food retailers who are unable to access the home-brand products and in many instances are unable to achieve the same Terminal Gate Prices (TGP) for fuel that are available to the supermarket oligopolies.

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In other words, independent or non-aligned convenience fuel and food retailers will be the collateral damage. Of equal concern are the consumers who, potentially, will be disadvantaged over the medium to longer long terms due to diminished convenience and choice, and will pay higher prices because of the lessened competition.

It is observed that milk price discounting has corresponded with increasing petrol prices as a result of apparent cross-subsidisation of prices (the opposite to what occurred over the Christmas period with heavy petrol discounting). In the near term the benefits of lower milk prices maybe offset by adjustments to fuel pricing. It is interesting to note that, coincidentally, the price elasticity of demand of milk and fuel are similar.

Associate Professor at the Australian School of Business at the University of New South Wales Frank Zumbo in a February 8, 2011 column in *The Courier Mail* said:

> "...petrol prices have shot up opportunistically despite the strong Aussie dollar and the Singapore benchmark price we use to calculate local prices having remained consistent in recent weeks.
>
> Yes, international crude oil prices have jumped but local prices are, instead, linked to the refined price of petrol out of Singapore.
>
> Coles and Woolworths are quick to say that the cheaper milk is not being paid for by higher petrol prices. They would say that, but let's not forget that it's the same parent company that sells milk and petrol. So, from a company perspective, any loss of revenue on milk can easily be offset by consumers being gouged on petrol."

Over the past 35 years there have been more than 40 national inquiries into petrol pricing and it remains a "dark art" to many independent and non-aligned fuel retailers which cannot achieve a TGP that could be considered equitable to that available to the oligopolies. MTA Queensland trusts that The Committee is able to elicit the milk price discounting strategies of the oligopolies as it may provide an insight to their fuel price discounting programmes and the ultimate cost to consumers.

MTA Queensland Background

By way of background, MTA Queensland is the peak organisation in the State representing the specific interests of 2,500 businesses in the retail, repair and service sector of Australia's automotive industry. It is an industrial association of employers incorporated pursuant to the *Industrial Relations Act* of Queensland.

The Association, comprising 12 separate divisions represents and promotes the issues of the automotive industries to all levels of government and within Queensland's economic structure. There is a high propensity for the automotive value chain to comprise small to medium enterprises.

MTA Queensland divisions are each representative of a specialist area of the State's automotive industry. They are Australian Automotive Dealers' Association of Queensland; Queensland Farm and Industrial Machinery Dealers' Division; Queensland Motorcycle Industry Division; Automotive Engineers' Division; Queensland Tyre and Undercar Division; Engine Re-conditioners' Association of Queensland; Rental Vehicle Industry Division; Service Station & Convenience Store Association of Queensland; National Auto Collision Alliance;

Used Car Division; Independent Tow Truck Operators and Auto Parts Recyclers' Association of Queensland.

The Association is the leading automotive training organisation in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry. The Association's Motor Industry Training entity is the largest automotive apprentice trainer in Queensland employing 26 trainers based from Cairns to the Gold Coast and Toowoomba and Emerald.

MTA Queensland submits these views for your interest and consideration.

Yours sincerely

Richard Payne
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