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# CHAPTER 1

## REASONS FOR THE INQUIRY

*...are we going to sustain a viable independent sector, or are we not? If we do nothing the reality is that this independent sector is on a one-way street to oblivion at some point in time.*<sup>1</sup>

1.1 The National Association of Retail Grocers of Australia (NARGA) has raised concerns with the Commonwealth Parliament about the growth of the large supermarket chains, and the implications this has for the ongoing viability of small and independent retailers, particularly those in rural and regional Australia. These concerns were taken up by the major political parties during the 1998 election campaign, with a commitment by the Coalition parties to set up an inquiry into retail domination as soon as possible after the election. The inquiry received cross-party support.

### **Background**

1.2 Over the past twenty years or so, the major chains have increasingly established themselves throughout Australia in competition with traditional family-run stores. The expansion of the major chains, the senior management of which may consist of outsiders coming into the town, has placed significant pressures on smaller stores, often run by well-known local identities. This has created a degree of ill feeling and resentment in the retailing sector.

1.3 At a micro level, Australia has seen the demise of hundreds of small grocery stores, butchers, bakers, florists, greengrocers, pharmacists, newsagents, liquor outlets and other small retailers as a result of the continuous expansion of major supermarket chains. At a macro level, the process of globalisation has seen increased pressures placed on the supply side of the market, with primary producers having to compete for markets not only against their fellow Australians, but with others in the same business around the world.

1.4 From the point of supply to the consumer, the need to be competitive has led to an increased emphasis on cost minimisation, an important component of which is the exploitation of economies of scale. In rural Australia, this has been manifested by farm aggregation, the centralisation and closure of bank branches, and the move of retailing businesses to major regional centres.

1.5 Other factors affecting rural and regional Australia over the past decade include downward trends in world commodity prices, lower demand resulting from the economic downturn of some important trading partners and increased

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1 Mr Alan McKenzie, National Spokesman, National Association of Retail Grocers of Australia, *Hansard*, Canberra, 12 July 1999, p 1040.

environmental concerns over land use. The combination of these factors appears to have eroded confidence in the prospects of many smaller towns.<sup>2</sup>

1.6 From a wider perspective, the National Competition Policy (NCP) aims to improve the efficiency of the Australian economy through competition, leading to lower prices and higher living standards. The NCP recognises that economic efficiency arising from increased competition must be balanced against other factors, such as protection of the environment, employment and regional development. In theory, the benefits of this policy reform should be able to be distributed so that all members of the community benefit. For this reason, there is a public benefit requirement built into the NCP, with the aim of spreading the gains from increased competition across the country to assist in those places where the policy may otherwise have an adverse local impact.

1.7 At the consumer level, competition in the retailing sector appears to be healthy, with retailers vigorously competing with one another on price and choice. This is evidenced by declining real prices of many grocery items over the last decade, and a massive expansion in product range to the point where major supermarkets now offer over 40,000 different items in their larger stores.<sup>3</sup> Table 1.1 shows the percentage increases in nominal prices of a range of grocery items, and the percentage increases in average weekly earnings from 1991 to 1999.

Table 1.1

*Percentage Increases in Nominal Prices of Groceries Compared With Average Weekly Earnings \*(AWE)*

	Sydney (%)	Melbourne (%)	Hobart (%)	Perth (%)
Milk	33	56	47	35
Cheese	18	15	-6	19
Bread	47	39	68	49
Cereal	9	15	14	15
Flour	25	12	29	16
Peaches	21	6	6	14
Peas	-9	-16	-10	-2
Eggs	71	73	38	21
Sugar	20	20	24	15
Coffee	41	46	39	27
Margarine	28	-2	18	46
Detergent	4	1	-5	5
Tissues	-17	-11	-11	-12
Toothpaste	23	19	11	17
<b>*AWE (%)</b>	<b>24</b>	<b>21</b>	<b>17</b>	<b>16</b>

2 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, May 1999, p xxiii.

3 Coles, Submission 168, Part 3, p 34.

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*Sources:* Price increases calculated from ABS *Catalogue No 6403.0 Average Retail Prices of Selected Items*, March Quarter 1991 and March Quarter 1999, for the respective capital cities as shown. Average Weekly Earnings increases calculated from ABS *Catalogue No 6302.0 Average Weekly Earnings*, February 1991 and February 1999 (using total earnings for all employees across the relevant States).

1.8 In recent years, the retailing sector has had to react to changes in consumer demand patterns, brought about by shifting demographics, the ageing population and generally smaller households. In addition, the higher participation of women in the workforce has driven demand for time-saving products and longer trading hours, which has been assiduously promoted by the major chains. Innovative retailers have reacted to these demands, with consumers being the major beneficiaries from:

- deregulated trading hours;
- a greater product choice;
- lower prices; and
- the convenience of one-stop shopping.

1.9 Consequently, consumers have not been a force in the establishment of this inquiry.

### **Previous inquiries**

1.10 On 14 August 1936, the Honourable John Montgomery Dunningham, the New South Wales Minister for Labour and Industry, directed the Industrial Commission of New South Wales to inquire into and report on the management, control and operations of chain stores in that State. For the purposes of the inquiry, ‘chain stores’ were defined as having four or more outlets in New South Wales, selling the same classes of goods and under central control for ‘all important matters’. The inquiry dealt separately with eight classes of chain stores, which included the ‘variety chains’ of Coles and Woolworths.<sup>4</sup>

1.11 The terms of reference (which are reprinted in Appendix 10) focused on the effects of the chain stores on other parties, including producers, wholesalers, storekeepers and consumers, and whether there was any evidence of unfair competitive practices or undue restraints of trade. Of particular concern was whether the proprietors of chain stores had obtained trade advantages, which were not available to small retailers, whether their profits were excessive, and whether there were any advantages over other retailers under their terms and conditions of employment.<sup>5</sup>

1.12 The Report was presented to the Government by Mr J.A. Browne, President of the New South Wales Industrial Commission, nearly three years later, in July 1939.

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4 Industrial Commission of New South Wales, *Management, Control and Operations of General Chain Stores in New South Wales*, 1939, p 4.

5 Industrial Commission of New South Wales, *Management, Control and Operations of General Chain Stores in New South Wales*, 1939, p 1.

1.13 In relation to variety chains, the Report concluded that:

- The operations of the stores were not detrimental to the interests of other shopkeepers and storekeepers, manufacturers, producers and consumers.
- The variety chains' dispensing of wholesalers did not have a detrimental effect on consumers.
- The variety chains were often able to obtain quantity discounts, but these were almost always available to other large purchasers.
- The profits of the variety chains were not excessive, nor were they advantaged over other stores in relation to their employment practices.<sup>6</sup>

1.14 The Report also listed 22 grocery chains across the State, and concluded that:

- The low prices of certain goods sold in some grocery chains were detrimental to small independent retail grocers who could not make a decent living by selling at the same prices.
- There was a need to place some restriction on the extension of grocery chain stores. A method proposed was that they be required to obtain a licence for each new branch, with such a licence being refused where it was decided by the appropriate Government Department that the needs of the public were already adequately met.<sup>7</sup>
- The operations of the grocery chains were not detrimental to the interests of other parties such as manufacturers, producers and consumers.

1.15 Findings in relation to other matters accorded with those for the variety chains.<sup>8</sup>

1.16 More recently, the House of Representatives Standing Committee on Industry, Science and Technology, *Finding a balance: towards fair trading in Australia*, May 1997 (the Reid Report), commented on the social and economic implications wrought by economic restructuring and the practices engaged in by big business to maintain and increase profits and market share. The Reid Report concluded that small businesses were often disadvantaged in their dealings with big business and recommended a number of specific measures to induce behavioural change on the part of big business towards smaller businesses, and to provide unfairly treated small business operators with adequate means of redress.

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6 Industrial Commission of New South Wales, *Management, Control and Operations of General Chain Stores in New South Wales*, 1939, pp 57-59.

7 Industrial Commission of New South Wales, *Management, Control and Operations of General Chain Stores in New South Wales*, 1939, p 73.

8 Industrial Commission of New South Wales, *Management, Control and Operations of General Chain Stores in New South Wales*, 1939, pp 61-63 and pp 73-74.

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1.17 The areas of concern identified in the Reid Report were unfair conduct, retail tenancy, franchising, misuse of market power, small business finance and access to justice and education.<sup>9</sup>

1.18 Many of the submissions to this inquiry dealt with issues which had already been considered in some detail in the Reid Report.

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<sup>9</sup> House of Representatives Standing Committee on Industry, Science and Technology, *Finding a balance towards fair trading in Australia*, May 1997. The Report's recommendations are reprinted at Appendix 7.