

Appendix 8 Productivity Commission - Draft Report: *Impact of Competition Policy Reforms on Rural and Regional Australia*, May 1999 – Comments relating to the retailing sector

On 31 August 1998 the Treasurer the Hon Peter Costello MP referred the impact of competition policy reforms on rural and regional Australia to the Productivity Commission for inquiry. The Commission was requested to specifically report on:

- the impact of competition policy reforms on the structure, competitiveness and regulation of major industries and markets supplying to and supplied by regional and rural Australia;
- the economic and social impacts on regional and rural Australia (including on small businesses and local governments) of the changes to the market structure, competitiveness and regulation flowing from the reforms and the effect of these impacts and changes on the wider Australian economy;
- possible differences between regional and metropolitan Australia in the nature and operation of major markets and in the economic and social impacts of the reforms promoted by national competition policy; and
- any measures which should be taken to facilitate the flow of benefits (or to mitigate any transitional costs or negative impacts) arising from competition policy reforms to residents and businesses in regional and rural Australia.

The Commission's draft report released in May 1999 observed that there was considerable concern over the exercise of market power by large corporations reducing the number of profitable business opportunities for small business.¹

The Commission heard evidence about the expansion of national retail chains into regional centres. In many regional towns and cities, the opening of a new supermarket had brought about intense competition. The businesses adversely affected often included those in smaller towns where former customers had been attracted to the new supermarkets in regional centres.²

Other issues touched on in the draft Productivity Commission report which were of interest to the retailing sector inquiry included concerns over predatory pricing, and the extent to which the major chains contributed to local

1 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, May 1999, p 282.

2 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, May 1999, p 284.

communities, for example via wages, local sourcing of produce, shareholder returns and donations to local groups.³

The Commission also considered the impact of deregulation of retail prices for milk, and found that there was a widespread belief that the supermarkets had been the main beneficiaries. For example, commenting on the effects of deregulating retail milk prices in New South Wales, the Minister for Agriculture in that state said:

The results are perfectly clear. The dairy farmers have lost out, the vendors have lost out and the consumers have lost out. The only winners are the supermarkets.⁴

In Victoria, the deregulation of the milk market beyond the farm gate in 1992 has also been accompanied by an increase in milk prices, which has been linked to the actions of supermarkets in increasing retail margins for milk.⁵

However, in the draft report the Commission disagreed that the price rises constituted evidence of abuse of market power by the supermarkets. Rather, the Commission concurred with the view expressed by the Commonwealth Department of Agriculture, Fisheries and Forestry that the purpose of regulation had been to suppress retailing margins. Therefore, the price rise, rather than indicating abuse of market power, may indicate that retailing margins had risen to more normal competitive market levels.⁶

On the question of whether of whether the national retail chains were damaging country Australia, the Commission concluded that:

In view of the expansion taking place in country areas and the benefits to consumers (evidenced by the success of the major supermarkets in attracting customers), it is not at all clear that the major supermarkets are a drain on the overall economy of country Australia. In fact, some participants from towns without a major supermarket expressed a desire to have such a store locate in their community in order to retain expenditure within the community rather than see it flow to large supermarkets in other nearby centres.⁷

3 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, May 1999, pp 284-286.

4 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, Canberra, May 1999, p 195.

5 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, Canberra, May 1999, p 196.

6 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, Canberra, May 1999, pp 196-197.

7 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, May 1999, p 286.