

Appendix 9 Legislative Assembly of the Northern Territory – Select Committee on Territory Prices – Report: *Price, Quality and Choice: Striking a Fair Balance*, Vol.1, August 1999 – Terms of Reference, Summary of Findings and Summary of Recommendations

Establishment and Terms of Reference

On 18 February 1999, the Legislative Assembly established the Select Committee on Territory Food Prices.

The Select Committee was to inquire and report to the Legislative Assembly on or before 19 August 1999 on:

- (i) whether or not prices of food, groceries and household items are substantially different to those in comparable locations elsewhere in Australia; and
- (ii) if so, identify the reasons for the variations in prices.

Summary of Findings

The view of the Committee is that the findings of this inquiry are of equal importance to the recommendations outlined in Chapter 3, Summary of Recommendations.

In response to its Terms of Reference the Committee found that:

- Prices charged in Darwin appear reasonable when compared to Cairns and those charged in Alice Springs appear reasonable in comparison to Mt Isa. The Committee did not find evidence to sufficiently justify the price levels found in Katherine and Nhulunbuy.
- Food prices in the Northern Territory will only decrease, without regulatory intervention, to a comparable level to that of capital cities and other locations elsewhere in Australia when the Territory's population reaches a level where substantial economies of scale and infrastructure would allow the market to become more conducive to a higher level of competition.

The Committee also found that:

A Northern Territory 'basket of goods' and comparable locations

1. Due to the Northern Territory's relatively small population and economies of scale, it is not in a position to benefit from nationally competitive pricing that is afforded to regions elsewhere in Australia. Therefore care must be taken when comparing food prices in the Northern Territory with capital cities and other locations elsewhere in Australia, as they could be misleading.

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2. Darwin does not have many of the cost advantages of those capital cities elsewhere in Australia, including:
 - (a) the economies of scale allowed by the population size of most other capital cities when compared to Darwin;
 - (b) proximity to the major distribution centres operated by the national supermarket chains;
 - (c) proximity to major fruit and vegetable producing areas; and
 - (d) the cooler climates in other State or Territory capital cities allowing cheaper storage and longer shelf lives for perishable goods.
3. Given the differing economies of scale behind the grocery pricing regimes in capital cities and other locations elsewhere in Australia, it is far more appropriate to compare food prices in the Northern Territory with comparable locations in Australia that have similar demographics and infrastructure. The locations selected were:
 - (a) Darwin with Cairns;
 - (b) Alice Springs with Mt Isa;
 - (c) Katherine with Broome;
 - (d) Tennant Creek with Derby; and
 - (e) Nhulunbuy with Wyndham.
4. Conducting the survey of prices based only on the information provided by the major supermarket chains impacted on the inquiry in the following ways:
 - (a) the Committee was unable to perform price comparisons for Tennant Creek, as neither supermarket chain has a store in this location;
 - (b) the Committee had to compare Nhulunbuy to a location other than Wyndham because neither supermarket chain has a store in this location. The Committee therefore compared Nhulunbuy prices to Darwin, and tried to explain identified differences; and
 - (c) the Committee had to rely on the information provided by both major supermarket chains. Given the time constraints for this Committee to report by 19 August 1999 the survey was not independently checked, and much of it was historical information.
5. Price surveys conducted with a limited range of items in a 'Basket of Goods' could be open to manipulation and potentially mislead Territorians about the true nature of food prices. The Committee notes that the risk of distortions and manipulation in small sample size surveys could be largely overcome by increasing the sample size and that the cost of undertaking a regular survey of this size could be expensive.

Prices in the Northern Territory

6. Prices charged in Darwin appear reasonable when compared to Cairns and those charged in Alice Springs appear reasonable in comparison to Mt Isa. This could be partly due to the local competition between Coles and

Woolworths in these centres. The Committee did not find evidence to sufficiently justify the price levels found in Katherine and Nhulunbuy.

7. Food prices in the Northern Territory will only decrease, without regulatory intervention, to a comparable level to that of capital cities and other locations elsewhere in Australia when the Territory's population reaches a level where substantial economies of scale and infrastructure would allow the market to become more conducive to a higher level of competition.
8. One feature of the stores in Katherine and Nhulunbuy is the comparative lack of competition, where a 'non-competitive premium' appears to apply.
9. Apart from fresh food, the 'gap' in food prices between Darwin and other capital cities has decreased steadily since 1996. In the case of fresh food, the gap has increased, with a peak in March 1998, and a downward trend since.
10. Since December 1998, food prices generally have steadily dropped in all of the major centres in the Northern Territory, including Nhulunbuy where food prices have dropped marginally.
11. The remote, small and decentralised population of the Northern Territory (191,400) has the effect of increasing prices.
12. The nature of competitive pricing in the grocery industry is based upon the movement of volumes and is subject to the principles of supply and demand.

Cost of doing business in the Northern Territory

13. In terms of the food distribution and purchasing policies of the two national supermarket chains operating in the Northern Territory, the Northern Territory is not regarded as a large enough region to justify a distribution centre attracting 'free into store' (FIS) prices as occurs in capital cities and other locations elsewhere in Australia.
14. There have been instances where locally produced food has been transported to 'southern distribution centres' and subsequently returned to the Northern Territory for sale in the local supermarkets.
15. Once groceries have left a distribution centre there is still a significant range of costs to be recovered by the retailer, some of which contribute to higher food prices in the Territory. These costs include:
 - (a) Transport from warehouse to individual store;
 - (b) Stock spoilage (particularly fresh produce);
 - (c) Administration;
 - (d) Wages, superannuation, payroll tax, workers compensation insurance;
 - (e) Advertising;
 - (f) Electricity (particularly refrigeration and air-conditioning);
 - (g) Rent;
 - (h) Depreciation;
 - (i) Stock holding costs (stock/turnover ratio);

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- (j) Trolley collection and cleaning contractors;
 - (k) Security, money transportation;
 - (l) Local government rates (for garbage collection and other services); and
 - (m) Insurance, public liability cover and other occupancy expenses.
16. As a percentage of the cost of good delivered in to Northern Territory stores, freight accounts for 5.0% in Alice Springs, 7.2% in Darwin, 6.1% in Katherine, 17.3% in Nhulunbuy and higher in remote centres and communities.
17. The two national supermarket chains operating in the Northern Territory benefit from advances in electronic technology.
18. The two national supermarket chains operating in the Northern Territory have a considerable advantage over small retailers through their ability to purchase and install their own EFTPOS hardware and software.
19. In response to the comment by the ACCC that the two national supermarket chains operating in the Northern Territory are able to negotiate favourable terms and conditions with the banks over EFTPOS facilities in the following manner
- (a) the banks tend to charge small retailers 20 cents for every debit transaction;
 - (b) the chains receive around 15 cents per debit transaction from their bank.
- One chain responded that the income received from the banks for EFTPOS transactions represents an offset to the sorts of incurred by the chains in providing EFTPOS facilities.
20. Territory taxes, such as Payroll Tax, were cited as a contributor to higher food prices in the Northern Territory.
21. Wholesale Sales Tax on the freight component of certain goods was a factor that contributed to higher food prices. The Committee noted that with the introduction of the Goods and Services Tax (GST), the Wholesale Sales Tax (WST) would be phased out.
22. Based on the 'Basket of Goods' developed by the Committee, the implementation of the GST would have a minimal impact on food prices. The total basket in Darwin pre-GST costs \$141.35 and post-GST costs \$139.32, which represents a saving of \$2.03 (-1.4%). It is still unclear how the GST may impact on food prices in the remote centres and communities in the Northern Territory and warrants further investigation.
23. Electricity usage and price were cited as contributors to a higher food price in the Northern Territory. For climatic reasons, the Northern Territory requires more electricity compared with the rest of Australia for store air-conditioning and refrigeration.

Local food producers

24. Food producers in the Southern and Eastern seaboard have comparative advantages of economies of scale, lower overheads, cheaper transport costs, ready access to major markets and lower inventory costs.
25. Opportunities are limited for local food producers to compete on a 'level playing field' nationally.
26. Delivery of produce into 'Southern' stores is on a daily basis whilst into Darwin Stores is on average three times a week.
27. A number of local food producers are dependent for their livelihood upon the two major national supermarket chains operating in the Northern Territory, which results in exposure of the small local operations to the competitive advantages of the scale of economies generated elsewhere in Australia, particularly within the Southern States.
28. The sale and supply of local produce directly to the two major national supermarket chains operating in the Northern Territory is negotiated on an ad-hoc basis, with limited guarantees of continuation from the chains to receive that produce.
29. Given high costs of production, local food producers have found it difficult to compete at the national level. Produce elsewhere in Australia is provided on a more continuous basis and usually at a more favourable price to the consumer.
30. There is considerable opportunity for growth in the Northern Territory's horticulture industry, but it is fragmented in nature with a lack of infrastructure that hinders continued development.
31. Local markets are smaller and more disparate than those established in the States and the Australian Capital Territory.

The national supermarket chains in the Northern Territory

32. The two national supermarket chains operating in the Northern Territory, irrespective of the contribution they make to the local economy, are in business to make a profit and provide a return to their shareholders.
33. Only two national supermarket chains, namely Coles Myer Supermarkets Australia Ltd and Woolworths Supermarkets (SA) Division operate in the Northern Territory.
34. Should a new major supermarket competitor wish to commence operations within the Northern Territory, it would find it very difficult, principally due to the infrastructure establishment costs. The establishment of a new major supermarket competitor to the Northern Territory would be a commercial decision, determined entirely by the demands of the market.
35. The two national supermarket chains operating in the Northern Territory have acquired a significant market share. This has come at the expense of the local independent supermarkets.

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36. The competition between the two major national supermarket chains operating in the Northern Territory benefits the consumer by providing convenience through access to:
 - (a) a wide variety of goods;
 - (b) quality food, in particular meat, fruit and vegetables; and
 - (c) a consolidation of complementary retail services, for example, butchery and bakery services, newsagency and fast food outlets.
37. There appears to be adequate safeguards in respect of monitoring trading hours and market competition already in place under the authority of the Australian Competition and Consumer Commission (ACCC). The Committee noted that the ACCC would be closely monitoring the implementation of the GST.
38. Consumers want to have the services and convenience of shopping in either the major national supermarkets or at a local independent supermarket.
39. There is a lack of educational and promotional awareness programs from the grocery industry, which would assist the consumer in making an informed choice.
40. There was strong support within the community for greater consumer awareness of competitive food prices and variations in the Northern Territory, through the re-introduction and regular publication of price comparisons.

Restricted trading hours

41. The local independent supermarkets favoured restricted trading hours and a cap on market share.
42. There was strong consumer demand for retaining unrestricted trading hours as it has become a way of life in the Northern Territory.

Remote centres and communities

43. Some of the major centres and all of the remote communities in the Northern Territory are disadvantaged in terms of price, variety and quality of food supplied, particularly perishable foodstuffs.
44. Due to the absence of economies of scale in remote centres and communities in the Northern Territory, higher costs tend to be incurred for the transport of goods by sea, air and road to those centres and communities.
45. There is no significant difference in terms of stock spoilage between the major centres in the Northern Territory and stores in other comparable locations elsewhere in Australia. However, stock spoilage (particularly fresh food and meat) was a major contributor to higher prices in remote centres (including Nhulunbuy) and communities.
46. There were a number of models as to how remote Aboriginal Communities establish and maintain the running of the 'Community Store'. These models reflect the following:

- (a) Community Stores that are controlled and operated by the local community government;
 - (b) Community Stores that are established as incorporated bodies, separate from the local community government;
 - (c) Community Stores that are established as incorporated bodies, separate from the local community government but return their profits to the community; and
 - (d) Community Stores that are run as private organisations.
47. The Community Store Manager plays an important role in regard to the quality, quantity and availability of foods in remote communities, and eventually the nutritional health of a community.
48. In some remote Aboriginal communities the Community Store may not be regarded as an economic enterprise, but rather a convenient source of funds for other community interests. This may have a detrimental effect in regard to providing reasonable food prices, namely that:
- (a) the store manager may refrain from making commercial decisions that would preserve the viability of the store;
 - (b) the threat of insolvency may result in an even higher mark-up on food and other items; and
 - (c) the wholesaler when dealing with a community store may see such a store as high risk and therefore charge accordingly.
49. Higher food prices in Community Stores in remote communities do affect peoples' buying patterns.
50. The incidence of diet related ill health is higher in remote Aboriginal communities. These concerns were raised by Territory Health Services in its submission to the Committee which estimated:
- approximately 95% of food eaten in Aboriginal communities is food purchased in the store, with traditional foods now contributing only a small amount to peoples' dietary intake. Poor diet is a major risk factor for chronic diseases such as coronary heart disease, diabetes and renal disease, all of which are of higher prevalence in the Aboriginal population, along with low birth weight and undernutrition in early infancy.
51. The introduction of local food enterprises such as the development of market gardens in some of the remote centres and communities, has the potential to reduce food costs and provide food of high quality and nutritional value.

Summary of Recommendations

A Northern Territory Basket of Goods and comparable locations

1. The Committee recommends that the Government (in consultation with industry and consumer representatives) develops guidelines necessary to monitor grocery prices across the Northern Territory and that the results be published on a regular basis.

Prices in the Northern Territory

2. The Committee recommends that retailers provide consumers with the unit price of goods together with the price payable and that these be adequately reflected on the shelf label.

Cost of doing business in the Northern Territory

3. The Committee encourages the Government to continue its present policy of reducing commercial electricity tariffs, with further reductions being made as soon as possible until commercial tariffs are in line with the 'all-States' average. It further recommends that the Power and Water Authority continues to publish in its annual report, the inter-city comparisons of electricity tariffs.

Local food producers

4. The Committee recommends that the Government develops a feasibility study on the food supply system in the Northern Territory, and that in doing so the study should take into account:
 - (a) the identification of the factors influencing the distribution of food;
 - (b) the strategies to address factors that impact upon food supply;
 - (c) to identify how those strategies in item (b) above can be implemented; and
 - (d) the viability of establishing a wholesale market or food co-operative that will serve the Northern Territory and South East Asia.
5. The Committee recommends that local food producers within the Northern Territory organise themselves into coherent and representative bodies that can readily compete with major producers elsewhere, by establishing a competitive regime to sell local produce to the major national supermarkets operating in the Northern Territory and South East Asia.

Remote centres and communities

6. The Committee recommends that an inquiry be undertaken:
 - (a) to review the operation and management practices of stores within remote communities;
 - (b) to identify ways to assist those stores to effectively meet community aspirations; and
 - (c) to assess the overall impact of the GST on food prices in remote communities.

7. The Committee recommends that the Government facilitates sponsored trainee programs for remote community stores staff on all aspects of managing and handling food and produce.
8. The Committee supports the development of an award system for stores in remote communities, to foster and promote best business and management practices in meeting community aspirations.
9. The Committee recommends that the Government facilitates programs that will allow for the establishment and the development of local food enterprises and ventures, such as market gardens in remote centres and communities, that will reduce food costs and provide food of high quality and nutritional value.

Restricted trading hours

10. The Committee does not support the call to regulate prices nor restrict trading hours.