



Forcing prices up

The impact of the ACT government's
supermarkets policy and implementation

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June 2010

 **Institute of
Public Affairs**
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Executive Summary

Grocery prices will always be controversial, especially when government policy is artificially inflating their price.

The ACT government commissioned John Martin to complete a review into the ACT government's supermarkets competition policy. Following the Review the ACT government developed an Implementation Plan designed to centrally direct which supermarkets could bid for operation on different sites.

Despite favouring no cap on the market share of different participants, by introducing restrictions on which chains can bid at different sites the government is effectively imposing a market share cap by stealth.

The key consequences of the government's implementation of its supermarkets policy at Kingston, Dickson, Casey and Amaroo will be to:

- Require the price of groceries at these new supermarket sites to be between \$6.52 and \$13.45 more expensive than the cheapest ACT supermarket site.
- Increase the price of the mean ACT basket of groceries to \$8.02 compared to the cheapest basket available in the ACT amounting to a mean price nearly ten per cent higher than necessary.
- Increase the price of the mean basket of groceries in the ACT by \$1.05 or 1.18 per cent adding an additional third increase on top of inflation.

Increases in prices needn't be the case. The ACT government can use its power to reduce grocery prices, by:

- Using its planning powers to increase the amount of available land zoned for new supermarkets to cut the cost of market entry.
- Allowing the market to decide which supermarkets will operate at each site, thereby encouraging operators with lower cost structures to enter the marketplace.
- Temporarily or permanently cutting taxes for new market entrants to remove cost barriers to entry.

Instead of being a policy to promote lower prices, the ACT government's supermarkets policy appears to be a form of industry protection for Chief Minister Stanhope's preferred Supabarn. But as the ACT Treasury's own data shows, the cost of that protection will be felt through higher grocery prices for supermarket shoppers.

1.0 Introduction

The price of groceries will always be controversial, especially when government policy can contribute to rises and falls of their prices. Grocery prices are also controversial because they make up such a large component of the disposal incomes of Australian households.

Currently, the average Australian household spends up to 14 per cent of their income after tax on standard grocery items.¹

In the lead up to the 2007 Federal Election the increase in the price of groceries were a significant political issue because it was a tangible example of the financial stress Australians felt they were under.

Upon their election the Rudd government requested an Australian Competition and Consumer Commission inquiry into grocery prices.

Following the ACCC Inquiry the ACT government commissioned a related inquiry, the Martin Review, to assess the ACT government's own policies and how they can be used to promote competition.

And following the release of the Martin Review the ACT government released and acted on its Supermarket Competition Policy Implementation Plan.

In light of the Inquiry, Review and Implementation Plan, this paper will review the process of the ACT government's changes in supermarket policy and its impact for consumers.

¹ Australian Bureau of Statistics (ABS Cat. No. 6530.0) found in Australian Competition and Consumer Commission, 2008, "Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries", Commonwealth of Australia, Canberra, Australia, at <http://www.accc.gov.au/content/item.phtml?itemId=838251&nodeId=ada0fb93c16b68d5a78ac665943b688d&fn=Grocery%20inquiry%20report,%20overview.pdf>

2.0 2008 Australian Competition and Consumer Commission Inquiry

Following the 2007 Federal Election and the Rudd opposition's commitment to work to lower grocery prices, the newly elected government requested the Australian Competition and Consumer Commission to investigate grocery prices. And in July 2008 the ACCC reported on its inquiry into the competitiveness of retail prices for standard groceries, assessing the structure and supply chain of the industry, the competition in the industry, the pricing practices by the industry, barriers to more efficient pricing as well as allied industry concerns.²

In its final report the ACCC made a series of findings, importantly:

- That the groceries market is generally competitive with only limited factors promoting further price competition including the cost of entry into the market, the lack of incentives for price competition amongst the majors and from independent stores.
- Low cost competitor, ALDI, has injected competition that has increased competition and required the majors to respond.
- A lack of competition has had a nominal impact on inflation of food prices.³

The ACCC also found that the problem associated with competition was related to competition amongst wholesalers, and that "while small independent retailers provide a competition alternative, they do not significantly contribute to price competition. And that "most of these stores are smaller stores, which largely compete strongly on the basis of convenience, service and local community ties rather than on the basis of price".⁴

Following the conclusions of the ACCC inquiry, the ACT government requested a review into the ACT's supermarkets policy.

3.0 The 2009 Martin Review

In June 2009 the ACT Chief Minister, Jon Stanhope, commissioned consultant, John Martin, to complete a review of the ACT's supermarkets policy. In his brief Martin was required to report on the adequacy of the existing policy in light of the outcome of the ACCC Inquiry, the current and future dynamics of the sector, how government can support competition in both retail and wholesale, and frameworks, policies and procedures to promote competition.⁵

Importantly, the brief did not include policies that would result in cutting the price of grocery items, only competition.

² Australian Competition and Consumer Commission, 2008, "Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries, July 2008", Commonwealth of Australia, Canberra, Australia at <http://www.accc.gov.au/content/index.phtml?itemId=838251>

³ Australian Competition and Consumer Commission, 2008, "Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries", Commonwealth of Australia, Canberra, Australia, at <http://www.accc.gov.au/content/item.phtml?itemId=838251&nodeId=ada0fb93c16b68d5a78ac665943b688d&fn=Grocery%20inquiry%20report,%20overview.pdf>

⁴ Australian Competition and Consumer Commission, 2008, "Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries", Commonwealth of Australia, Canberra, Australia, at <http://www.accc.gov.au/content/item.phtml?itemId=838251&nodeId=ada0fb93c16b68d5a78ac665943b688d&fn=Grocery%20inquiry%20report,%20overview.pdf>

⁵ Martin, J., 2009, "Review of ACT Supermarket Competition Policy", Martin Stone Pty Ltd for the ACT Government, Canberra, Australia, at http://www.business.act.gov.au/__data/assets/pdf_file/0003/167025/Supermarket_Competition_Policy.pdf

The review concluded with fifteen recommendations about how the ACT government could address supermarket competition through policy. Many of the recommendations mirrored those made by the ACCC in its Inquiry and principally focused on how government could foster competition for both grocery retailers and wholesalers, specific recommendations of which stores could be set up in growth areas and specifically recommended that “any form of cap on the market share of participants should be rejected”.⁶

However, the Martin Review attracted criticism from ACCC Chairman, Graeme Samuel. Mr Samuel raised concerns that sections of the Martin Review were in conflict with the conclusions of the ACCC Inquiry and principles of the Trade Practices Act.⁷

4.0 ACT Government’s policy response and actions

Following the completion of the Martin Review the ACT government released its *ACT Supermarket Competition Policy Implementation Plan*. According to the Implementation Plan the ACT government developed a new framework to support supermarket competition, including supporting new entrants and larger and independent full line supermarkets to operate, supporting more wholesale competition, flexibility in zoning provisions, no cap on the market share of participants, inter-departmental coordination on policy and regular industry consultation. Importantly the implementation plan included proposals for land release assessments for new supermarkets based on weighting criteria to support market outcomes.⁸

Following the release of the implementation plan on the 6th of May the ACT Chief Minister Stanhope announced the government’s first implementation response to its new supermarkets policy. As part of its announcement the ACT government decided that in:

- Kingston, a car park would be converted to develop a new Supabarn supermarket without the opportunity for any other supermarket chains to bid.
- Dickson, a large format supermarket site would be available for all players, except Woolworths, to bid for the development of a new store.
- Casey, sites would be released for an ALDI and Supabarn store.
- Amaroo, a site would be released for a large format supermarket that would be exclude Woolworths and Coles.⁹

The government is now in the process of implementing its proposals, and has claimed that “importantly for Canberra shoppers there should, over time, be greater choice, lower prices and improved service”.¹⁰

⁶ Martin, J., 2009, “Review of ACT Supermarket Competition Policy”, Martin Stone Pty Ltd for the ACT Government, Canberra, Australia, at

http://www.business.act.gov.au/__data/assets/pdf_file/0003/167025/Supermarket_Competition_Policy.pdf

⁷ Samuel, G., 2009, “Presentation to the Senate Economics Legislation Committee Estimates”, Parliament of Australia, Canberra, Australia, at <http://www.aph.gov.au/hansard/senate/commtee/S12501.pdf>

⁸ Department of Land and Property Sales, 2010, “ACT Supermarket Competition Policy Implementation Plan”, ACT Government, Canberra, Australia, at http://www.business.act.gov.au/__data/assets/pdf_file/0007/176749/ACT_SUPERMARKET_COMPETITION_POLICY_IMPLEMENTATION_PLAN_jan09_-_FINAL.pdf

⁹ Stanhope, J., 2010, “Boost for supermarket competition”, Media Release, Australian Capital Territory Government, Canberra, Australia at <http://www.chiefminister.act.gov.au/media.php?v=9505>

¹⁰ Stanhope, C., 2010, “Supermarket plan to deliver choices, cheaper prices”, Business and Industry Development, ACT Chief Minister’s Department, ACT Government, Canberra, Australia, at http://www.business.act.gov.au/functions/hot_topics_and_business_news/supermarket_plan

Table 1 | Impact of ACT Supermarkets policy on grocery prices

Location	Supermarket	Cost of basket
Existing ACT Treasury Sample Data		
Central Belconnen	Coles	\$82.32
Woden	Woolworths	\$82.33
Central Belconnen	Woolworths	\$82.45
Dickson	Woolworths	\$82.48
Holt	Woolworths	\$82.85
Gungahlin	Woolworths	\$83.08
Jamison	Coles	\$83.10
Weston Creek	Woolworths	\$83.14
Condor	Woolworths	\$83.20
Hyperdome	Woolworths	\$83.27
Kambah	Woolworths	\$83.81
Calwell	Woolworths	\$84.33
Manuka	Coles	\$84.68
Waniassa	Woolworths	\$85.03
Hyperdome	Coles	\$85.15
Charnwood	Woolworths	\$85.29
Chisholm	Coles	\$85.40
Queanbeyan	Woolworths	\$85.41
Gungahlin	Coles	\$86.00
Woden	Coles	\$86.14
Wanniassa	Supabarn	\$88.47
Civic	Supabarn	\$89.21
Kaleen	IGA	\$96.82
Civic	IGA	\$96.88
Yarralumla	IGA	\$97.31
Richardson	IGA	\$97.76
Fraser	IGA	\$104.86
Hawker	IGA	\$107.30
Waramanga	IGA	\$110.08
Lyneham	IGA	\$110.64
Mean		\$89.29
Additional Sample Data resulting from Supermarkets policy		
Kingston	Supabarn	\$88.84
Dickson	Non-Woolworths ¹	\$92.08
Casey	Supabarn and ALDI ²	\$88.84
Amaroo	Non-Woolworths and Non-Coles ³	\$95.77
Mean		\$91.39
Consequences of Supermarkets policy		
Revised Mean⁴		\$90.34
Difference		\$1.05
Percentage increase⁵		1.18%
Inflation rate		2.9% – 3.0%

Sources: ACT Treasury data sourced from Kretowicz, E., 2010, “It pays to shop around for groceries”, Canberra Times, Canberra, Australia, IPA Calculations and Reserve Bank of Australia

Notes:

¹ Based on the mean price of a basket of groceries from available data for non-Woolworths stores

² Data for ALDI is not available

³ Based on the mean price of a basket of groceries from available data for non-Woolworths and non-Coles stores

⁴ Mean of all supermarkets included in the table

⁵ Increase of the revised mean on the ACT Treasury’s mean price for a basket of groceries

It is also clear that reducing prices was also the objective of industry. Following the Chief Minister Stanhope's supermarkets policy announcement Managing Director of Supabarn, Eric Koundouris, said "competition means lower prices".¹¹

However the claims that the government's implementation will result in lower prices is highly contestable, evidenced in its own data.

Earlier this year the ACT Treasury released data based on the cost of a 29 item supermarket basket for most ACT supermarkets. The data is provided as Table 1. According to the ACT Treasury data the twenty cheapest baskets were all found at Coles and Woolworths stores, which are predominantly the stores locked out of bidding for new supermarket sites following the introduction of the ACT's supermarkets Implementation Plan.

But the impact of the Implementation Plan is not to lower prices, but to increase them.

Based on calculations using the ACT Treasury's data of the mean cost of a basket of groceries for those chains entitled to bid at the Kingston, Dickson, Casey and Amaroo sites the impact of the ACT's competition model is to:

- Require the price of groceries at these new supermarket sites to be between \$6.52 and \$13.45 more expensive than the cheapest ACT supermarket site.
- Increase the price of the mean ACT basket of groceries to \$8.02 compared to the cheapest basket available in the ACT amounting to a mean price nearly ten per cent higher than necessary.
- Increase the price of the mean basket of groceries in the ACT by \$1.05 or 1.18 per cent, adding an additional third increase on top of inflation.

¹¹ Kretowicz, E., 2010, "Woolies, Coles in planning shut-out", Canberra Times, at <http://www.canberratimes.com.au/news/local/news/general/woolies-coles-in-planning-shutout/1823442.aspx>

5.0 The benefits of competition in the ACT supermarket sector

There is no argument about the enormous benefits of competition. Competition is absolutely vital to keep enterprise honest and stop exploitation by business of the consumer. In his seminal work, *An inquiry into the nature and causes of the wealth of nations*, Adam Smith, deals directly with the benefits of competition in grocery prices.

The quantity of grocery goods, for example, which can be sold in a particular town, is limited by the demand of that town and its neighbourhood. The capital, therefore, which can be employed in the grocery trade cannot exceed what is sufficient to purchase that quantity. If this capital is divided between two different grocers, their competition will tend to make both of them sell cheaper, than if it were in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater, and the chance of their combining together, in order to raise the price, just so much the less ... It can never hurt either the consumer, or the producer, on the contrary, it must tend to make the retailers both sell cheaper and buy dearer, than if the whole trade was monopolized by one or two persons.¹²

And the principles outlined by Smith regarding grocery competition remain today. In principle, the greater the number of market players competing, the more likely there will be a reduction in prices for the consumer and also a decreased likelihood of collusion between market players.

Rightly, the ACCC Inquiry, the Martin Review and the ACT government's Implementation Plan all argue in favour of having a market framework that supports competition.

Table 2 | Market participants and their floor space to turnover share

Group	Floor space	Turnover	Turnover to floor space ratio
ALDI	7.5	8.7	1.16:1
Coles	21.0	20.6	0.98:1
Supabarn	7.0	7.7	1.10:1
Woolworths	39.2	51.6	1.32:1
IGA and other smaller independents	25.3	11.4	0.45:1

Source: Martin Review and IPA calculations

But it is important to understand that not all competition is driven by price. As the Martin Review concluded “the successful independent’s competitive advantage derive from excellent personal service, utilising local suppliers, meeting special customer needs in terms of products not supplied by the major chains and links to local community activities”. And as a consequence regulating in favour of the introduction of more supermarket chains, especially those with a history of higher prices, is unlikely to cut the price of groceries.

Data included in the Martin Review found that of forty major indicators for consumer tastes and preferences for individual supermarkets, Woolworths won almost all categories shortly followed by Coles. The only differentiating supermarket chain was ALDI because of value and price. And as Table 2 identifies, ALDI’s affordability doesn’t necessarily equate to higher consumer preferences.

¹² Smith, A., 1998, Sutherland, K. (Ed), “Wealth of Nations”, Oxford University Press, United Kingdom

Instead of being a policy to promote competition the ACT's supermarket Implementation Plan increasingly looks like a form of industry protection. In media statements, Chief Minister Stanhope appears to like commending the benefits of his policy for "locally-grown independent chain Supabarn" and states his policy will "complement Supabarn's entry into fast-moving wholesale competition in the ACT".¹³

But, as with all industry protection, the cost is born by consumers because of decreased competition and the loss of entry of more competitive players. And the data provided in Table 1 evidences that outcome for ACT supermarket shoppers as a result of the ACT government's policy because Supabarn is a more expensive.

6.0 Cutting grocery prices

It is widely accepted in the reviews completed that a key problem with supermarket competition is the high cost of entry. The high cost of entry is driven by many factors, most notably the purchasing or leasing of sites for development, development and fit out costs, and the cost of initial stock and other resources. The higher the costs of entry the more likely entry points will favour established operators, notably the two majors, who have good access to capital and are likely to be able to out-bid smaller or unestablished competitors, like entrepreneurs setting up an independent store.

There are two key instruments that the government can employ to address these problems:

1. Planning regulations
2. Taxation powers

6.1 Planning regulations

Land for a large format supermarket will always be expensive because of the physical amount of land required and the alternative competitive uses of that land based on its location. However restrictive zoning laws that limit the land available for commercial purposes generally, and the development of supermarkets, restricts potential competition.

Increasing the volume of land available for the development of supermarkets is likely to decrease the costs of entry. In part, the ACT has adopted this approach by increasing the number of available sites for supermarkets. But the government is offsetting the gains of increased sites by then deciding which market players are then allowed to bid to operate at different sites. And based on its behaviour to date, it is favouring high cost operators, not lower cost operators who will have the effect of increasing the mean price of groceries.

6.2 Taxation powers

The ACT government has modest taxation powers to collect sufficient revenue to support its activities. But any business tax adds as a cost barrier on the establishment of new, or operation of existing, enterprises. Reducing business taxes such as stamp duty, land tax or payroll tax for new entrants will reduce the costs of entering the marketplace for the non-majors. Cutting these taxes for a temporary or permanent period of time would remove a barrier to entry for market players irrespective of their size and access to capital.

¹³ Stanhope, J., 2010, "Boost for supermarket competition", Media Release, Australian Capital Territory Government, Canberra, Australia at <http://www.chiefminister.act.gov.au/media.php?v=9505>

7.0 Conclusions

The potential impact of the ACT government's Implementation Plan is significant.

Despite favouring no cap on the market share of different participants, by introducing restrictions on the chains that can bid at different sites, the government is effectively imposing a market share cap by stealth.

And the cost is likely to be passed onto consumers. According to calculations based on the ACT Treasury's own supermarket survey data the Implementation Plan would:

- Require the price of groceries at these news supermarket sites to be between \$6.52 and \$13.45 more expensive than the cheapest ACT supermarket site.
- Increase the price of the mean ACT basket of groceries to \$8.02 compared to the cheapest basket available in the ACT amounting to a mean price nearly ten per cent higher than necessary.
- Increase the price of the mean basket of groceries in the ACT by \$1.05 or 1.18 per cent, adding an additional third increase on top of inflation.

Without engaging in central planning the ACT government can introduce policies to reduce grocery prices, by:

- Using its planning powers to increase the amount of available land zoned for new supermarkets to cut the cost of market entry.
- Allowing the market to decide which supermarkets will operate at each site, thereby encouraging operators with lower cost structures to enter the marketplace.
- Temporarily or permanently cutting taxes for new market entrants to remove cost barriers to entry.

7.0 Reference list

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8.0 About the Institute of Public Affairs

The Institute of Public Affairs, founded in 1943, is the world's oldest free market think tank. The IPA is a not-for-profit research institute based in Melbourne, Australia with staff and associates based around Australia.

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- Industrial relations
- Taxation
- Investment

9.0 About the Author | Tim Wilson

Tim is Director of the Intellectual Property and Free Trade Unit at the Institute of Public Affairs.

Tim is one of Australia's foremost commentators and debaters on public policy and regularly appears on Australian and international television and radio as well as contributing chapters to books and being published in newspapers such as *The Australian* and the *Wall Street Journal*. *The Australian* newspaper has recognised him as one of the ten emerging leaders of Australian society and has also received an Australian Leadership Award from the Australian Davos Connection.

He is also a member of the Department of Foreign Affairs and Trade's IP industry Consultative Group. Prior to working at the IPA he delivered aid and development projects across South East Asia, was a trade, IP and communication consultant and advised State and Federal Members of Parliament.

Tim was twice-elected President of the Monash University Student Union and was elected to the Council of Monash University. He also serves on the steering committee of the Sydney Opera House's Festival of Dangerous Ideas.

He is currently completing a Graduate Diploma of Energy and the Environment (Climate Science and Global Warming) at Perth's Murdoch University and Asialink's Leaders Program at the University of Melbourne. Tim has completed a Masters of Diplomacy and Trade (International Trade) and a Bachelor of Arts (Policy Studies) from Monash University, a Diploma of Business (Frontline Management) and is a qualified carbon accountant through Swinburne TAFE. Internationally he completed the IP Summer School at the World Intellectual Property Organisation's Academy, the Global Health Diplomacy Executive Program and the WTO, International Trade and Development Program at the Institut de Hautes Études Internationales et du Développement, Geneva.