



Master Grocers Australia Ltd

Trading as:

**MGA Independent Retailers
and
MGA Liquor**

NSW Container Deposit Scheme Review

Monitoring the Impact of Container Beverage Prices and Competition

Submission to
IPART

March 2018

National Support Centre - Suite 5, 1 Milton Parade, Malvern VIC 3144

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Submission by Master Grocers Australia (MGA Independent Retailers) to the Independent Pricing and Regulatory Tribunal

March 2018

Introduction

MGA Independent Retailers (MGA) is the peak registered national employer industry organisation representing family enterprises and private supermarket and packaged liquor businesses in all States and Territories of Australia trading under brand names such as; FoodWorks, Friendly Grocers, IGA, SPAR, Supa IGA, Bottlemart, Cellarbrations, Ritchies Liquor, The Bottle O and various independents.

MGA members range in size from small, to medium and large businesses.

Independently owned and operated licensed Supermarkets and stores play a major role in the retail industry and make a substantial contribution to the communities in which they trade.

In Australia, MGA's 2,700 members made up of employ over 115,000 full time, part time and casual staff, representing more than \$15 billion in retail sales. Many MGA members are small family businesses, employing 25 or fewer staff.

In New South Wales our 495 members – independent supermarkets and packaged liquor stores, employ more than 20,000 people and transact over \$3.1 Billion in sales.

MGA is making this submission to the NSW Independent Pricing and Regulatory Tribunal (IPART) in response to the NSW Premier Hon Gladys Berejiklian MP final terms of reference issued on the 9th February 2018.

The purpose of this review is to give IPART insights and information pertaining to the impact of the NSW Container Deposit Scheme (CDS) introduced on the 1st December 2017 – (1st November 2017 to 1st December 2018).

1. The effect of the CDS on prices of beverages supplied in a container.
2. The effect of the CDS on competition for beverages and the performance and conduct of suppliers, and
3. Any other market impacts on consumers that arise from the commencement of the CDS.

Key Review Considerations

As the Peak National Industry Employere Organisation representing Independent Grocers, Licensed Grocers and Free Standing Liquor Stores, Master Grocers Australia (MGA), will address the review by sharing first hand the impactful consequences of the introduction of the CDS on the day to day business activities of MGA's members.

As retailers are at the end of the product pricing chain, the final consumer selling price is determined by the invoiced value of goods purchased and varies from store to store based on their individual fixed and variable operating costs.

The Review

MGA will address the specific numbered points relevant to our members as set out in the Review paper.

4. Assessing the effects of the CDS n beverage prices

MGA agrees in principle with the approach IPART is taking when conducting its product pricing analysis, and offers the following;

4.1 Period we propose to consider

MGA believes that the proposed monitoring period from 1 November 2017 to 1 December 2018 is too small a window to reflect the true impact on pricing of the CDS, as many retailers engaged in "investment buying" of stock prior to the CDS commencement date. This allowed retailers to keep prices of key brands down to compete with the large chain stores, which therefore delayed the impact of the CDS cost to consumers. To obtain a true indication of the CDS impact on pricing MGA believes a longer trading window would be required as this would allow "investment" stocks to be depleted through the retail system allowing the numbers to be better reflected in the ABS June 2018 quarter price indicies.

5. Assessing the effects of the CDS on competition

IPART refers to the Regulatory Impact Statement (RIS) prepared by the EPA. MGA notes that within the report there is no reference to the negative economic impact inflicted on NSW retailers from Cross Border Trading, due to NSW consumers that will be taking advantage of the lower retail prices of between \$4.00 - \$5.00 (per case 24) on CDS impacted products, by shopping with retailers in Victoria, Queensland and Australian Capital Territory. MGA submits that this anti competitive situation has been a gross oversight in the cost modelling and economic impact of the CDS for NSW border region retailers.

5.2 Considering a number of competition indicators

There is no doubt that the introduction of the CDS has greatly impacted competition between small and medium sized retailers in border region towns as apposed to the more balanced cost impact the scheme has had on Sydney metropolitan retailers.

Border Region SME retailers have had to apply the full cost of the CDS to the cost of their goods when selling to their customers, whereas, the large national retailers such as Woolworths, Coles and Aldi, have to date used their market power to absorb the CDS surcharge, by selling product in their NSW border stores at Victorian prices, consequently giving them a clear market advantage (*refer to attachment 1*).

This has resulted in:

- Many MGA members trading in the vicinity of the NSW border regions reporting gross sales declines of up to 19% for the period 1 December 2017 to 1 March 2018 compared to the same period 1 December 2016 to 1 March 2017. This is entirely due to consumer cross border trading and the major retailers, such as Woolworths, Coles and Aldi maintaining and holding, Victorian pricing (or pre CDS cost prices) in those regions.
- Many independent stores are absorbing part if not all of the CDS cost and they have continued to sell products (CDS) below their cost. These loss making margins have been necessary because they need to meet the competition (cross border and chain store pricing) and maintain sales and customer loyalty (*refer to attachment 2*).

- Retailers are resorting to purchasing product from interstate to avoid the CDS cost component in an effort to compete, to improve profitability and to remain viable businesses.
- Independent Retailers have been forced to buy products (attracting the CDS) from their opposition, Woolworths and Coles “Big Box” retailer brands such as Dan Murphy and 1ST Choice, which have not been applied to core products of beer, premix and ready to drink beverages, cider and water, the additional CDS costs of between \$3.00 - \$4.00 (per case 24) thus facilitating better buying prices from these retailers rather than their own suppliers.
- Consumers purchasing goods from border region retailers in Victoria, Queensland and the ACT have taken advantage of the \$3.00- \$4.00 price saving (per case 24). In addition to the better cost prices consumers are able further increase their savings by redeeming the \$2.40 deposit refund (case of 24) resulting in a potential saving of \$6.40 per case, making cross border purchasing even more attractive for them.
- Once consumers develop the habit of Cross Border shopping for CDS impacted items, the risk then increases that their shopping habits will change to shopping for their full grocery requirements at cross border retailer stores. The inevitable consequence will be to further reduce total grocery sales from NSW family enterprises and private businesses.
- NSW Border region, retail bannered stores such as IGA, Foodworks, Cellarbrations and The Bottle O traditionally run with either Victorian or Queensland advertised promotional pricing (newspapers, catalogues, radio and TV). The introduction of the NSW CDS has significantly increased the cost of doing businesses in these regions due to the requirement by the brands to develop and implement a separate promotional and advertising campaign. This has not affected the 2 big Chain stores, Coles and Woolworths. In addition, this matter has been further exacerbated by the Victorian and Queensland television and radio media networks broadcasting chain store promotions, featuring lower prices, to large cross border regions of NSW.

Although the implementation date of the NSW CDS was delayed from 1 July 2017 to 1 December 2017, it was significantly an inadequate period of time for TOMRA Cleanaway to have the cross counter and Reverse Vending Machine (RVM) collection points established. This failed to allow for a smooth operational period of those sites by both TOMRA Cleanaway and the site operators.

This has resulted in the following effects:

Many family enterprises and private businesses (MGA members) submitted an expression of interest through the TOMRA webpage for placement of RVM'S at their store locations. These retailers had little to no contact from TOMRA regarding their application progress, placement criteria or time frames. MGA members learnt from a public joint media press release that TOMRA, Cleanaway and Woolworths, that Woolworths Stores had been contracted and granted the placement of the initial 200 RVM's, communication and transparency were clearly missing giving Woolworths an instant and unfair market advantage.

- As part of their agreement from TOMRA, Woolworths were also given;
 - vetting rights on other RVM locations
 - a 2.5 kilometer exclusion zone.
- Members are reporting inconsistencies between TOMRA and retailer operators of RVM's and Cross Counter collection point contracts. MGA believes that TOMRA should be transparent with the contracts it is offering to existing and potential operators, as the return per container value effects the competitive nature of the retail outlet.

5.4 Investigating unfair or unjustified behaviour or market outcomes

MGA's agrees that IPART should fully investigate and refer to the relevant regulator any breaches of the NSW Fair Trading ACT or the ACCC where it deems there have been unfair and anti competitive businesses practices as noted.

Conclusion

As stated in our 'Key Review Considerations' as the Peak National Industry Organisation representing Independent Grocers, Licensed Grocers and Free Standing Liquor Stores Master Grocers Australia (MGA), have addressed the relevant points of the review from a Independent retailers perspective.

1. There is no doubt that the introduction of the CDS has greatly impacted pricing competition between small and medium sized retailers in border region towns. NSW border region retailers have reported gross sales declines of up to 19% for the period 1 December 2017 to 1 March 2018 compared to the same period 1 December 2016 to 1 March 2017.
2. Border Region SME retailers have had to apply the full cost of the CDS to their cost of goods when selling to their customers, whereas, the large national retailers Woolworths, Coles and Aldi, have to date used their market power to absorb the CDS surcharge, selling product in their NSW border stores at Victorian prices giving them a clear market advantage.
3. MGA believes that the proposed monitoring period from 1 November 2017 to 1 December 2018 is too small a window to reflect the true impact on pricing of the CDS and believes a longer trading window would be required to allow "investment buying" stocks to be depleted through the retail system, reflecting a truer picture in the June 2018 ABS quarter price indices.
4. IPART references the Regulatory Impact Statement (RIS) prepared by the EPA. MGA notes that within the report there is no reference to the negative economic impact inflicted on NSW retailers due to Cross Border Trading.
5. MGA asserts that there has been a lack of consultation by the NSW EPA with the grocery, liquor industry retail sector and their representative bodies when assessing the economic impact of a CDS. This was done whilst it was aware that the states bordering NSW had yet to commit to a CDS, and it has lead to economic hardship and anxiety for NSW Border Retailers who continue to suffer from lost sales, as consumers take advantage of lower retail pricing offered by Cross Border retailers.

Note

Victoria at the time stated it would not be introducing a CDS, we have since been advised that they will be conducting a interdepartment review of Waste Management In the State which will include a CDS. Should a CDS be introduced it would be twelve to eighteen months away from being implemented.

Queensland and the ACT both have since committed to introducing a CDS, ACT June and Qld November 2018.

6. The implementation date of the NSW CDS was delayed from 1 July 2017 to 1 December 2017, but was still a significantly inadequate period of time for TOMRA Cleanaway to have Cross Counter and Reverse Vending Machines (RVM's) collection points established to enable a smooth transitional operational period of those sites by both TOMRA Cleanaway and the site operators.
5. Woolworths Stores being contracted and granted the initial 200 RVM's prior to the rest of the applicants, gave Woolworths an instant and unfair market advantage.
6. TOMRA communication and transparency with many family enterprises and private businesses (MGA members) who applied for an allocation for a RVM was clearly missing.
7. Border Region SME retailers have had to apply the full cost of the CDS to their cost of goods when selling to their customers, whereas, the large national retailers Woolworths, Coles and Aldi, have to date used their market power to absorb the CDS surcharge, selling product in their NSW boarder stores at Victorian prices giving them a clear market advantage.

MGA, on behalf of its members, thanks the IPART Tribunal Members, for the opportunity to make comment on matters raised in the NSW Container Deposit Scheme, Monitoring the impacts on container beverage prices and competition.

Yours Sincerely,

Jos de Bruin
CEO,
Master Grocers Australia
March 2018

George Kovits
President,
MGA Liquor
March 2018

Attachment 1:

Call 1300 138 297* We support the responsible service of alcohol. Available in VIC and Selected NSW Stores (Boomerang Drive, Corowa Drive, Lavington, Albury Central, and Moama) from Wednesday 14 March until Tuesday 20 March 2018 unless sold out prior. Savings are based on our standard selling prices. Holiday offers apply to the quantity advertised & rights reserved. Specials may not be available in all stores including Broken Hill, Mildura, Mildura Langtree or Woodonga Plaza. Not available in NSW stores.

ANY 2 FOR \$24 SAVE UP TO \$5
 Stanley 4 Litre OR
 Coobah 5 Litre Casks

ANY 2 FOR \$30 SAVE \$10
 Chapel Hill Pinot Grigio OR
 Peter Lehmann Portrait

ANY 2 FOR \$45 SAVE UP TO \$15
 Chrs Ringland CR Shiraz OR
 Chandon Non Vintage Brut

ANY 2 FOR \$26 SAVE \$6
 Barrock Station OR
 Wolf Blass Eaglehawk

ANY 2 FOR \$20 SAVE \$8
 Wolf Blass Yellow Label OR
 Brancott Estate Sauvignon Blanc

ANY 2 FOR \$20 SAVE \$18
 1x Wither Hills Sauvignon Blanc &
 2x Langtree Sauvignon Blanc

IN-STORE @ your local BWS

PICK UP Shop online. Collect in-store.

WITH YOUR GROCERIES @ WOOLWORTHS.COM.AU/BWS

Attachment 2:

