

ECONOMICS AND INDUSTRY STANDING COMMITTEE

SUSTAINABILITY OF THE DAIRY INDUSTRY IN WESTERN AUSTRALIA

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
ON WEDNESDAY, 15 OCTOBER 2003**

SESSION 1

Members

Mr A.D. McRae (Chairman)
Mr J.H.D. Day (Deputy Chairman)
Mr J.J.M. Bowler
Mr B.K. Masters
Mr M.P. Murray

Co-opted Members

Mr P.D. Omodei
Mr A.J. Dean

Committee met at 9.10 am**CUMMINGS, MR JOHN WATSON****President, Western Australian Independent Grocers Association,
examined:**

The CHAIRMAN: Good morning, this is a public hearing of the Legislative Assembly Economics and Industry Standing Committee and its inquiry into the sustainability of the dairy industry. I will make some opening remarks for the purpose of setting the protocols. This committee is a hearing and a proceeding of Parliament and warrants the same respect as the proceedings in the House itself demand. It operates under parliamentary privilege and witnesses here have the protection of parliamentary privilege. Even though you are not required to give evidence on oath, any deliberate misleading of the committee can be regarded as a contempt of Parliament. If you are concerned about the confidential nature of your evidence, you can request that to be taken in closed session. The hearing will be recorded by Hansard and when a transcript is available, you will be sent a copy and asked to make any corrections to style. Have you completed the "Details of Witness" form?

Mr Cummings: I have indeed.

The CHAIRMAN: Did you understand the notes attached to it?

Mr Cummings: Yes.

The CHAIRMAN: Did you receive and read an "Information for Witnesses" briefing sheet regarding giving evidence before parliamentary committees?

Mr Cummings: I did.

The CHAIRMAN: The committee has received your submission. Was there anything you wanted to add to that or clarify?

Mr Cummings: Thank you very much for the opportunity to address this committee. The Western Australian Independent Grocers Association is a collection of all the independent supermarket outlets and grocery retailers throughout the whole of the State of Western Australia, not just the metropolitan area. We have a combined turnover of some \$1.2 billion per annum in the State of Western Australia. We employ some 15 000 people and, as I said, we operate across the length and breadth of the State. The fresh milk market equates to about 4.4 to five per cent of the total supermarket turnover. In Western Australia, if we took the supermarket turnover at about \$5 billion, we would see that fresh milk retails at somewhere between \$230 and \$250 million per annum.

The CHAIRMAN: Are you saying that that is typical of the independent retailers or that is the total of all retail?

Mr Cummings: That is industry norms of what the percentage of whole fresh milk would be in the supermarket industry. If I had to pick a figure, I would pick 4.7. However, it sits between 4.4 and 4.5. That equates to about \$5 billion, which is the estimate of what the supermarket industry turnover is in Western Australia. The simple maths is to bring down the retail milk sales of some \$230 to \$250 million just in WA. Of course, that would mean that independent supermarkets - our membership - would have retail sales of \$60 million of retail milk. It is vitally important to our membership that there is a sustainable fresh milk supply chain in Western Australia. That is something that we want to see forever and a day, and we need to have access to it. One of the disadvantages of a supply chain of milk that independent or smaller stores have versus the chains, is that we do not have set up a distribution process where there could be a central drop and then that

firm itself could do the distribution to its retail outlets. They have got that system in place and they currently do it with some of their milk supply.

With the pricing of milk today and what has occurred in the market, at best, it is difficult to see a secure future for the fresh milk market with it set up the way it is in Western Australia - perhaps it is even an unsustainable industry if it continues in this way. Prior to deregulation, every supermarket was paying \$2.15 for a two-litre container of milk with a retail price at around \$2.55. Prior to national deregulation, Dairy Farmers Coop in Victoria had some discussion with Woolworths and it tried to get supply chains of its milk into the New South Wales market. This first came to my attention when I was in New South Wales and it has been documented in the Parliament of New South Wales. At that stage, it said that we can buy milk cheaper from Victoria. I guess there is nothing wrong with Woolworths doing that. It is its charter to get the product as cheaply as possible into its supply chain. That enabled it to put pressure on the New South Wales producers. At that time it was mentioned in Parliament that the effect was that the farm gate price of milk in New South Wales went down by 4c a litre. At the same time, the chains through the Australian Retailers Association argued that it needed to increase its margins because it was handling a product with a short shelf life that needed refrigeration and all the rest of it and the retail price of milk in New South Wales went up by 8c a litre.

The CHAIRMAN: Are you saying that this is pre-deregulation and at a time when there were tensions between Victorian and New South Wales producers? There were some limits on the transfer of fresh milk across borders -

Mr Cummings: Yes, indeed.

The CHAIRMAN: At that point, who broke through that -

Mr Cummings: Dairy farmers offered to sell their excess fresh milk to the New South Wales market at a reduced price.

The CHAIRMAN: With Victoria being the highest producer or one of the most efficient producers -

Mr Cummings: It had excess milk that it could handle. That forced the New South Wales market to come down on that. At about that time the total dairy industry was deregulated.

The CHAIRMAN: It was largely broken through by that kind of excess in Victoria and the push through into New South Wales -

Mr Cummings: To be honest, I cannot recall and I have no knowledge whether the final push for deregulation came from the dairy farmer, the retailer, the Government or competition policy. This contractual pricing function happened prior to deregulation.

Mr P.D. OMODEI: I thought that prior to deregulation or up until 2000, the Kerin plan was still in effect, which meant that Victorian farmers could not export to other States. On the sunset of the Kerin plan it was expected that there be a rationalisation of the dairy industry.

Mr Cummings: I am sure we are talking about the same time. My timing might be out. Nobody ever took the milk from Victoria into New South Wales. It was the threat of it being done that forced the farm gate price in New South Wales to go down.

The CHAIRMAN: On the availability of the surplus?

Mr Cummings: Yes.

Mr P.D. OMODEI: In reality then, the supermarket had a 12c advantage, being a reduction in 4c to the producer and building the price by 8c.

Mr Cummings: Absolutely. There was some justification, I guess, for them putting the argument that they needed to handle it because of the chill factor and all that sort of stuff. When the deregulation occurred, the first instance we came across it was when the then sales manager of

National Foods, Sue Ward, who is no longer there, rang me. She said that National Foods was in a dilemma and had been rung by Woolworths who told them that it had a contract price for milk from New South Wales and Victoria and that Woolworths wanted National Foods to supply milk at that contract price. Woolworths then went from selling branded milk at a cheaper price to the introduction of its house-brand or generic milk. I do not have the absolute figures, but, I was led to believe, as we were paying \$2.15 for two litres of milk, that National Foods were forced to contract the supply to Woolworths at \$1.70 for two litres at that point. That saw the retail price of that household milk at \$2.21. Those figures show the wholesale price of milk dropping from \$2.15 to \$1.70 on that contract price milk, being a 45c drop or a 21 per cent reduction in wholesale price.

The CHAIRMAN: And generated by the retailer -

Mr Cummings: Yes, generated by the retailer asking for that contract price. There was an implied threat that was said to me by Sue Ward that if Nationals did not go along with it, these people had the ability to transport milk into Western Australia.

Mr J.H.D. DAY: Do you believe that would have contravened the Trade Practices Act?

Mr Cummings: I honestly do not know.

Mr J.H.D. DAY: Have you expressed any concerns about this? Have you been to the Australian Competition and Consumer Commission or has it expressed any interest in the issue?

Mr Cummings: No, we have not.

Mr B.K. MASTERS: Do you believe that that was a threat and that it would have been put into effect recognising that the cost of transporting fresh milk from Victoria to Western Australia would have been somewhere between 20c to 70c a litre?

Mr Cummings: From \$1.70 to \$2.15 it would have been worth its while. At \$1.75, who knows? However, that price difference was there. When we saw that retail price drop from \$2.55 for branded milk, which is about what it was, to \$2.21 for the National house-brand milk at that time, that chain made 51c profit on that unit and had a 23c gross margin. Before that we were all working on about a 15.68 per cent base. I am using examples of full-cream two litre milk for simplicity but the same applies to high-lo milk and all the others -

The CHAIRMAN: That is fine. We have been dealing with the standard product being two litres of fresh milk.

Mr B.K. MASTERS: Can you repeat that profitability -

Mr Cummings: Sure. Prior to deregulation we were paying \$2.15 for \$2.55, which was about a 15.6 per cent gross margin. When the house-brand milk hit Western Australia it had a cost of around \$1.70 - I believe it was lower but let us use that figure - to \$2.21, which was a 23 per cent gross margin. In my conversation with National, it then said that it relayed that message onto the dairy farmers saying that because of this implied threat of bringing in milk from other States, the farmers would have to take a lower gate price for their milk to satisfy the house-brand generic milk market.

The CHAIRMAN: Do you know where Woolworths were suggesting they would source that milk? Would it be likely to be Victoria again?

Mr Cummings: I imagine it would be. The greatest excess would be in either Victoria or South Australia I assume.

Mr J.J.M. BOWLER: For 12 months of the year?

Mr Cummings: I assume.

Mr J.H.D. DAY: That is the history of what happened -

Mr Cummings: Yes, that is the history at that stage. Then the Nationals rang us and asked what it could do, and so did Peters and Brownes because they were in chaos. They saw us paying \$2.15 for milk that others were sourcing for far less. We did not think that was a good idea as an independent store. We would have the retail milk at \$2.55 that they were able to retail at \$2.21 and with a higher profit margin. Nationals, Peters and Brownes and Harvey Fresh had to do deals with the independent sector to bring their wholesale price down to a level at which we could compete.

Mr A.J. DEAN: Did that happen?

Mr Cummings: That has happened and it has continued to happen.

Mr A.J. DEAN: Are you somewhere near the wholesale price?

[9.23 am]

Mr Cummings: Over the past four years that contract price of \$1.70 has probably increased to somewhere between \$1.80 and \$1.85. The retail price has shifted from \$2.31 to \$2.36, and we as independents have sourced milk at around the \$2.00 level to sell for \$2.39 to \$2.49.

Mr A.J. DEAN: You have maintained your percentage margin.

Mr Cummings: Yes, at about 16 to 20 per cent. There is no denying that out of this, the whole of the retail margin for milk has increased. Yes, to some degree independent stores have been recipients of that increase in margin.

The CHAIRMAN: The whole retail sector has taken that share.

Mr Cummings: Sure. There has been an increase in the gross margin on milk on what it was prior to deregulation.

Mr P.D. OMODEI: Are the fluctuations from \$1.70 to \$2.15 seasonal?

Mr Cummings: No; we pay a standard. Prior to deregulation the dairies would say "Your price is \$2.15". Then in summer Peters and Brownes would say to us, "We have too much milk, how about we drop the price by 10c, will you drop it by 10c?"

Mr J.J.M. BOWLER: Do you mean winter?

Mr Cummings: Winter or whenever it was. They would drop the price. We would both drop our price. They dropped their wholesale price by 10c and we dropped the retail price by 10c. We then may have advertised it. I can recall only very rare occasions on which they dropped the price below that, and some stores sold milk at cost for a week and advertised it at cost. That would have been during excesses of production. Now, we are trying to match that price on a daily and weekly basis.

The CHAIRMAN: Are you trying to match the producers price? There are also your margins.

Mr Cummings: We must come down to around the \$2.36 mark on a daily basis. If we take one of our stores as an example -

The CHAIRMAN: Why do you have to get down there as an independent grocer?

Mr Cummings: If we sell whole milk at our Dewsons store in Duncraig, for example, and it happens to be Peters and Brownes milk, we sell it at \$2.49. I know that Coles, about a kilometre up the road, is selling house-brand milk at \$2.36. I believe our customers will continue to pay \$2.49 and not drive the extra kilometre for milk at \$2.36. If I sell milk at the list price of that, which is \$3.10 or \$3.15, I think I would get wastage at the store.

Mr M.P. MURRAY: If you were running a special or your retailers were running a special, were you pressured by the bigger companies to lift that price, as we have heard in here happens?

Mr Cummings: No. The grocery sector is affected by lost litres. If someone sells you a loaf of bread at \$1, there is a chance you will retail it at 99c because you think it will bring you extra custom. It is not sustainable, but you might do it for a week.

Mr M.P. MURRAY: Is it a lost litre?

Mr Cummings: Absolutely. That occurs with all categories, of which milk is just one. That occurred prior to deregulation and occurs post deregulation. An example I included in the written submission to the committee was on 22 June, when National Foods offered us a price of \$2.02 cost, but it wanted us - it did not tell us to do so because it is not able to - to sell it at \$2.29 to see if we could get some lift out of it and shift a bit more of its fresh milk. It must have had some excess. That happens on a ongoing basis. It is just a supply and demand situation. It applied before deregulation.

Mr J.J.M. BOWLER: If you did not sell it for \$2.29 was there any threat or sign they would not make you the same offer?

Mr Cummings: Certainly. It is a joint venture sort of thing.

Mr J.J.M. BOWLER: You said before that the big chains cannot control what you retail it for but now you are saying they do?

Mr Cummings: In commerce if I am going to buy a glass and I have a relationship with the glass supplier, would I not sit down and say that if you sell it to me for a buck I should sell it for \$1.15. You might say, "Oh, I think that's a bit cheap; why don't you sell it for \$1.25?" I might then say that I will sell it for \$2.50 and you might say, "Oh, that's a bit rich, why don't you sell it for \$1.50?" That is an example of a normal commercial relationships; it is not price setting.

The CHAIRMAN: One of the interesting things for this committee to address is that the link in the chain between the processor and the retailer is very strong. Are you aware of similar links - I know you are one step away from it - between the processor and the producer?

Mr Cummings: Yes. I have asked this question of other people: why has the independent sector not turned its back on branded milk and sold house-brand milk? The bloke who calls on our store at Dewsons Duncraig, Lloyd Carey, is a nice bloke who has been calling on us for 15 years. He works for Peters and Brownes. I like him; he is a heck of a nice bloke and I like his wife. His kids shop in our store and those sorts of things. We want to see him keep his job.

I am reminded of Sue Ward of National Foods. National Foods used to have 120 people working in Western Australia. Unfortunately, as the dairy market has got tougher that figure has reduced to about 60. It has a turnover among sales people and we do not know who they are. It is just another national conglomerate with whom we do business.

The CHAIRMAN: It has not become tougher at the retail end because all retailers have sustained their percentage share of the retail prize.

Mr Cummings: I am not talking about the whole market. The process of marketing has become tougher. Processors have had to drop their margins. The farmer has had to cut his costs. The question was: am I aware of the relationship between the processor and the farmer? I am aware that Peters and Brownes employ four people - I met one of them - who do nothing but drive around talking to farmers about problems, making sure the standard of milk is satisfactory and seeing what they can do about their efficiency. One guy I was talking to told me that one of his dairy farmers, who he thinks is one of the most efficient Peters and Brownes have, is going to at best break even this year. That is a pretty daunting prospect for other dairy farmers who are aware that their neighbour is the most efficient bloke and he might just break even, so they will be wondering how they will go.

Mr J.H.D. DAY: One component of the chain that has not been mentioned so far is the consumer. Does it not appear that the consumer has benefited from the degree of price reduction even though the price fluctuates somewhat?

Mr Cummings: If the only thing people want out of life is cheaper milk, yes they have benefited.

Mr P.D. OMODEI: How much cheaper?

Mr Cummings: The price in our store has gone from \$2.55 to \$2.49 for branded milk.

Mr J.H.D. DAY: Is it sometimes cheaper?

Mr Cummings: In Coles and Woolworths branded milk has gone from \$2.55 to \$2.68. They are paying more for branded milk but less for house milk.

Mr P.D. OMODEI: The important question is: overall, has the price of milk gone up or down for the consumer since deregulation?

Mr Cummings: The price of dairy products has gone up.

Mr J.H.D. DAY: Do you mean milk?

The CHAIRMAN: Is it dairy products in total, including cheeses?

Mr Cummings: Yes, and I will get to that. It is hard to get these estimates. You could ask the people from Coles or Woolies. I understand in the eastern States that in packages of three litres, which were not around prior to deregulation anyway, 80 per cent of what they sell is house-brand milk. In packages of two litres it might be 50 per cent. At my store in Duncraig, six per cent of our milk sold last year was house-brand milk. We choose to support branded milk. That is our choice. We do not face up our shelves the same way Coles and Woolies do. If you walk into a Woolworths store you will find that so much space is occupied by house-brand milk, one is allocated to Peters and Brownes and one to Pura or whatever. In our store so much space is allocated to Peters and Brownes, then Pura and then house-brand milk.

The CHAIRMAN: What is the expression retailers use for positioning products on the shelves?

Mr Cummings: It is called facing up.

The CHAIRMAN: You might have half a litre facing up for house brands, a small amount for proprietary brands and 0.1 metres for another.

Mr Cummings: That is how people are influenced. When most people buy milk, they just pick up the milk and go.

Mr P.D. OMODEI: Is the milk all the same milk? I assume it comes from the same cow!

Mr Cummings: We have not DNA tested milk yet!

The CHAIRMAN: Do they have premium cows?

Mr P.D. OMODEI: Is house-brand and branded milk exactly the same?

Mr Cummings: Absolutely. It is out of the same vat and the same machines. One is a lost litre and the other is not.

Mr J.H.D. DAY: You are probably aware that Peters and Brownes is voluntarily increasing the amount they pay to producers for milk, effectively by 1.5c a litre for white milk. The retail price is expected to increase by 5c. They say they are doing that because they want to give a degree of support to the primary producers. Do you think it is likely to be effective and do you support them?

Mr Cummings: I congratulate them and congratulated them at the time. The reality is that the price of milk at my store in Duncraig increased from \$2.00 to \$2.03. We decided to keep the retail price the same at \$2.49. The contract price - and they have a contract price to Coles, I think - has not gone up. We are paying extra for milk to subsidise them to sell cheap milk to Coles. I do not think that is a good idea personally.

Mr J.H.D. DAY: You are assuming they have the contract with Coles?

Mr Cummings: I know they have.

Mr B.K. MASTERS: If you were the president of Coles Myer or Woolworths, would you do anything different?

Mr Cummings: Absolutely not. That is why I said initially that there is no apportionment of blame. I cannot apportion blame. The bloke who does the job is told to buy the cheapest milk he can. Our members must do the best they can. If they could buy milk from Masters for 10c less than what they pay Peters, why would they continue to buy from Peters?

The CHAIRMAN: What if I put to you that we are not in an industry in which there is equal market power in price seeking and price setting, but in fact the majors have such a dominance up the chain beyond their own position in the marketplace and in the whole industry, and their influence is so great that it is no longer what we might describe as a dynamic, sustainable and fair marketplace. It is being determined by the pursuit of the majors' objectives and their capacity to exercise that.

[9.37 am]

Mr Cummings: When Peters and Brownes put forward their plan to up the wholesale price of milk to us, I said to its managing director that I could just imagine how the conversation would go. It had just done that to me and we had said fine, we will pay the \$2.03 because what else were we going to do? We would absorb that. Then I said I could imagine it having a conversation with the bloke from Coles and saying, "We would like to put your price up." Coles would then say, "Hey, you are nice people and I really like you - you Western Australians are different - but let us face facts. In Victoria we pay this price, in New South Wales we pay this price, and guess what price we are paying over here?" What would you do?

Mr M.P. MURRAY: Having said that, the pressure that farmers are putting on the east coast now where they are marching on Woolworths stores and demanding their share of the profit, do you think that will happen -

Mr Cummings: My great-grandfather was one of the blokes who started off Norco Cooperative Ltd. When it had a similar situation with the milk in Lismore, which was the centre of Norco, the farmers and Norco Cooperative went to the Woolworths management and asked it to give them a break. They said, "If you at least put Norco milk on the shelf, we reckon local people would buy it." Woolworths said that it was not in its program to do that and that it was sorry.

Mr J.H.D. DAY: How long ago was that?

Mr Cummings: Three years ago.

Mr B.K. MASTERS: Do you see the big corporate chains having a moral or other responsibility to look after the interests of people like dairy farmers?

Mr Cummings: I do not think big business has any moral scruples.

Mr B.K. MASTERS: Should they have a sense of responsibility?

Mr Cummings: I have no doubt they should have. The biggest cop out for large business today is that it is looking after its shareholders. The managing director of the National Australia Bank, when asked by the Prime Minister of this country to give farmers a break because there is a drought, said, "Excuse me, we ain't a social experiment; we are in the business to return money to our shareholders." If that is the attitude of big business, could they care less?

Mr A.J. DEAN: John, do you think it is time to review the Retail Grocery Industry Code of Conduct so that it assists farmers to get a better deal?

Mr Cummings: Without a doubt. The Retail Grocery Code of Conduct - we were involved in the setting up of it -

The CHAIRMAN: Together with the other majors?

Mr Cummings: Yes. The code only allows for conflict from farmers though. It is difficult. You can be pinged off one at a time. Who wakes up in the morning and says, "I have a great idea for

business today. I will get as far offside with my biggest customer as I possibly can.” That is what it does. I do not know how you do it.

Mr J.H.D. DAY: Can you comment on any changes that you think should be put in place as far as the milk market is concerned?

Mr Cummings: We should go a little wider and look at generics and consider what that all means. Basically what occurred is that the thing was set up in the right spirit and, let us say, the Dairy Farmers Coop in Victoria said, “We have that excess milk. We should sell it at a reduced price and that is fine.” If it had stayed within the normal generic percentages worldwide, industry wide and Australia wide, being that generics or house brands are about 15 per cent of the total market, it could have helped or been sustained if the difference in price was about the same. I have pulled out some figures on another staple product - sugar - to give a comparison. The leading brand of sugar in Australia is CSR - sugar is only made in Australia - and then there are the generic brands. The wholesale difference between CSR, the market leader, and the generic brand is some 12.2 per cent. It is 12.2 per cent below the wholesale price of a branded product. In the case of milk, we sell it at 22 per cent below, which is unsustainable. It is solved by bringing the branded price down, which will create more problems, or by pushing up the generic contract price. Somehow that gap must narrow because, if it does not, we will continue as independents to buy at the higher price, subsidising the production of lower price generic -

Mr J.H.D. DAY: How do you think that should be achieved?

Mr Cummings: That is why you are parliamentarians and I am a poor simple grocer.

Mr J.J.M. BOWLER: Are you aware that the dairy prices in Western Australia in general are cheaper than those in the eastern States?

Mr Cummings: Yes, indeed.

Mr J.J.M. BOWLER: Does that indicate to you that there is dumping by the eastern States onto the Western Australian market?

Mr Cummings: There must be dumping. However, there is one thing I cannot understand. We would accept the premise without knowing it, but if you were Coles or Woolworths you would accept only a national price for your house-brand milk one would think. You definitely would not accept a lower price in the smaller market than a bigger market. If we take Coles for instance, we assume that its house-brand contract price is the same nationally. The retail price for its house-brand milk in Western Australia is \$2.36. In Victoria it is \$2.42.

The CHAIRMAN: In a smaller marketplace the retail price is down -

Mr J.J.M. BOWLER: That is across the board. It is not just with milk.

Mr Cummings: I am using the example of its house-brand milk that it has total control over the pricing of. Two litres of its house-brand milk sell for \$2.42 in Victoria and \$2.36 in Western Australia.

The CHAIRMAN: Why is that?

Mr Cummings: Obviously because of the competition at a retail level -

The CHAIRMAN: Is the competition here much higher?

Mr Cummings: Absolutely. To get back to your question, I assume that Peters and Brownes, as an example, will always give us deals on yoghurt. I have a copy of a document here that you may have received. It clearly indicates that yoghurt is cheaper in Western Australia than it is in the eastern States, when it is manufactured in the eastern States and transported over here. That can only be because of the competition that Peters and Brownes put in the marketplace.

Mr J.J.M. BOWLER: Or if it has excess and does not want to damage its big market where the bulk of its sales and profits are. Western Australia is the last little bit where they can throw in the excess or what is left over.

Mr B.K. MASTERS: The only milk that comes over here from the eastern states is UHT milk, and that is still only about nine per cent of the market in WA?

Mr Cummings: To be honest, I do not know. It is not a big market. I refer to it as pensioners' milk. When it is cheap they buy it and when it is not cheap, they do not buy it. In the Murray Goulbourn case it is indicative of the excesses over there. It does not come through consistently. From time to time we are offered it so we can put it on special, and that is only when there is too much milk over there.

The CHAIRMAN: Have you seen any change in retail behaviour from your major competitors since the issue of retail trading hours has settled in this State?

Mr Cummings: No -

The CHAIRMAN: That has not changed?

Mr Cummings: No, the same competition goes on as it has.

The CHAIRMAN: What is the share of independent grocer retailers in Victoria, for example, compared with Western Australia?

Mr Cummings: In Western Australia, Coles and Woolworths have about 61 per cent of the market. In Victoria they sit on about 74 to 76 per cent. In New South Wales it is slightly higher, in Queensland it is higher again, and South Australia sits between Western Australia and Victoria. Western Australia has the highest percentage of the independent sector throughout the whole of the country. There are a greater number of us. We seem to be on every street corner and we sell product at competitive prices.

The CHAIRMAN: Not only is it a greater share of the total retail market, but there are more independent chains. For example, you operate a Dewsons and there are also two or three other chains in Western Australia. In other States, as I understand it - correct me if I am wrong - you might find only one or two independent chains.

Mr Cummings: The larger have survived over there where Western Australia has a more convenience-orientated market. There are more stores. Every country town has an independent supermarket to some degree and every suburb has two or three in the metropolitan area.

Mr J.H.D. DAY: Tell me more about your structure. Are all the independent stores completely independent or are you part of the cooperative? Do you work together or are you linked together, as appears to be the case?

Mr Cummings: We are all independently owned. We have a central marketing function run by the supplier of the box-good groceries, which is Foodland Associated Ltd. As independents we sit on committees that control that marketing function. It collect moneys on our behalf and negotiates bulk prices on our behalf.

Mr J.H.D. DAY: Effectively, is there is a third chain in Western Australia involved in collective negotiation of wholesale prices?

Mr Cummings: Absolutely. Foodland is made up of the independents and Action. There are three very large sheds in Western Australia that draw about a third of the groceries each. In theory, we should be on equal footing with the other two competitors.

Mr J.H.D. DAY: Is it then correct to say you are all completely independent?

Mr Cummings: We are independent in the operation and the pricing of our business. We use a central body to buy on our behalf and then we buy from that central body. It is the only way we can

run the grocery industry using the quantities that we are expected to buy in. Kelloggs will deliver to my store in Duncraig providing I am happy to buy two full pallets of cornflakes, which would take up the whole store.

Mr J.H.D. DAY: My final question is going a little off the topic of the dairy market, but, I guess it impacts upon it. Can changes be made with regard to restricting market dollars from the two major chains, other than dealing with it through retail trading hours?

Mr Cummings: There is the antitrust style legislation in America. To cap the chains would be the greatest thing that any Government in this country could possibly do - putting a market cap on the major chains in different industries.

Mr B.K. MASTERS: Capping the number of stores they can own?

Mr Cummings: Capping their percentage of the market, which is similar to the American antitrust laws.

Mr J.H.D. DAY: Why do you think that has not been done in Australia?

Mr Cummings: I said I would be honest. It is because no politician has ever had the gumption to do it.

[9.45 am]

Mr P.D. OMODEI: Part of the reason we are here is because dairy farmers are suffering. How important is it to your organisation to have a viable dairy industry in Western Australia?

Mr Cummings: It is absolutely vital. If the dairy industry starts to collapse and there are shortages, I imagine, as has been shown in almost every other supply chain we are involved with, the majors will get first pick because of simplicity. It might not be the most profitable customer, but with one truck full and thanks very much, it is off there and they will get it first.

If the dairy industry wants to collapse even further and that meant fresh milk supplies had to be brought in from interstate, it would logistically be, if not impossible, very difficult for John Cummings to team up with seven, eight or 10 other stores to arrange a semitrailer to bring milk from Victoria. In the case of Coles or Woolworths it would not be all that difficult.

Mr P.D. OMODEI: It is interesting that even though there is competition between the independents and the majors, the margins are still 15 and 23 per cent; whereas since deregulation the dairy farmer is not making any margin at all.

Mr Cummings: Absolutely.

Mr J.J.M. BOWLER: The level of 20 per cent on a refrigerated item is not a huge amount.

Mr B.K. MASTERS: Do you have a rule of thumb for the cost of transport of a refrigerated product from the eastern States to Western Australia - cents per tonne per kilometre?

Mr Cummings: No, I do not enter into it. I can assure you that the blokes in the country will know per hundred metres how much it costs.

Mr J.J.M. BOWLER: It is cents per litre.

Mr B.K. MASTERS: Transport is cents per tonne per kilometre.

Mr Cummings: Yes, cents per tonne per kilometre is the way they work it out.

Mr P.D. OMODEI: With regard to the 5c Peters organised to put on the price, in the end the farmer technically only received 0.38 of a cent of that and rounded it up to half a cent.

The CHAIRMAN: How do you make that calculation?

Mr P.D. OMODEI: I understand that the farmers rounded it up to half a cent to make it worthwhile for all milk. For drinking milk it was effectively 1.5c.

The CHAIRMAN: Are you referring to the gate price?

Mr P.D. OMODEI: The gate price to the farmer was only 0.5c over all the milk supplied. Out of the 5c, the farmer received only a very small fraction of the price. Is there a way, if the price of milk were lifted by some kind of a levy, that could go directly back to the farmers until the industry rationalised itself?

Mr Cummings: My simplistic solution for the price of milk - I do not know how you would implement it - would be to take a minimum price of two litres of milk at \$2. That would see house-brand milk go to about the \$2.45 mark retail. That would enable the processors to set a reasonable margin on what a brand of product would be. If house-brand milk was sold at \$2, we would probably look at branded milk being around \$2.10 to \$2.15. It would be 20c to 25c more than house-brand milk to the consumer. Somehow you would have to ensure that increase got through to the farmers. From talking to some farmers, I do not know what half a cent would mean.

The CHAIRMAN: It would be like a shower of rain in January?

Mr Cummings: Would it be even that?

Mr J.J.M. BOWLER: Does your whole independent group sell more milk than either Coles or Woolies?

Mr Cummings: No. I do not have those figures. The independent sector tends to punch above its weight with brand milk.

Mr J.J.M. BOWLER: If the majors can get their home brands because of their bulk buying power and you have similar buying power, why do you not do the same?

Mr Cummings: We can, but we choose not to. We choose to support local producers.

Mr J.J.M. BOWLER: You are saying you are subsidising Coles and Woolies. If you did the same as Coles and Woolies, the whole industry would probably have to go back to Coles, Woolworths and the independents and say that they cannot sustain this because all your prices are increasing and you are all on a level playing field, which you are not on now.

The CHAIRMAN: That issue is critical. We have been talking about a kind of back-up chain control and influence. We have gone from retailers to processors and looked at what the producer's share is. Have you given any thought to what the effect might be if this inquiry were to focus on what a minimum producer price might be and let the dynamic process between processor and retailer continue on its merry way, which is a competitive and sometimes bruising way, and forget all the big end of it, to go back up the chain?

Mr Cummings: I have thought about that and I think that would solve the problem. We are talking about giving the farmer a fair price.

Mr J.J.M. BOWLER: And the processors?

Mr Cummings: The processors would be under a lot of pressure with that. There is a problem with the contracts they have in place and those contracts are probably for a period. I do not think that either Woolworths or Coles would be naive enough to accept a variance in their contracts tomorrow. The reason we do not go down the house-brand scenario too far is that I know we will never get the same price as Coles and Woolworths.

The CHAIRMAN: Because of volumes?

Mr Cummings: Because of their ability to put that pressure on them by saying that this is the price they pay in Victoria so that is the price they will pay over here. I cannot say that Coles are paying that in Victoria, therefore they should sell it to me for that price over here. In our store in Duncraig, 83 per cent of the two litres we sell are branded milks and 6.4 per cent of the two litres we sell are house-brand milks. I suggest you ask one of the chains how those figures work. Only 16 per cent of the whole of our milk sales for 12 months were in house-brand milk.

Mr B.K. MASTERS: The chairman just asked you about fixing the price to farmers. What if we made no recommendation on controls on that price but instead said, whatever the market price is, we will add 5c a litre to every litre sold and make sure that money goes to the farmers.

Mr Cummings: Fine.

Mr B.K. MASTERS: Would that create significant logistical problems for you?

Mr Cummings: Not at all. I imagine that the processor would collect it at the wholesale price. It would be no more difficult than a wholesale sales tax.

Mr J.J.M. BOWLER: Or an Ansett levy.

The CHAIRMAN: The distribution back again might be interesting.

Mr J.H.D. DAY: Given independents have a third of the market and Woolies and Coles have about the same shares in Western Australia and that you negotiate collectively on wholesale prices, why can you not exert the same pressure in the Western Australian market?

Mr Cummings: I do not know. We do not get there on a number of things.

Mr B.K. MASTERS: It is a false argument when Coles Myer or Woolies say we are paying so much in New South Wales and Victoria and therefore we want the same here. Surely it is a different cost scenario here and if the cost needs to be higher or lower, someone should be arguing along those lines?

Mr Cummings: I agree. It comes down to the two people probably having valid points. Who gives in first?

Mr B.K. MASTERS: Coles Myer or Woolies individually are significantly larger than any one of the milk processing companies. I think Woolies' published figure was \$29 billion a year. They sell \$1.3 billion worth of fresh milk a year. That is a fair contract. When I was a boy it was.

The CHAIRMAN: Thank you for not only bringing direct information to this inquiry but also your willingness to be so forthright.