

## Supermarket Pricing Inquiry

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Committee Secretary  
Supermarket Pricing Select Committee  
By email: [spsc@parliament.qld.gov.au](mailto:spsc@parliament.qld.gov.au)

Dear Committee Secretary,

Thank you for the opportunity to make a submission to the Supermarket Pricing Select Committee's Inquiry into Supermarket Pricing.

The Business Council of Australia (BCA) is very mindful of the cost of living and price pressures confronting Queenslanders and notes that this inquiry can contribute to better understanding the factors affecting prices.

Any investigation of the issues around supermarket prices should recognise that this is a highly complex issue. The last few years have seen considerable disruption and cost pressure through supply chains including the COVID pandemic, workforce shortages, increases in salaries, energy and raw material price increases, disruptions due to natural disasters and supply shortages.

Food retailers, including supermarkets, operate as part of a complex supply chain including producers, manufacturers, transport and logistics operators, and retailing operators. The final price paid by a consumer reflects the cost and margin to suppliers and the retailer of producing, manufacturing, transporting and distributing, and retailing the product at a convenient time and place for the consumer.

To assist the Committee's inquiry, I attach a copy of a submission the BCA previously made to the Commonwealth Government Senate Select Committee on Supermarket Prices on similar issues in February this year.

Further, the BCA wishes to draw the Committee's attention to state-based policy levers that can be utilised to reduce barriers to entry and expansion, and improve competition, among food retailers.

The Commonwealth Government's Productivity Commission found that "Major restrictions which need to be addressed are planning and zoning regulations which are complex, excessively prescriptive and often anticompetitive" and "trading hours regulations which restrict the industry's ability to adapt and compete with online competitors and provide the convenience that consumers want."<sup>1</sup>

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<sup>1</sup> Productivity Commission, 2011, "Economic Structure and Performance of the Australian Retail Industry", Report No. 56, Canberra, p XIV.

The 2015 Harper Competition Policy Review concluded that “Planning and zoning requirements can restrict competition by creating unnecessary barriers to entry. The regulations should encourage competition and not act to limit entry into a market.”<sup>2</sup>

Finally, as identified in the Committee’s Terms of Reference, there are a plethora of reviews relevant to supermarkets already on foot which the Committee will have regard to. Current relevant reviews include the Australian Government’s Competition Review, the Independent Review of the Food and Grocery Code and the Australian Competition and Consumer Commission’s Supermarkets Inquiry 2024-25.

Any recommendations made by the Committee should be careful to seek to avoid duplicating recommendations made elsewhere or adding additional regulatory complexity. This will avoid the likelihood of unintentionally increasing barriers to entry in the retail grocery sector or imposing additional costs on business which are likely to be borne by consumers.

Yours sincerely



**Bran Black**  
Chief Executive  
Business Council of Australia

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<sup>2</sup> Harper, I, Anderson, P, McCluskey, S and O’Byan, M, ‘Competition Policy Review’, Final Report, March 2015, Canberra, p 130.

BCA

Business Council of Australia

Submission to the  
Senate Select  
Committee on  
Supermarket Prices

February 2024

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# 1. Overview

The Business Council of Australia (BCA) welcomes the opportunity to make a submission to this Senate inquiry.

Any investigation of the issues around supermarket prices should recognise that this is a highly complex issue. In this context, the BCA recommends at the outset that the inquiry be allowed to run its course and that any findings be used to inform constructive discussions and engagement. The aim must be to develop targeted solutions to identified issues, if any are found to be necessary. The BCA stands ready to assist in this regard.

The issues raised in this submission relate to the role of supermarkets in the Australian community, the importance of corporate profitability for sustainable businesses, an understanding of the main drivers of inflation, the high and rising cost of doing business, and the consequences of additional policy complexity.

More detailed discussions about profit margins, supermarkets' community impact, and individual pricing strategies will be left to interested members of the BCA's membership.

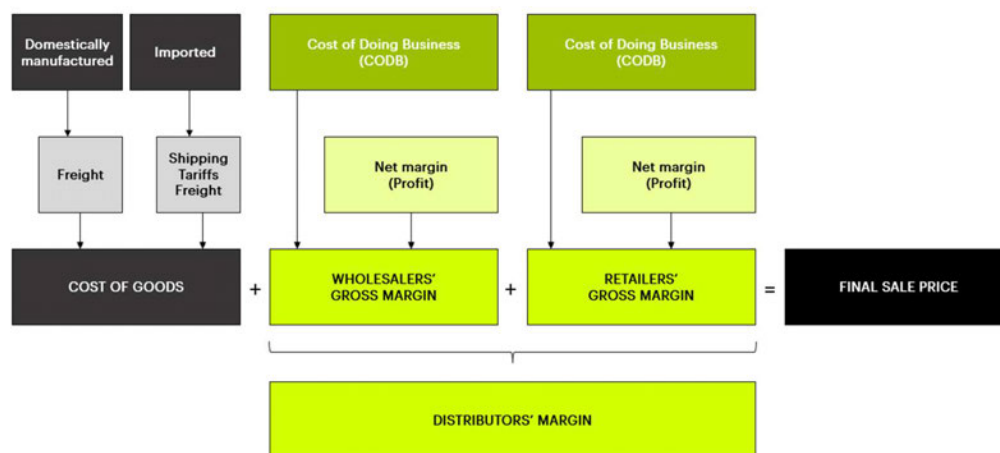
# 2. Key issues and recommendations

Supermarkets play a vital role in Australia's economy and communities. They employ and train many hundreds of thousands of workers, including younger Australians, and invest billions of dollars in communities via the addition of new capacity each year. They spend millions of dollars on innovation, which helps underpin national productivity. Supermarkets pay over \$1 billion dollars of company taxes each year and hundreds of millions of dollars to various levels of government across other taxes, the proceeds of which fund public services for Australians.

Supermarkets, like many members of the Australian corporate community, play a vital role in communities, urban, regional and remote. They provide food and other essential goods and services to Australians at competitive prices, at convenient locations and times. Supermarkets have extensive community impacts, such as supporting affected communities during natural disasters and staying open even during the worst of the COVID pandemic.

Food retailers including supermarkets operate as part of a complex supply chain including producers, manufacturers, transport and logistics operators, and retailing operators. The final price paid by a consumer reflects the cost and margin to suppliers and the retailer of producing, manufacturing, transporting and distributing, and retailing the product at a convenient time and place for the consumer. The last few years have seen considerable disruption and cost pressure through these supply chains including the COVID pandemic, workforce shortages, increases in salaries, energy and raw material price increases, disruptions due to natural disasters and supply shortages (discussed further below).

Figure 1 The supply chain for retail goods



Source: RBA

## 2.1 Profits are important for successful, sustainable businesses

Public interest in supermarkets' pricing has been elevated amidst recent cost-of-living pressures. Public analysis must be careful to avoid broad-brushed anti-corporate rhetoric and instead take an evidenced-based approach recognising the significant contribution that supermarkets (and indeed other corporates) make to the community. For example, much of the recent price rises have been driven by higher costs of raw materials, production, packaging, labour, rent, insurance, energy and freight.

Businesses invest when the expected rate of return from an investment adequately compensates investors for their capital, including taking into account the riskiness of the investment. It should be remembered that profits of Australian companies, including supermarkets, fund the associated investment and employment that underpins faster rates of economic growth and, ultimately, higher living standards for all Australians. This investment also funds innovation and improved productivity. Unprofitable companies do not invest and hire for long.

It follows that being successful and making a profit allows Australian supermarkets to provide convenience, value for money and a broad range of products for all Australians.

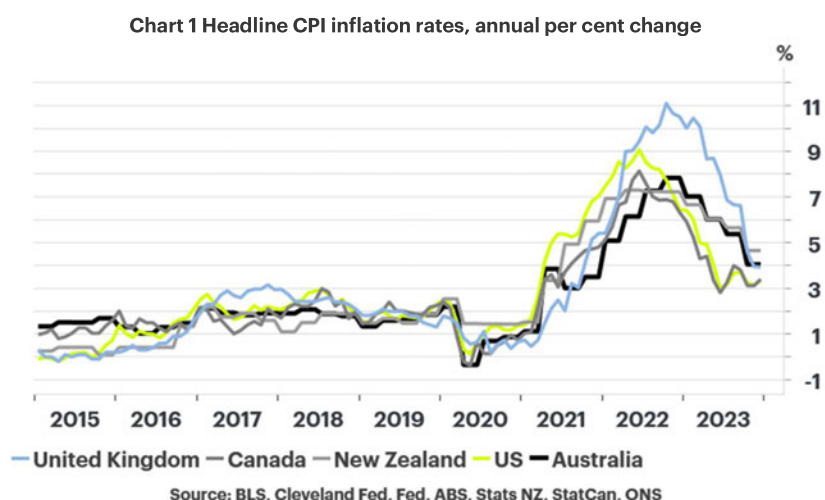
Profits generated by Australian supermarkets allow supermarkets to pay higher wages to the many thousands of Australians employed in the sector. Profits also benefit the millions of Australians who own shares in the listed Australian supermarkets, directly and through their superannuation funds. These shareholders, including many on lower incomes, benefit from the returns generated by supermarkets and earn dividends paid from profits.

Supermarkets form the cornerstone of Australia's extensive supply chains, which reach deep into the Australian economy and communities, many of them outside the major cities. None of the associated investment and employment down these supply chains would be possible with unprofitable supermarkets.

## 2.2 Inflation and the role of Australian businesses

Australian businesses, along with households, faced sustained pressure following supply and demand shocks during and since the pandemic. Natural disasters over the past few years, including recent flooding events, have also affected the availability of food products, including fruit and vegetables, for many communities as supermarkets respond to road and rail closures to restock shelves.

Inflation in Australia has reached the highest annual rate in decades, reaching nearly 8.0 per cent in the year to late-2022. That said, the peak in inflation in Australia was below the respective peaks reached elsewhere, including in the US and the UK, and since has receded. Even with the recent decline, however, inflation in Australia remains well above the RBA's 2-3 per cent target range.



The improvement in inflation reflects the unwinding of many of the factors that drove up inflation in the first place. That is, the recent decline in global oil prices, the easing of supply constraints, some of which were



triggered by the pandemic and the war in Ukraine (which drove up energy prices), the high and rising cost of international freight, particularly sea-borne transport (though this is threatened by recent developments in international shipping), and higher food prices caused by natural disasters at home.

Goods prices in Australia have fallen more quickly than prices of services. This reflects the easing of the above pressures for goods, but also the fact that a large portion of the increased costs borne by service providers is higher wages. As the RBA noted in December 2023:

*Wages growth had picked up significantly over the preceding year or so. The Wage Price Index had recorded its highest quarterly growth rate since the series commenced in the late 1990s, reflecting the implementation of the Fair Work Commission's decision to significantly increase minimum and award wages.<sup>1</sup>*

Despite claims to the contrary, the evidence is that corporate Australia has not contributed to the persistence of inflation in Australia. As RBA Governor Philip Lowe observed in a speech last year:

*The share of profits in national income – excluding the resources sector, where prices are set in global markets – has not changed very much over recent times. A reasonable interpretation of this is that, while firms on average have been able to pass on higher costs and maintain profit margins, inflation has not been driven by ever-widening profit margins.<sup>2</sup>*

Similarly, documents released under Freedom of Information (FOI) requests show that the Commonwealth Treasury found that widely-reported analysis suggesting profits as a key driver of inflation was “flawed” and that “Treasury analysis does not support the strength of the conclusions”<sup>3</sup>.

## 2.3 Rising costs a key contributor to inflation

The sustained rise in the cost of production has been a key force driving higher prices and has contributed to the high and rising cost of living. The rise in business costs during and after the pandemic have been driven by a number of factors, many of them global in nature, including:

- Higher prices for energy and other utilities, caused partly by the spike in prices for crude oil after the onset of the war in Ukraine;
- Higher shipping costs, partly caused by pandemic-related restrictions on activity and supply chain disruptions;
- Higher costs for road freight in Australia because of the rise in petrol prices, owing to the spike in prices for crude oil;
- Expansionary policy, particularly fiscal policy, coming out of the pandemic, which fuelled demand while supply was constrained;
- Very tight labour markets globally, which pushed unemployment rates down to multi-decade lows, accelerating wages growth;
- High and rising prices for insurance, partly flowing from increased claims as a result of natural disasters;
- The rise in prices for paper, packaging and cardboard;
- The sharp rise in interest costs during the most rapid increase in official interest rates by global central banks in a generation, including here in Australia;
- Rising wages, much of it mandated by government and/or via the rise in Australia's minimum wage;
- Higher prices for food raw materials, including grains, partly stemming from the war in Ukraine;

<sup>1</sup> Reserve Bank of Australia, 'Minutes of the Monetary Policy Meeting of the Reserve Bank Board', 5 December 2023, <https://www.rba.gov.au/monetary-policy/rba-board-minutes/2023/2023-12-05.html> accessed 1 February 2024.

<sup>2</sup> Philip Lowe, 'Monetary Policy, Demand and Supply,' address to National Press Club, 5 April 2023.

<sup>3</sup> Australian Government, 'Ministerial Submission – MS23-000531', FOI 3376 Document 1, The Treasury, 27 April, 2023 released 7 July 2023.



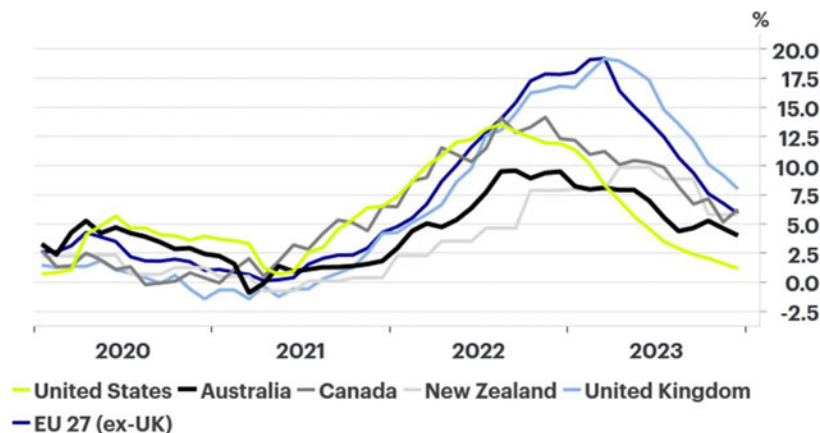
- Higher fertilizer prices, also caused by the disruption of supplies from Russia and Ukraine; and
- Unfavourable movements in the AUD exchange rate.

The IMF has noted that Australia’s inflation outlook remains “persistently high” and that “continued monetary and fiscal policy coordination to reduce inflation” was essential.<sup>4</sup>

## 2.4 Australian supermarket inflation

Australian consumers, like overseas consumers, have faced significant food inflation over the last few years. Compared to other major economies, Australian food and non-alcoholic beverage inflation peaked substantially lower and remains substantially lower (see Chart 2).

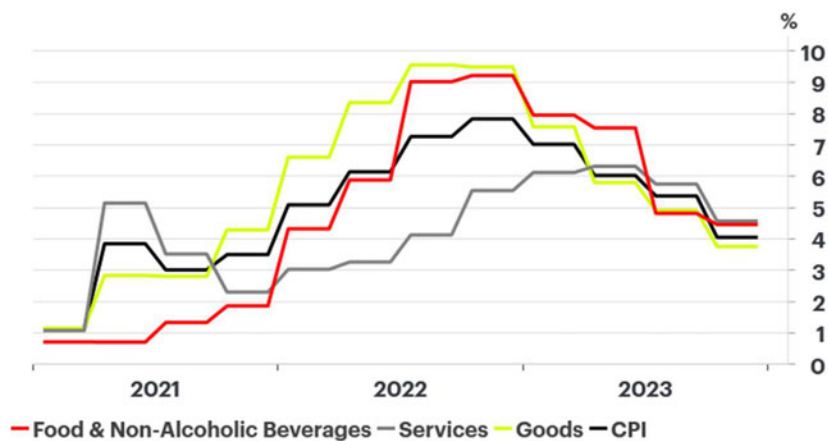
Chart 2 CPI food and non-alcoholic beverage, annual per cent change



Source: ABS, Eurostat, ONS, BLS, Stats NZ, StatCan, IMF

Further, Australian price increases for food and groceries have recently been running below the increases for the broader consumer price index (CPI) and are now broadly aligned, reflecting rapid increases for non-food items in the CPI basket, like residential rents and petrol (see Chart 3).

Chart 3 CPI inflation and components, annual per cent change



Source: ABS

There is a reason for the gap between food prices at the farm gate and prices for these goods on the shelves at supermarkets. There is, of course, the cost of production, packaging and transport, plus associated wages, rents, and insurance for the supermarkets.

<sup>4</sup> International Monetary Fund, 2023, ‘2023 Article IV Consultation – Press Release: Staff Report; and Statement by the Executive Director for Australia’, IMF Country Report No. 24/11, Press Release, January 2024 p1.

Contrary to claims made elsewhere, the Australian retail food sector already is very competitive, and is becoming more so. As the Productivity Commission recently observed:

*The sector has observed aggressive competition between Australia's two major domestic supermarkets despite the high level of concentration.<sup>5</sup>*

Consumers have also benefited from increased innovation including through a greater availability of online purchasing and home delivery, the capability for which requires significant capital investment. It has also changed consumer expectations of online shopping – pushing retailers to lift investment in eCommerce capability.

## **2.5 Public policy settings must be carefully calibrated to support inflation reduction**

The BCA recommends government carefully consider the broader suite of policy settings so as to assist in the RBA's efforts to bring inflation within its target band of 2-3 per cent and avoid policy measures that will add to higher inflation's persistence. Policy measures that increase the cost and complexity of business will increase the likelihood that the Australian community will be impacted through reduced business investment (including in employment growth) and reduced returns to investors including superannuants. It may also require at least some of the higher costs of business, including for supermarkets, to be passed on in the form of higher prices.

Government should seek to, at the very least, not add to remaining inflationary pressure by:

- Increasing the complexity of the industrial relations landscape which already has pushed up costs and added unnecessary complexity and costs;
- Adding to Australia's complex regulatory environment, which makes Australia a more difficult place to do business, just as other countries are making it easier;
- Making sudden, ad hoc tax changes, as some state governments have done by adding payroll tax levies and abruptly changing royalty regimes; and
- Failing to speed up project approvals in Australia's complex, time-consuming and expensive planning regimes.

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<sup>5</sup> Productivity Commission 2023, Submission to the Inquiry into promoting economic dynamism, competition and business formation, Canberra, p11.

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