

# ISSUES OF PUBLIC INTEREST

## GROCERY INQUIRY

In 2008, in response to public concern about rising grocery prices, the government directed the Australian Competition and Consumer Commission (ACCC) to hold a public inquiry into the competitiveness of retail prices for standard groceries.

Woolworths welcomed the opportunity to reaffirm our commitment to providing the lowest possible prices to our consumers, and to contribute to a better understanding of the challenges facing Australian food producers and retailers.

The cornerstone issues raised in the inquiry related to the introduction of a unit pricing code, prices of groceries and the competitive position of small and independent retailers.

## Unit pricing

In 2009, Woolworths introduced comparative unit pricing. In November 2008, we commenced rolling it out on approximately 19,000 items in all supermarkets across the country and by the end of the financial year we had unit pricing on 15,000 items. Customer feedback has been extremely positive.

The introduction of unit pricing across the grocery industry is a positive move for consumers and will make it easier to make like-for-like price comparisons between products.

## Grocery prices

Woolworths is committed to everyday low prices. Over one thousand items are the same price, regardless of where our customers shop. For branded products we aim to ensure prices are the same at stores within each state. Woolworths also supports the concept of independent price checking.

Woolworths is constantly striving to become more efficient, to allow us to lower prices, absorb cost increases and improve our stores. Since 1999 we have revolutionised our supply chain, including stock and management systems. This has resulted in significant cost savings and huge productivity gains.

## Competition in the retail sector

The inquiry generated considerable discussion and subsequent media comment suggesting Woolworths and other major supermarket chains have increased their market share at the expense of small and independent retailers.

We believe it is important to set the record straight. Woolworths has never had such a strategy, and the facts support this. Between 1998 and 2007 large supermarkets' share of food and grocery sales fell from 66% to 63%. At the same time, smaller supermarkets' and convenience stores' share grew from 13% to 16%. As well, fresh food specialty stores

made up 48% of the increase in outlets, compared with Woolworths' 4%, while 45% of the net gain in store numbers was attributable to supermarkets and stores other than major supermarket chains.

Most of our growth is organic: from 2001 to 2007, 121 of the 139 stores we opened were the result of converting non-supermarket retail sites to supermarket sites, developing a greenfields site or simply moving from one location to another nearby.

## Produce and Grocery Industry Code of Conduct

Woolworths works closely with the ACCC on all acquisitions to ensure there is an open and transparent independent store acquisition process to protect the interests of all parties. We are also a founding signatory to the *Produce and Grocery Industry Code of Conduct* introduced by the federal government in 2000, and a founding member of the committee that administers it. This voluntary code aims to promote fair trading practices and build better business relationships. At the same time it provides access to a dispute resolution procedure for individuals and groups.

## GLOBAL FINANCIAL CRISIS

The recent global financial crisis triggered by the collapse of the subprime housing market and financial-sector excesses in the US has had effects that are well documented in Australia. Though we have been less adversely affected than other western economies and have been able to continue raising capital in global markets, many businesses have been significantly impacted by the general downturn.

Largely as a result of liquidity problems, a tightening of credit, falling commodity prices and a plunge in sentiment, 77,000 Australian jobs could be lost in the year from June 2009, according to Access Economics. Although there have been no significant job losses in retailing thus far, Access forecasts that retail sales may fall by 0.3% in the 2010 financial year and that there could be layoffs in the sector that employs 15% of the Australian working population.

The crisis has not substantially affected Woolworths' growth plans. We have continued to open new stores and to refurbish existing ones in line with our strategy. As one of Australia's largest employers with a staff complement of more than 191,000, we have created thousands of new jobs and will create more this year.

New store openings led to a 4.5% increase in employees and an additional 1,635 people commencing new trainee or apprentice roles.

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(1)  
Excludes ALH and PEL.

## HEALTHY EATING

The incidence of diet-related chronic disease is a growing social concern. According to the Australian Institute of Health and Welfare, the national agency for health and welfare statistics, over seven million adult Australians aged 25 years and over (60%) are overweight and there has been a significant increase in the number of obese Australians over the past 20 years. This trend has implications for the economy in health costs and productivity.

As a major food retailer Woolworths believes it has an important role to play in promoting healthy eating. We are adapting our store format and have improved the availability and affordability of fresh food, educated parents and children about the importance of balanced diets and signed up to the Australian Food and Grocery Council's Daily Intake Guide (DIG). This gives consumers information about nutrients to allow them to compare brands and make better informed food choices.

To provide consumers with as much information as possible about their food consumption, the government is considering introducing front-of-pack labelling (FOPL) guidelines. Woolworths supports the purpose of the proposed policy. However we believe the introduction of a national, mandatory scheme should be evidence-based and included in other initiatives and education measures to increase activity and encourage healthy diets.

Steps we have taken in the past year to encourage healthy eating include:

**Fresh food:** We have introduced a range of initiatives aimed at promoting healthier diets. In February 2009 we introduced Fresh Ideas stands into our stores. They contain a range of material on healthy living, updated quarterly, as well as *Fresh* magazine, a free publication with nutritional information to help families make better-informed eating choices. An increasing proportion of our catalogues is devoted to promoting fresh food and we have a dedicated section on our website that encourages healthy eating with advice for parents on preparing nutritious meals.

**Working with suppliers:** We have therefore made a significant investment, working with suppliers, to make a broader variety of fresh foods more widely available year-round.

**Market updates:** With fluctuating supply and demand, trends in the fruit and vegetable business can be hard to predict. Woolworths' televised weekly Fresh Market Update explains how to make the most of seasonal produce, how to get the best value and why certain products are abundant or in short supply.

**Fresh Food Kids:** Our multi-million-dollar 'Fresh Food Kids' campaign is aimed at making fruit and vegetables fun for children. It was launched in August 2007 and followed a Woolworths-commissioned survey showing 93% of parents wanted fresh food advertised in the same way as junk food. In February 2008, building on this campaign, we announced a new community program aimed at expanding our healthy eating initiatives in Australia and New Zealand. (See page 46 for more details)

## CARBON POLLUTION REDUCTION SCHEME

Woolworths supports the government's commitment to an emissions trading scheme as the principal mechanism for moving Australia towards a low-emissions economy. We recognise the challenge posed by climate change. Across our business, it is a key focus of our sustainability strategy which includes initiatives aimed at reducing emissions from stores and Distribution Centres by 40% by 2015.

We recognise the broader impact of a trading scheme will be felt by millions of customers and by our domestic suppliers, including the farm sector. The federal government's Carbon Pollution Reduction Scheme (CPRS) will result in higher costs for electricity and fuel contributing to higher grocery prices.

We continue to invest significantly in driving operational efficiencies and reducing our carbon footprint. We acknowledge that by making our business more energy efficient we can help cut emissions while maintaining cost competitiveness and delivering value to customers at the same time.

We believe the CPRS should be broadly based with the burden of emission reductions shared fairly across the community. While it is vital Australia's export sector is not seriously disadvantaged, it is equally important that domestic firms and households are not forced to bear a disproportionate burden from lowering emissions.

We have urged the government to maintain its clearly articulated position of assisting households (especially low- and middle-income households) to meet the cost of living increase flowing from the scheme.

We are encouraging the government to consider an investment allowance or accelerated depreciation for the acquisition of low emission plant and equipment and generation of renewable energy. Such incentives would encourage all businesses to increase investment in low emission assets and renewable energy.

## PLASTIC BAGS

The merits or otherwise of different types of shopping bags have been the subject of much public debate. Opinion has swung strongly against plastic bags because of their visibility and durability in the litter stream.

However this concern should be kept in perspective. Plastic shopping bags make up only around 1% of littered items and accounted for only 3.8% of all plastic litter, according to the latest Keep Australia Beautiful survey released in 2008.

A strong argument can be made that the real environmental issue is less the shopping bags themselves than the way they are discarded, and that there is no single, simple solution that can be easily implemented.

We believe that a more effective strategy to countering litter would be to address it through educational and enforcement activities to discourage – and ultimately change – littering behaviour and to get shoppers to use fewer plastic bags.

To that end, we have implemented a range of measures such as only offering bags to customers who buy more than three items and encouraging them to bring back their reusable bags.

In 2009 Woolworths also commissioned research to investigate the environmental costs and benefits of seven shopping bag options from ‘cradle to the grave’ to inform the shopping bag debate. The paper is available on [www.woolworthslimited.com.au](http://www.woolworthslimited.com.au).

The study found that each type of bag had its own set of issues and impacts.

Overall, ‘green’ reusable bags (made from polypropylene – PP or polyethylene terephthalate – PET) seem to be the best environmental option, but only when used regularly for two years or more than 100 times.

**Paper bags** surprisingly have the highest overall environmental impact as a result of pulp and paper production and because paper is heavier than plastic. However, they are easily recycled and less intrusive if left as litter, but people are just as likely to leave paper litter as any other kind.

**Plastic bags** are unsightly, take longer to break down and can injure wildlife if they end up as litter. But if they are reused in the home and recycled or disposed of correctly, they are a relatively good option from an environmental perspective. Their impact can also be reduced if more bags are recycled. If the recycling rate reached 50%, their greenhouse emissions would be similar to those of a reusable bag.

**Oxodegradable bags** are likely to break down faster than plastic bags due to the prodegradant additive which is added to the plastic that triggers and accelerates the degradation. More research is needed to learn how long the degradation might take and the possible ecological impacts of the additives. Oxodegradable bags need to be separated from compostable ones because they may not break down completely when they degrade. They are also not compatible with the current plastic bag recycling facilities provided by most supermarkets.

**Compostable plastic bags** are potentially recoverable through green or garden waste collection bins but collection can only be done with the support of local councils and commercial composters. There’s great potential for consumer confusion about what is compostable and how to correctly dispose of the compostable bags. The terms ‘biodegradable’ or ‘compostable’ are used loosely to describe many plastic films without having the appropriate testing and verification. The Australia Standard for biodegradable plastics only applies to plastics that biodegrade in commercial, not home, composting. The temperatures and operational conditions of a commercial composting facility are very different to those at home.

Based on these findings, our key initiatives to reduce plastic bag use are:

- Encourage our customers not to take plastic bags for three or less items. Continue training our staff not to automatically give bags to customers for three or fewer items
- Continue our commitment to increase awareness and encourage the use of green reusable bags. We have many reminders for our customers to bring their reusable bags. We have also increased our range of reusable bags to include a foldable recycled PET bag that can easily fit in a handbag or briefcase for unplanned shopping occasions
- Continue our commitment to provide in-store collection for plastic bags to be recycled.

We have investigated biodegradable shopping bag options but have delayed any decision to use these products as we are concerned about the level of consumer awareness on suitable disposal of the bags. Current biodegradable bags that comply with the Australian Standard for biodegradable plastics (AS4736-2006) are not suitable for home composting. This means consumers are reliant on councils to provide a green waste collection service that will accept biodegradable plastics. Moreover, some commercial composting facilities have been unable to maintain the required temperatures and time required for biodegradation to take place.