

# WOOLWORTHS LIMITED

ABN 88000014 G75

Sydney  
NSW 2001

30 April 2011

Dear Ms  
Millen,

1 Woolworths Way, Bella Vista  
New South Wales 2153 Australia  
Telephone +61 28885 0000  
Facsimile +61 2 8885 0001

Liz Millen  
Sydney Food Fairness Alliance  
GPO Box 14'21 \ 1. 4 |

Thank you for your invitation for Woolworths to send a representative to speak at a Sydney Food Fairness Alliance organised event.

As you know, due to issues which occurred that day and were beyond our control, we were unable to send a representative to speak in person.

We were pleased, therefore, to have the opportunity to answer some questions after the event.

I must apologise for the lateness of this reply. Not long after your letter arrived Australia and New Zealand experienced a series of natural disasters one after the other unprecedented in size and scale. Transporting food to and from these affected areas, and communicating this to the public, was crucial and something Woolworths was heavily involved. It took up many people's time including the relatively few members of the Corporate and Public Affairs team who were charged with answering your queries.

Other events since the beginning of the year- such as the media dubbed "supermarket wars" and the inquiry into milk pricing - have also taken up much time in what is usually a relatively quiet period.

As some of the questions were related in topic I have grouped them together and in some cases given one answer to several questions which asked for similar information.

I understand that since this letter was written there may well be further questions that have arisen and I would be happy to take this on board. My hope is that as things have somewhat now calmed down the answers will be somewhat swifter in response.

Once again thank you for the opportunity to engage with your members.

Murphy's | Dick Smith Electronics | Dick Smith Electronics PowerHouse  
Liquor | Safeway Petrol | Tandy | Woolworths | Woolworths HomeShare  
| ALH Group | Countdown | Foodtown | Fresh Choice | SuperValue

Yours faithfully,



Benedict Brook  
Media Relations Manager  
Woolworths Limited

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## **Answers from Woolworths Limited to questions from the Sydney Food Fairness Alliance**

### **COMPETITION**

**Some years ago Woolworths indicated its aim was to have either 95 per cent or 99 per cent - I can't remember which - of the retail market in Australia. What was the figure, how is that aim proceeding and by when is it expected to be achieved?**

This is not a statement Woolworths has ever made.

Woolworths is pro-competition and we believe that a strong and vibrant mix of small, medium and large players in the retail sector keeps competition strong. We note that new and successful entrants into the market include Aldi, SPAR and Costco each with ambitious Australian expansion plans. Metcash, the company behind IGA, also continues to grow market share and has plans to purchase Franklins.

Woolworths has an approximate 31 per cent market share and research undertaken for the *Roy Morgan Supermarket Monitor* found that, for Woolworths' customers, 68 per cent of weekly spending on fruit and vegetables takes place outside of Woolworths - at fruit shops, markets and other supermarkets.

**Woolworths and Coles control 70 percent of the retail grocery market in Australia and yet we're told that the retail food market is competitive. If 70 per cent market share in the hands of two player's is considered competitive, at what point would you consider the market uncompetitive? 80 per cent? 90 per cent?**

There are many figures given out for market share- the higher ones mostly promoted by those withvested interests against supermarkets and with very little thorough data to back up the claims.

We estimate om market share of all food retailing (including both groceries and fresh food) to be 31 per cent and research undertaken for the *Roy Morgan Supermarket Monitor* found that, for Woolworths' customers, 68 per cent of weekly spending on fruit and vegetables takes place outside of Woolworths - at fruit shops, markets and other supermarkets.

The ACCC monitors competitiveness across various industries and they scrutinise closely the retail sector to ensure that competitiveness remains in place.

## ORGANIC / FREE RANGE

It's difficult for consumers to determine what food is genuinely organic. Woolworths do you sell produce that promotes itself as organic but has not been certified as so? If so, how can consumers trust it is genuinely organic?

All Woolworths private label brands (Woolworths Homebrand, Woolworths Select and Macro) which are labelled as organic must be certified as organic by one of the following approved certification bodies:

- National Association for Sustainable Agriculture Australia
- Australian Certified Organic (ACO)
- Bio Dynamic Research Institute
- Organic Growers of Australia
- Tasmanian Organic Dynamic Producers
- Organic Food Chain (OF C)
- AUS QUAL
- Safe Food Production Queensland
- International Federation of Organic Agricultural Movements (IFOAM)
- Or any other IFOAM, ACO or AQIS accredited certifiers.

The certifying organisation is clearly displayed on the packaging to give customers that confidence.

It is the responsibility of manufacturers of branded goods to manage certification for their own products.

Organic produce is more expensive to buy than non-organic, so that a lot of low-income earners can't afford it. Do you see a time when the price will comedown to the point that it is comparable with non-organic food?

As organic food costs more to produce, and is not grown in the same quantities as non organic, food prices are higher.

However, as the popularity of organic foods has increased so the amount of land given over to it has grown reducing the cost overall and bringing down the shelf price to within reach of many cost conscious consumers.

The effect is many are seeing that the differential is not as large as they assumed and are choosing the organic variety.

Our expansion of the Macro Wholefoods Market range - one of our private labels - includes many organic items which customers have embraced.

We predict that foods such as organic, free range and gluten free are showing such massive rises in popularity that they could become the norm and not a niche product as they have been.

## FRESH FOOD

I read recently that Woolworths allocates just 30 per cent of its floor space to fresh food. With this approach, how can you justify calling yourselves the 'Fresh Food People'?

We are very proud of our long commitment to supplying Australians with fresh and nutritious foods most of which comes from within Australia.

It is the nature of a full line supermarket that not all of the shelf space can be dedicated to fresh food - otherwise Woolworths would be a greengrocer. Many people, however, want to buy soup, cereals, health foods, pastas sauce, mops and detergent alongside fresh food and we are proud to provide that range.

Nevertheless, Woolworths has increased by half the amount of space it dedicates to fresh food so there are now more choices in this section of the store than ever before including organic and free range options.

In fact much of the innovation in supermarkets is focused in this area. We also heavily promote fresh food through our catalogues, advertising and through our weekly 'Fresh Market Update' slots on TV which give an overview of food seasonality and market prices that affect all shops as well as our own.

Woolworths promotes itself as the 'fresh food people'. Just how fresh are the fruits and vegetables? That is, how much time is there between different fruit and vegetables being picked and making their way to the Woolworths shelves? How old, for example, are apples on the shelves in December? I question the company's 'Fresh Food People' claim,

as I believe that in order to keep up with consumer demand for all types of produce at all times of the year, much of the 'fresh' produce is kept in cold storage for months before being made available in stores. e.g. tomatoes, apples, oranges, etc.

Much fresh food in season goes from the soil to the shelves in 24 hours. However, the challenges we face in providing popular fresh produce all year round is faced by all retailers of fruit and vegetables - be they large or small.

Luckily, we live in a country where much of the fresh produce we eat can be grown all year round leading to 97 per cent of our fresh produce coming from Australia. In a few cases, such as grapes, we import when the produce is out of season in Australia. There are also a small number of fruit and vegetables that farmers can store to ensure a year round Australian supply and reduce the need for imports.

The fact is that if you buy an apple anywhere in Australia in December - be that from a supermarket or farmers' market - it will be out of season and will either have been stored by the apple growers themselves or imported.

The Australian apples season runs from January to May and the only alternative to selling non climate stored apples at other times of the year would be to import them.

Woolworths is taking an active role about teaching consumers about seasonality in fresh produce both through information in store and through initiatives such as the 'Fresh Market Update' slots on television.

Whether food is in season, is imported or stored it must all meet Woolworths strict quality assurance specifications?

## LOCAL GROWN

Would Woolworths support a local Sydney based brand in its Sydney stores - i.e. help with set up, logistics, and pay premium prices for produce which meets agreed specifications?

I'd like to buy produce that has been grown, processed and distributed within the Sydney Basin. Is there any way this could be guaranteed by Woolworths?

97 per cent of the fresh food on Woolworths' shelves comes from Australia and the New South Wales regions surrounding the Sydney Basin are some of one of our key growing regions. We do indeed stock produce from within the Sydney Basin such as leafy and Asian vegetables from the Hawkesbury and milk processed in Penrith from NSW cows. However, the decreasing amount of agricultural land in the immediate vicinity of Sydney does create challenges for all retailers.

Due to a growing customer demand Woolworths has already begun identifying local grown produce in a number of regions including Tasmania, the Northern Territory and Far North

Queensland. In Western Australia we were also a founder member of the WA Government's 'Buy West Eat Best' state produced food labelling program.

We are monitoring these schemes closely to judge their success and to see if highlighting local produce to local consumers does lead to more people choosing to buy fruit and veg which are grown in their geographic area. If it proves a success we will look at extending the program.

In our newer and refurbished stores we have also begun introducing maps above the most popular fresh produce so shoppers can see where their fruit and veg comes from. Examples of this can be found in many stores including Woolworths in Caringbah, Charlestown and Sydney Town Hall.

Our commitment is to label all Australian grown food. However, where this food comes from in Australia can vary through the year as the seasons change.

As regards premium pricing we have to be mindful that for consumers the major concerns when choosing fresh produce is still quality and price. If premium prices are charged for local produce it may actually encourage consumers to shop for cheaper produce in all but the most affluent suburbs.

**Woolworths is using very effective advertising (the Fresh Food People, the latest hippy ad) but what are they really doing to support local food producers and local food production?**

Woolworths works with food producers all over Australia - some big and some small- and we play a key role in supporting local food producers and food production. In fact, our longstanding partnerships with suppliers - some of which go back four decades - and the certainty of supply that brings have led many local businesses to flourish.

One example is the production of garlic. Due to the complexity of growing garlic (which takes many seasons to reach maturity) most of it historically has been imported into Australia from countries such as Peru, Mexico and China.

Woolworths looked at ways of reducing our dependence of imported garlic by striking a long term partnership with Australian Garlic Producers - a small grower with operations in Tasmanian and Mildura, Victoria.

We committed to work with them over a number of years which gave them the certainty and security to invest in expanding their garlic operations to a commercial level. The partnership has been such a success that for almost six months of the year garlic bulbs sold in Woolworths come from Australia and not overseas and our own label crushed garlic is 100 per cent Australian grown.

This has helped not only the domestic industry in general but this grower in particular as well as creating new jobs.

## PROPERTY

Why do Woolworths continue to develop supermarkets in suburbs and country towns that do not want them eg, West Ryde, Lane cove (objections overturned) and now Annandale (debate ongoing). I'm not sure about country towns but I know Mudgee was battling at one stage - while there are suburbs in South Western Sydney with no easy access to fresh food?

Woolworths builds stores in areas where we believe we can satisfy the needs of local shoppers following detailed research into community shopping needs.

We listen closely to all residents, both those in support of and those against, to see what changes can be made to our plans.

We recognise, however, that in many communities opinion is very rarely wholly in favour or against and often a significant number of people are in favour of even the most seemingly controversial developments.

In Maleny, for instance, the supermarket is now open, trading well and the rest of the town is thriving. In Lane Cove the new Woolworths store is an established part of the town centre and has enabled a much needed library to open.

In the past, Woolworths could well have been accused of not consulting local communities when it comes to new developments. The appointment of a dedicated community relations manager to manage the communication of new developments to local communities has done much to address this very real issue.

It should be noted that stores are in the end approved by local councils and relevant planning bodies after hearing from all sides in the debate.

## AGRICULTURE

Coles butcheries will sell sow-stall-free pig products in from 2014. Are Woolworths committing to something similar?

Woolworths takes the issue of animal welfare extremely seriously. All of the pork that we source is subject to our own Woolworths Quality Accreditation standards as well as being audited to the Australian Pork Industry Quality (APIQ) standards.

We are aware that the industry has announced its intention to phase out sow stalls by 2017.

Woolworths is currently working to introduce a broader range of sow stall free pork. Currently 28 per cent of pork sold in our stores is sow stall free and we expect this figure to 7

be over 40 per cent by the end of 2011. In 2010, Woolworths also sold free range pork in 272 of our Australian supermarkets

Woolworths is committed to providing our customers with choice - Woolworths' responsibility is, however, to ensure that in responding to customer demand for products such as sow stall free pork that it does not make changes to its product ranges at a faster rate than industry can cope with. It is important that we do not force our suppliers to change their operations in a way or in a time period that makes them unviable.

One of the farmers spoke about the disjuncture between what the customer pays for produce and what the farmer supplying it gets paid. It was suggested that Woolworths would rather invest the difference in its assets rather than paying a fairer price to farmers. How can Woolworths justify this when a large part of their assets is the ownership of poker machines which are one of the largest destroyers of families through gambling addiction?

While we always try and give our customers the best possible prices we understand that our suppliers have to maintain viable businesses as well and the price we pay has to support that. It is always our intention to achieve this balance.

Woolworths has strong partnerships with suppliers many of whom we have worked with over 40 years through good times and bad and we will continue to do so.

It should be noted that Australian farmers have a wide choice of who to sell their produce to and the price we pay reflects that. For instance, Woolworths sells only six per cent of Australia's fresh beef.

Woolworths is doing much to tackle some of the deeper issues in the agricultural sector- including environmental sustainability and the rising age of Australian farmers.

As such we have invested over \$3.5 million in our Fresh Food Farming Program which sees the company invest in initiatives supporting agricultural Australia focusing on productivity and sustainable farming practices and developing the next generation of talent in rural and regional areas.

The price paid to our meat suppliers has no connection whatsoever to do with our interest in Australian Leisure and Hospitality, a company which runs hotels and bottle shops, some of which include gaming machines.

Woolworths apply very rigid quality control on local food producers, but much of this is negated because of their distribution systems so that at the retail level as a consumer I find the quality is often very poor. What quality control and food safety checks are conducted on producer imported from overseas, such as China, fish from Vietnam and Africa, etc. I would like details of this, not merely an assurance that they have systems in place- exactly what are the systems, and who monitors their implementation, especially in view of recent adulteration of food in china?



Woolworths makes every effort to ensure only the best quality produce fresh food gets from the soil to the supermarket in the shortest feasible amount of time. By working directly with farmers in most cases we have been able to cut out the leg of the journey between the supplier and the state markets which has hastened delivery times. We also have quality assurance specifications in place all along the distribution chain, from the farmer to the store staff who constantly check the fresh produce on display in the stores.

The sheer amount of fresh produce we move and sell means it will always be a challenge to ensure every single piece all of it is at its peak, but that is what we are constantly striving for.

It should also be noted, however, that supermarkets are sometimes criticised for being too critical of the quality of fresh food and some have asked for us to actually lessen our quality specifications. At the end of the day our commitment to quality is based on what our customers choose to buy.

Recently, we have introduced a new initiative in store whereby we will pick out fresh produce which may have small knicks or bruises that would otherwise mean it would be overlooked by shoppers. At various times of the day we then invite customers to pick a bag of these fruit and vegetables for just two dollars. This has proved very popular with cost conscious consumers while ensuring higher quality produce is still available.

For the three per cent of fresh produce we import we have far stricter quality assurance measures in place that have become the benchmark standard for the industry.

Food safety is our number one priority and we invest heavily to continue to uphold these high standards.

## **GMFOOD**

### **What are Woolworths views on GM products?**

**Does Woolies intend following Sainsbury's, Tesco, Marks & Spencers lead in the UK by selling/promoting GMO free foods?**

**Does Woolies have strategic plans to respond to the growing demand for GMO free and organically grown food in Aust?**

We are committed to transparency and giving our customers accurate information about our products and as such we comply with all relevant national, state and territory food standards.

Our standard practice is to avoid GM material in our private label food range and in 2010, we had no private label food product requiring GM ingredients labelling.

Our suppliers are required to declare any GM ingredients at product development stage. If GM ingredients are declared, we work with our suppliers in an effort to replace the GM

ingredient with a non-GM alternative before finalising the product specification and the supply contract.

We cannot guarantee that the stock feed in meat or dairy products supply chain is non-GM. However, scientific evidence shows that GM material in stock feed is not transferred to milk, meat or other dairy products.

## ENVIRONMENT

What are your views on produce suppliers sustain ability? Is there any criteria in place for assessing the sustainability of the farmers practices? If so, how do consumers benefit, or be informed?

Does Woolworths know its carbon footprint? What pro-active programs are in place by Woolworths to reduce its carbon footprint?

A great deal of energy is consumed in supermarkets by way of lighting, air conditioning and refrigeration (especially open refrigeration in the dairy section). Is Woolworths considering, or does it plan to take, action to reduce energy consumption at the retail end (as different from energy to transport food and store it at distribution centres)?

It's worth nothing that Woolworths do not store food at distribution centres. Rather, food comes in to the centres and is then sent out to stores.

Woolworths is an outspoken champion of positive moves to reduce climate change and is active in encouraging others in the business industry to play their part.

Woolworths is a signatory to the Copenhagen Communique on Climate Change and has already invested millions of dollars in sustainability initiatives that will reduce energy costs and mitigate the impact of any scheme.

Woolworths has a sustainability strategy in place with key aims to be achieved by 2015. These include cutting carbon emission levels by 40 per cent; having zero food waste from stores and reducing water usage. Already our newer truck fleets are fitted with energy efficient Euro 5 engines and we have transformed our logistics operation to reduce the number of trucks on the road and use rail to move some freight over long distances.

Our newest stores have a raft of sustainability measure in place including everything from motion sensitive energy efficient lights to air conditioning systems which use less energy which has led these stores on average to use 25.8 per cent less carbon per square metre than standard stores.

Woolworths Limited CEO Michael Luscombe has been invited by the Federal Government to represent retailers on the Federal Government's Business Roundtable on Climate Change. The role of this roundtable is to assist the Government formulate climate change policies.

Woolworths looks forward to certainty being created in coming months around the policy mechanisms that will be used to address climate change.

More information on Woolworth's action in this area can be found in our corporate sustainability reports accessible from the front page of the WOOLWORTHS Limited website at [woolworthslimited.com.au](http://woolworthslimited.com.au).

We use oil to power agricultural machinery that harvests and processes our food and transport it to cities. We use phosphorous to fertilise our crops. Both are finite resources and plenty of evidence points to existence of both peak oil and peak phosphorous. How will we grow enough people to feed ourselves with these constraints on the horizon?

Food security is a debate we are very involved with and our CEO, Michael Luscombe, is vocal in the debate to protect food resources in Australia.

Australian farmers are actually tremendously efficient at growing food and as such we are a major export nation as well as being able to feed ourselves with 97 per cent of all Woolworths fresh food being home grown.

While Woolworths does not have all the answers when it comes to issues involving the growing of food worldwide we have taken a number of steps to reduce our own environmental impact.

We are a signatory to the Copenhagen Communique on Climate Change and have already invested millions of dollars in sustainability initiatives that will reduce energy costs and mitigate the impact of any scheme. These include the aim to have zero food waste by 2015, reduce our carbon emissions to 2006 levels and fit all our new trucks with leading edge Euro 5 engines.

Our CEO is also part of the Federal Government's Business Roundtable on Climate Change. The role of this roundtable is to assist the Government formulate climate change policies.

## MIse

I'd like to know about Woolworths' policies on supplying a full range of brands in stores. It seems to me that Woolworths' own brand now takes up more shelf space than it did 5 years ago and consumers are given less opportunity to buy their preferred brands when purchasing their groceries through Woolworths. Eg. now only the Macro brand of free range chicken and corn chips are sold, whereas independent brands were previously available. As well as reducing choice for consumers, it also squeezes out smaller suppliers and of course significantly reduces competition.

Woolworths has always and will always provide a range of private label and branded goods in store. In fact Woolworths Home Brand has been on the shelves for over three decades.

When it comes to private label products we have approximately 800 Woolworths Home Brand products and this figure has barely moved for 30 years; 1200 WOOWOLihs Select products which has remained static for six years and 150 Macro products which were introduced over the last two years. Overall, an average store carries in excess of 32,000 product lines.

Unlike some retailers we are not actively removing branded products from the shelves. Any increase in the number of private label products on shelves is due to customers choosing to buy them. The fact is, however, over 90 per cent of all products available on the grocery shelves in Woolies stores are branded products.

Every year more branded products are introduced than private label products and each new product must earn its place through sales. If it doesn't sell it doesn't stay - it doesn't matter if it's big brand or Home Brand. Witness the success of Rafferty's Garden brand baby food which is, of course, not a private label brand. Made by a small company the innovative packaging and natural flavours and ingredients have made this one of the favourite brands for parents.

The assumption that private label products are only made by big companies is wrong. Private label products are often a way for smaller suppliers to get on to the shelves of Woolworths. Our Select chocolate blocks for example are made by a family company in Western Sydney. While our jams are made by a small supplier in rural Victoria.

We don't dictate what customers can buy - to do so would lead customers to shop elsewhere. Rather, customers dictate what we stock.

68 per cent of Australian men and 55 per cent of Australian women are overweight or obese, at a total direct financial cost to the nation of \$8.3 billion per year. To what extent should our major food manufacturers and retailers take responsibility or be held to account for such health issues?

Woolworths believes people should have a choice about what they eat and can make their own decisions about what goes into their shopping basket.

However, we know we also have a commitment to encourage everyone to be healthier. That's why we have fresh food at the very centre of our strategy. We promote fresh food; we highlight it in our stores and provide ideas about how to enjoy more of it.

Through our Fresh Food Kids initiative we have tips online and in magazines to encourage kids to enjoy healthier foods and we give money to community organisations which improve the health and well being of children.

We have also taken steps to make our processed private label foods healthier. We have removed over 60,000 tonnes of salt from Woolworths Home Brand bread, - one of our most popular products - over the last year.



**Why don't you want consumers to be able to compare prices online - a la Grocery Watch - before getting to the store?**

Woolworths was always supportive of what the government was trying to achieve with the Grocery Choice concept as we firmly believe that consumers should have access to accurate and timely information about the cost of their groceries, just as they do when they walk into a store and see the prices on the shelves.

However, while it may seem a straightforward process, pricing of grocery goods is actually very complex and easily misrepresented and Woolworths held serious concerns around the legal issues and trade practices concerns arising from the proposed model.

There were also a number of technical barriers such as the fact Woolworths does not have a centralised data system which records in real time the actual prices of grocery items sold across our store network. This could mean, for instance, that if a store manager decided to reduce the price of a product to clear it would not correlate with the price given on the website.

We have put up over 7,000 of our prices online so customers can compare them easily (this site is currently down for maintenance).

**Food, like energy and water, is essential. In NSW, utilities are obliged to have customer councils that provide advice to retailers on how to better act in the interests of consumers. Would Woolworths consider convening customer councils in a bid to improve outcomes for consumers?**

Woolworths shoppers pass judgement on Woolworths every day by choosing to shop with us or not. We believe this provides us with the clearest information on what our customers want.

Having said that, Woolworths consults widely with stakeholders ranging from local councils to state and federal governments as well as groups representing different subjects - from the RSPCA to Oxfam.

In addition, Woolworths has an advisory panel of prominent Australian and New Zealand representatives to provide input and advice on key sustainability and corporate responsibility strategies to the CEO and senior management to challenge them to learn from best practice around the workplace and develop better strategies. In the past year the panel included members from EPA Victoria, WWF and the St James Ethics Centre.

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