# Submission on Excessive Pricing Prohibition for Supermarkets

contact@fusionparty.org.au

2025-11-03

Planet Rescue | Whistleblower Protection | Innovation

# Foreword

Fusion thanks the Treasury for the opportunity to influence the provision of groceries in Australia, as there's now sufficient will to become world leaders in this space with some new ideas.

This submission was prepared by:

- Drew Wolfendale, engineer and Fusion Party President.
- Owen Miller, software engineer and candidate for Wills.

# Executive Summary

We strongly oppose the adoption of this law and we condemn the farcical idea of having businesses pretend there's more competition than there really is.

These extreme powers of dictating profit margins have only ever been seen previously during times of war, and the simulation of competition will never produce the same outcomes as actual competition. Consumer prices are only going to be lowered by innovations or by ***actual*** increases in competition.

Ultimately there are two parts to an effective solution. The first is effective consumer access to information, and the second is to have a functional structural incentive for businesses to innovate.

Fusion's plans could deliver lower-cost, healthier and more ethical groceries to consumers in Australia and abroad.

# Problems with the Proposed Act

The entire basis of this pricing act is that the government has deep insight into the costs of selling groceries, and that they have the wisdom and authority to decide on reasonable profit margins for such businesses. Here we'll dive into some problems with this approach.

## Market Signals from High Prices

Let's consider the case of selling medical goods − there are anecdotes that sometimes the price can be *too low*, as customers will perceive that a cheap item mustn't be good quality. The price is **part of the marketing**, especially for Veblen goods. For better or worse, banning companies from having high prices would mean that consumers would be left without their go-to methods for decision-making.

When you visit the health and beauty section of a supermarket you can see that it's full of products that are often barely different from each other, except for differences in marketing and price. The same phenomenon inevitably plays out here: consumers will associate a higher price with higher quality. And just like taking a placebo, this higher expectation of a product can significantly affect the satisfaction of the buyer in the end.

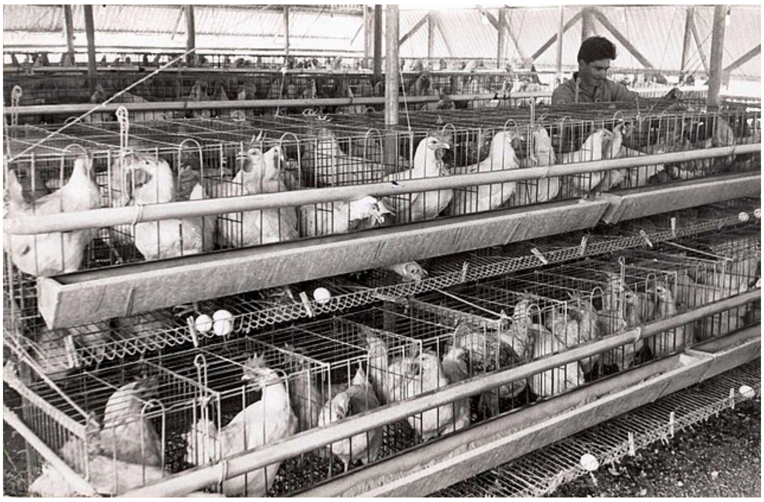
If people are paying a premium for certain products, this also gives a strong market signal to manufacturers about how much people really want some aspect of the new product.

When we consider high-priced health & beauty products, it's also worth noting the ongoing suspicion that some of them don't have *any tangible results at all*, and yet people keep buying them. When the government declares that people are being price-gouged for their snake oil, we're going seriously off course from sensible governance.


FÜM, the "world's first flavored air device"

## Ethics of Low Prices

If we consider chicken eggs for instance, consumers understand that keeping chickens in cages is typically cheaper than raising chickens in a paddock or a barn. But the sale of eggs is one of the only areas where consumers are provided any insight into the ethics of one product over another.



A chicken coop from 1964

Consumers would typically have no idea about the widespread deforestation and the loss of orangutans for the production of palm oil, despite it being found in 50% of all household and food products sold in the West. It's found in products from toothpaste to microwave diners, to cookies and makeup.

As discussed in The Unaccountability Machine by Dan Davies, modern corporations have evolved to set impossible targets then to shield themselves from knowing about where the rubber meets the road. Making a phone call to any large company leaves customers stuck in a Kafka-esque ordeal where frontline staff are not given the authority to actually resolve anything, and executives have plausible deniability when sins are committed.

Especially in under-developed countries, Davies discusses how multinational corporations will bribe governments and police to suppress protests and to breach labour laws. Supermarket staff in Australia have recently gone on strike and South Australia is cracking down on any sort of protest. The proposed new pricing laws do nothing to increase the transparency for consumers, and so by simply demanding “prices must be even lower”, isn’t it the same exact situation described by Davies? Will Australia start to see the same exploitation that happens with the child labour in Ghana, or the Walmart employees dependent on food stamps?

## Dynamic Pricing

By forcing supermarkets to base their pricing solely on their input costs, it ignores the effect of having a stockpile for responding to customer surges.

During COVID for instance, there was a surge in people buying toilet paper (for reasons that were completely irrelevant to Australia and triggered by media coverage). Unless the input costs to the supermarkets changed, then the new government rules would ban supermarkets increasing their prices in response, even though that’s the only way of ending the rush. Supermarkets have tried to instigate limits for purchases of eggs recently, but if customers are paying cash and there are 20 different checkouts open, then how is this really supposed to be enforced?


Empty supermarket shelves in Australia, March 2020

## Accounting of Input Costs

Section 5 of the proposed legislation is going to consider all sorts of scenarios for the pricing relationship between retailers and their suppliers, but there is not similar detail around the pricing relationship between retailers and end consumers.

When Qantas was scrutinised by the ACCC for selling tickets on “ghost flights”, their defence in the Federal Court claimed that Qantas is not so much selling a “particular flight” but rather a “bundle of rights”. We see that for groceries, customers are similarly getting more than simply an apple.

At Woolworths for instance, the purchase of an apple comes with a “Fresh or Free guarantee” where customers can return a product and receive a refund, as well as a replacement product.

Woolworths and Coles also offer fossil fuel subsidies of 4 cents per litre when people purchase groceries.

It’s also worth considering that supermarkets employ human beings; and their human customers might enjoy the interactions with these staff. Looking to the United States, we see that in their tipping culture, people are willing to pay more for a service with human involvement, so it’s reasonable to assert that the involvement of human staff at a supermarket affects the price customers are willing to pay − perhaps a price even higher than the wages for these staff, thereby increasing the profit margin.

With all these tangential benefits beyond the groceries themselves, it’s easy to imagine a scenario where large supermarkets invent creative ways to justify the same profit margins they’re currently enjoying.

The biggest flaw though arises by realising that the costs paid by supermarkets to their suppliers can be just as elastic as the costs paid by end consumers to the supermarkets. If Coles has already discovered that customers are willing to pay $2 for an apple, then sure, the government can force Coles to lower it to a 10% profit at $1.81, but if apple suppliers raise their costs from $1.64 to $1.81, Coles already knows customers will pay $2 and so what do they care if they now buy the apple for $1.81 and still manage to get their maximum 10% profit margin by selling it at $2?

In fact, under this regulatory model, this is what supermarkets ***want*** to happen: 10% margin on top of $1.81 means 19c of profit per apple, while 10% margin on top of $1.64 only means 17c of profit per apple.

We see that the profitability of Coles and Woolworths is not the fundamental issue here; it’s the fact that in this scenario, they have monopoly power. No amount of simulated competition can resolve this.

# Fusion’s Proposals

## Improving Transparency

We earlier drew attention to the fact that customers are willing to pay high prices for products with good marketing, especially if that product is maintained over the long-term − essentially, products where a high degree of trust has been established.

A key component then for allowing lower-priced products to flourish is to help them in establishing consumer trust through increased access to information.

Fusion’s first suggestion is to introduce a blockchain for food − a cryptographically provable way of tracking the provenance of food.

Unlike a centralised database of transaction history, a blockchain would be able to provide mathematical guarantees that the history hasn’t been altered by an administrator. Each entry recorded in the ledger would remain there forever, unable to be edited or removed, offering unrivaled transparency to anyone viewing the transaction history.

Imagine if the government was to use satellite data to assess the plausible output of each Australian farm, then publish this alongside self-reported production figures from the farms themselves?

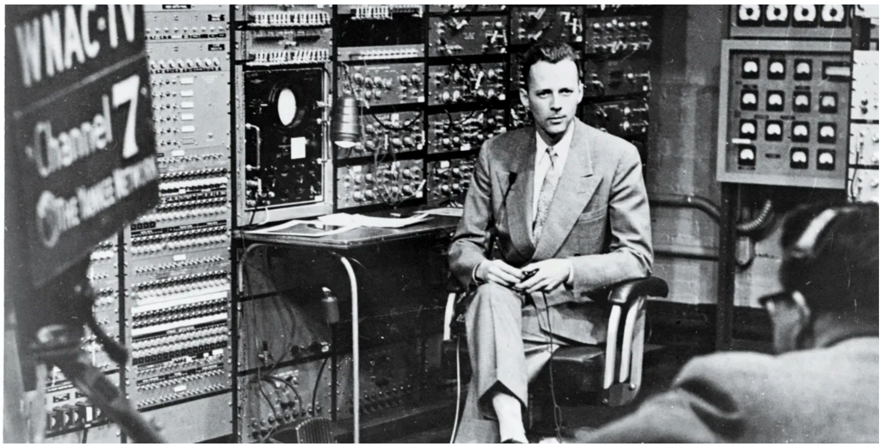
All along the supply chain, actors would report the quantities of food they’d purchased, and where they bought them from. Once it gets to the end consumer, they could have a huge amount of confidence that they’re getting the real deal, even if the price is “too good to be true”.

This allows brands and producers to sidestep the supermarkets as the primary providers of information (through market signals) to consumers, effectively working to counteract oligopolistic behaviours.

Consider also that food fraud is currently costing producers around $40 billion to $50 billion per year, globally - so while this sounds like a regulatory exercise there is actually significant incentive for producers to engage with this system to push back on the problem of fraud.

Besides undermining the fraudulent competitors, producers would also benefit from the blockchain in terms of accurate land valuations − soil is becoming unproductive, and the provable outputs recorded for years on the blockchain would give purchasers the confidence that they're getting a productive farm.

Producers would also be able to make more informed, longer-term pricing decisions when selling their produce. In the Philippines for instance, rapidly fluctuating prices have meant that half the fruits and vegetables at the Nueva Vizcaya Agricultural Terminal get thrown out. This scenario is analogous to the Beer Game devised by Jay Forrester.




Jay Forrester, a pioneer in system dynamics

Besides being sure that they're really getting the actual products being advertised, consumers would also have more certainty about the ethics of the supply chain. Maybe they want to know that their eggs came from a farm that really was cage-free, or that their cocoa came from robots rather than child labour.

Just like the satellite observations of farm sizes mentioned earlier, we could observe the amount of land allocated to chickens and we could give consumers some quantifiable metrics about how "*free-range*" their chickens really are.

The increasing importance of ethics in the food chain is seen most prominently in the rising popularity for animal-meat substitutes. Any nation that really does value innovation would see a scramble to be an early investor in the industry. In the early days of the CSIRO, it had divisions for animal health and animal nutrition. It is perfectly positioned to help Australian industry in putting cutting-edge science into practice and ensuring Australian businesses are successful in this growing trend towards ethical food.

The blockchain would likely be run using Proof of Authority, just like Ripple, but such implementation details are beyond the scope of this document.

The blockchain would allow greater confidence for consumers and it would give greater transparency to potential newcomers wishing to get involved in the industry. Although we're not calling for the inclusion of pricing information, the order quantities alone would still provide significant insight for competition to flourish.

By getting Australian food suppliers on the blockchain, it would allow greater trust not just for Australian consumers, but for worldwide consumers of Australian agricultural produce.

## Creating Structural Incentive for Innovation

The second part of the problem is, of course, not actually supermarket profits, but consumer expenses. The profit incentive is a powerful one, so fundamentally we should be designing systems to leverage that incentive to achieve the desired outcome.

To address the natural outcome of higher prices coming about as a result of industry stagnation and reduced competitions, and to avoid the onerous costs and often much-delayed benefits of regulatory intervention, we can harness the profit incentive by introducing a “market dominance tax” for all consumer-facing business sectors. This is a novel taxation mechanism that has not been tried before, but has been proposed by reputable sources.

This would be a scaling tax which applies an increase to the corporate tax obligation of companies that is equal in magnitude to the extent to which they exceed a competitive market share in Australia - e.g. if a competitive threshold was set at 15%, a market share of 20% would result in a 5% tax rate increase. The ACCC would be responsible for determining which sector a business falls into, and what constitutes a competitive market share for each business sector independently, whether that’s 10%, 15%, 18%, or any other number as appropriately determined.

This should only be assessed for businesses above some revenue floor (i.e. $5m) to avoid over-burdening small business sectors. A single corporate entity that has grown into multiple sectors may face cumulative effects.

Why do this though?

Right now, it's easier for a monopoly to earn $20 profit than it is for a smaller competitor. They have more say over the price that the market will bear. This tax would allow us to introduce greater fairness into the taxation of grocery profits and would serve to more closely align our markets with the popular desire for "free markets". It's worth remembering that the "freedom" in "free markets" is the freedom for new entrants to get involved. This is what keeps them serving the customers' true desires in a competitive manner.

The structure of this tax harnesses the profit incentive for innovation - as a company approaches the market share tax threshold they must deal with the fact that to increase profits they now have to actually improve how their business is run. They have to innovate, and if they innovate, well then they can actually make more profit.

So, this is a win for consumers, innovations will necessarily either bring down costs, or improve consumer experience - we want to incentivise companies to do this, and so making this the best avenue to increase profits is the most efficient way to do so.

This tax is not about raising revenue, and if it does raise revenue, it is a progressive tax because it causes no additional burden on corporations playing fair in the marketplace of ideas, but progressively penalises market players for anti-competitive behaviour.

In an ideal world this tax raises ***zero*** revenue, because we want people to innovate rather than dominate - it's a lever to encourage innovation. Having the tax in place, even with zero revenue, would still be cheaper to manage than the current regulatory burden which arises from ACCC intervention in enforcing the Competition and Consumer Act.

As an added benefit, this will reduce the frequency with which the ACCC will have to make the case to prevent mergers that substantially lessen competition, as companies will be incentivised to shed underperforming assets (creating space for others) and innovate with their business practices to improve their profit margins without necessarily expanding their market share.

By implementing a structural incentive for innovation we align the profit motive with efforts to increase productivity. Much better than the current model which simply encourages businesses to benefit from buying out their competitors.

# Conclusion

By pursuing this simulated effect of competition amongst supermarkets, the government will undermine the preconditions for actual competition to emerge and will further encourage unethical behaviour.

Fusion has laid out a compelling alternative for lowering the cost of groceries, improving the health benefits to consumers, for reducing the harm to animals in the supermarket supply chain, breeding a healthy and competitive market, and lifting productivity. We urge the government to lean into the Australian spirit of innovation and away from the totalitarian, war-time idea of price controls.