

SUBMISSION

9 February 2024

Select Committee on Supermarket Prices
PO Box 6100
Parliament House
Canberra ACT 2600
Via email: supermarketprices.sen@aph.gov.au

Dear Committee members

Re: Price setting practices and market power of major supermarkets

Cattle Australia (CA) is the peak industry organisation representing Australia's grass-fed cattle producers. CA provides clear leadership and direction for the grassfed beef cattle industry by developing and driving contemporary policy, guiding research, development and adoption, and marketing investment for the sector, and advocating on matters important to the Australian cattle industry.

CA appreciates the opportunity to comment on the Senate Select Committee inquiry into the price setting practices and market power of major supermarkets. It has long been a frustration for agricultural producers that our sector attains only a small portion of the end retail price of food products and there is little transparency in price setting at the retail level.

It has also been a source of frustration for the public as is evident by the numerous parliamentary and public inquiries into price transparency and price setting by the major supermarkets. There have been numerous attempts by government to address the disparity of farm gate and retail prices. The many investigations and inquiries that the Australian Competition and Consumer Commission (ACCC) alone has conducted in the last twenty years into market conduct and competition in the grocery business, such as ACCC (2002, 2004, 2007, 2008, 2017, 2020), serve as evidence of this ongoing concern.

Indeed, a study by Whitehall Associates in 2004 titled Price Determination in the Australian Food Industry¹, found that the farm-gate component of the retail price of a basket of food products ranged between 5% and 40%. That report also indicated that there appeared to be an increasing gap between farm-gate and retail prices.

Additional research commissioned by the Rural Industries Research and Development Corporation (RIRDC) in 2016² and completed by the same author as the 2004 report highlighted that in the eleven years between the two projects, substantive changes in the structure and competitive drivers in retail markets, practices undertaken by grocery retailers and the competitive tension in the grocery retail business has significantly changed as a result of Coles' revitalised financial performance and the fast growth of the discount food retail

¹ Spencer, S 2004, Price Determination in the Australian Food Industry, A report, Australian Government Department of Agriculture, Fisheries and Forestry, Canberra. https://www.agriculture.gov.au/sites/default/files/sitecollectiondocuments/ag-food/publications/price-determin/food_pricing_report.pdf

² Spencer, S 2016, From farm to retail – how food prices are determined in Australia, Rural Industries Research and Development Corporation, <https://www.agrifutures.com.au/wp-content/uploads/publications/16-013.pdf>

chains (such as Aldi and Costco). These retail operations are commercial enterprises that have responsibility to their shareholders. The government has little to no ability to impact on the legal commercial arrangements that they have in place.

Key findings of the RIRDC report in respect to primary determinants of pricing of beef at the farm-gate was weather, and supply and demand for cattle (from abattoirs, feedlots and restocking or live export markets). At a retail level, prices set for beef were determined by competitive retail pricing to place cuts in the category in relation to other lines of white and red meat depending on the type of meal and how it is prepared, and differentiation of grades of eating quality, product branding and packaging.

The most recent ACCC inquiry (2020) into bargaining power imbalances in supply chains for perishable agricultural products in Australia examined trading practices throughout supply chains, including the relationships between farmers, processors, and retailers, and the extent to which any potential bargaining power imbalances in these relationships adversely impacted the efficient operation of these markets. The inquiry also examined the ability of current laws and regulations to address the harmful effects of bargaining power imbalances.

The inquiry found a lack of transparency in relation to price and non-price factors and some beef producers have little transparency over the carcass grading process which can generate a lack of trust in the prices received. It also found that producers who raise concerns with a processor sometimes had their contract terminated or volumes reduced.

The ACCC did not make specific recommendations as it considered any price or market transparency mechanisms would need to be thoroughly considered to avoid unintended consequences and which must be tailored to a particular industry. As the beef industry exports around 75% of its product to international markets, caution must be exercised that domestic price signalling doesn't impact international client expectations.

The cattle and beef market study³, upon which the ACCC (2020) based much of its findings related to the beef industry, found that producers were unable to compare prices across sales channels which hindered their ability to make farm production decisions or determine their best marketing options. At the time of the study, there were no robust forward pricing mechanisms in the industry, which meant producers used historical prices to assess expected future prices and returns. Price reporting for saleyard and over the hook were reported inconsistently and price grids used by processors to indicate prices for specific carcass attributes varied in format and complexity. While the ACCC observed in 2019 that some processors had begun publishing their price grids online following the ACCC's recommendation, this practise is not widespread.

CA recognise that the aim of market transparency is to capture better value from the product. Presently there is a lack of clear market indicators for beef producers that are concise and consolidated. The implementation of technology to enable objective carcass measurement (OCM) and value-based marketing, founded on yield and eating quality, would provide a greater level of confidence that prices reflect the true value of beef products.

The current pressure being experienced by consumers at the retail level is the result of a perfect storm, with increases in interest rates, costs of living, unseasonable weather conditions, international and domestic fluctuation in commodity prices (including beef prices), infrastructure limitations (for example abattoirs having limited availability to process animals), increased costs of production (e.g. feed, electricity), etc.

While market concentration and competition issues cannot be discounted as being part of the reason behind this increasing gap of farm-gate and retail prices, CA acknowledges that there is an array of supply chain costs

³ <https://www.accc.gov.au/by-industry/agriculture/cattle-and-beef-market-study-2016-17#:~:text=In%202016-17%20the%20ACCC%E2%80%99s%20Agriculture%20Unit%20conducted%20a,and%20efficiency%20in%20cattle%20and%20beef%20supply%20chains.>

pressures including marketing, transport, processing, packaging, and labelling that impact on the cost of the end food product. These costs are amplified in rural, regional, and remote Australia due to limited retail competition. Greater transparency and understanding of these costs in the supply chain would assist beef producers make more informed decisions.

On behalf of its members and the broader industry, Cattle Australia is grateful for the opportunity to provide input into this inquiry. Should you have any questions regarding this submission please do not hesitate to our office on [REDACTED]

Yours sincerely

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Chris Parker
CEO