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The Senate

Select Committee on Supermarket Prices

PO Box 6100, Parliament House Canberra ACT 2600

Via: supermarketprices.sen@aph.gov.au

Re: Senate Select Committee on Supermarket Prices

Dear Committee,

On behalf of the Australian pork industry, thank you for the invitation to make a submission to this inquiry.

About Australian Pork Limited (APL) and the Australian pork industry

APL is the peak national representative body for Australian pork producers. It is a producer-owned company combining marketing, export development, research and innovation and strategic policy development to assist in securing a profitable and sustainable future for the Australian pork industry.

The Australian pork industry contributes around \$6 billion in gross domestic product to the economy and supports approximately 34,600 full time equivalent jobs, predominantly in regional Australia. The industry is domestically focused with around 90% of our production providing high quality protein for Australians. The value of the 10% exported in 2022-23 was \$182 million. In 2022-23, the industry produced 453,426 metric tonnes of pork.

Our industry is national, with producers raising pigs at 6,314 sites across Australia (at 1 July 2023). The commercial sow herd is predominantly located in regional areas of Qld, Vic, SA, WA and NSW.

APL holds a number of roles on behalf of the industry:

- The pork Research, Development and Extension organisation leading research in partnership with the Australian governments and research community,

- The marketing arm of the pork industry, managing national campaigns to raise demand and increase awareness of high-quality Australian pork and smallgoods,
- The peak body for the Australian pork industry, representing pork within the National Farmers' Federation (NFF) and other representative frameworks,
- Leading the pork industry's Sustainability Framework and part of the sector-wide collaborative effort to develop an Australian Agricultural Sustainability Framework, coordinated by the NFF on behalf of the Federal Department of Agriculture, Forestry and Fisheries (DAFF), and
- The industry signatory to the Emergency Animal Disease Response Agreement (EADRA).

The APL Sustainability Framework

In 2021 APL launched its first-ever pork industry Sustainability Framework¹. The Sustainability Framework set goals, targets, and measures to demonstrate the industry's commitment, built around four priority pillars: Pigs, People, Planet, Prosperity.

The Framework is further underpinned by APL's ambitious 2020-2025 Strategic Plan². Our industry is proud of our achievements to date, particularly our leadership across sustainable agriculture, biosecurity, welfare, and innovation. Our Strategic Plan and Sustainability Framework set ambitious goals to deliver benefits for our producers and regional economies and communities.

Our framework is aligned to the UN Sustainable Development Goals (SDGs) and we see a strong opportunity for pork to assist in meeting these. Particularly Goal 12 (responsible consumption and production) given the Australian pork industry's potential as a domestic provider of safe, affordable, sustainable low emissions protein.

The APL Sustainability Framework was established to support the pork industry to adapt and mitigate the impacts of climate change, support activities being undertaken to mitigate current labour shortages, reinforce the importance of animal welfare and biosecurity and support the pork industry's ability to thrive.

The pork industry is an important contributor to the economic, environmental and social prosperity of Australia

¹ https://australianpork.com.au/sites/default/files/2022-03/APL%20Sustainability%20Framework_Web.pdf

² <https://australianpork.com.au/sites/default/files/2021-06/APL-Strategic-Plan-2020-2025.pdf>

The domestic pork industry is a vital part of Australia's food supply chain. Pork is the second most consumed meat in Australia and all fresh pork consumed within the country is domestically sourced.

We encourage the review to understand four key fundamental areas of focus for Australia's pork industry, framed around our four Sustainability Pillars:

Pigs - A world leader in animal welfare and health. We are an industry that:

- Continually prioritises animal welfare through significant investment in research, development of training resources and adoption of science based best practice.
- Has invested more than \$23 million in levies into animal welfare research over the last ten years adding to the tens of millions invested by organisations such as the Pork CRC and Australasian Pork Research Institute Ltd (APRIL) and the significant investments by producers on farms.
- Has embraced formal quality assurance with independent annual audits accrediting 91% of commercial pork production.

People – Ethically produces high welfare pork in ways that supports both our industry's people and our local communities. Our industry:

- Supports Australia's food security with 90% of the 453,426 metric tonnes of pork produced annually staying in Australia to feed Australian families and all fresh pork being domestically sourced, and
- Is an important contributor towards Australian food security through provision of locally sourced, nutritious, versatile and affordable lean protein.
- Maintains a workforce that is skilled, specialised and generally engaged on a permanent basis. The industry can and is able to support more than 36,000 jobs nationwide and has the opportunity for growth up to 38,000, as Australian pork replaces imported pork in the domestic production of smallgoods.

Planet - A world leader in environmental best practice. Our industry has:

- A low environmental footprint with only 2% of total Australian agricultural emissions attributable to the pork industry, making it a low emissions protein,
- Continued to demonstrate its environmental credentials through a 73% reduction in emissions during the past 40 years and achieved an 80% reduction in water use,
- Over the last four decades the industry has reduced fossil fuel use by 58%, and
- An ongoing commitment towards a circular economy and having 60% of producers using waste recycling and renewable energy by 2030.

A recent industry-first study³ discovered that the Net Protein Contribution (NPC) of Australian pork is 3.26, demonstrating that the quality and efficiency of Australia's pork supply chains can generate three times the human-edible protein it consumes.

Prosperity - A revolutionary contributor to Australia's economy and those who work within the sector. Our industry contributes:

- \$6 billion to the Australian economy annually,
- Farmgate value of \$2.245 billion nationally,
- Approximately \$5,400 to the local economy per sow and up to \$7,700 if it includes a local processing facility, and
- For every 1000 sows there are 36 jobs created.

Response to the terms of reference.

APL understands that on 6 December 2023, the Australian Senate established the Select Committee on Supermarket Prices, to inquire into and report on the price setting practices and market power of major supermarkets. The committee is to present a final report by 7 May 2024.

APL have reviewed the Inquiry Terms of Reference, and wish to use this opportunity to provide information on the operation of the Australian pork industry. We shall also highlight a number of factors and opportunities which would help support consumers through increased information transparency and the associated reduction in market failure.

- The inquiry into supermarket pricing is seen as necessary to understanding the appropriate actions available to protect Australian shoppers during the current inflationary period. APL would encourage the Committee to consider supermarket pricing within the broader domestic supply chain environment, which impacts food prices across Australia.
- While we are aware of recent press attention directed towards the supermarkets, in particular in relation to 'price gouging', we have not identified specific price rises or areas of concern within pork categories.
- In delivering our marketing responsibilities for Australian Pork our relationships with retail partners are important. As a domestic focussed industry, with limited export opportunities, strong relationships provide opportunities to promote pork and

³van Barneveld R. J., Hewitt R. J. E., D'Souza D. N. (2023) Net protein contribution from an intensive Australian pork supply chain. *Animal Production Science* 63, 1837-1850. <https://www.publish.csiro.au/AN/pdf/AN23057>

achieve our strategic plan objectives to diversify products and grow domestic demand.

- Overall, commercial arrangements in the Australian pork industry appear to be reasonably balanced and considered, especially when considering larger trading agreements. This is largely due to these larger agreements being struck between sophisticated buyers and sellers.
- The pork industry operates according to a highly organised production to processing supply chain model.

The Australian Pork supply chain

The Australian pork industry is a national industry. A pig may be grown in Victoria, slaughtered in South Australia, further processed in New South Wales, and be found for sale in several states and territories less than a week later.

The commercial production of pork is a highly specialised, professional area of livestock production. The timing of breeding through to when a pig is ready for processing is carefully managed as the industry works on continuous supply with limited ability to hold pigs on farm or effectively process pigs once they become too large. Therefore, the industry works along carefully planned production cycles. The maintenance of these cycles is crucial as any supply chain disruptions can have a significant impact on animal welfare. Industry has therefore invested in a range of management systems to ensure business continuity. This is one of the motivating factors behind the sophisticated agreements being struck between producers and the supply chain. This ultimately benefits consumers as it maintains supply of pork and reduces price volatility.

The Australian pork industry is largely reliant on Australian consumers shopping for fresh (perishable) pork, utilising more than 70% of total Australian pork produced. Fresh Pork is a relatively concentrated business at all levels of the supply chain. Out of this 70%, approximately 18% finds its way to foodservice outlets and 52% finds its way to retail outlets. The approximate breakdown of retail outlets in terms of volumes of pork sold is as follows⁴:

- Woolworths and Coles 31%
- Aldi and Independent retailers 17%
- Butchers 4%

The 70% of fresh pork is itself made up of three groupings of market mechanism:

- i. Large retailers buying pigs either directly from producers or from processors who aggregate from a pool of producers (often the producers are known to the retailer).
- ii. Large and small retailers contracting processors or wholesalers for specific cuts and volumes at specific prices.

⁴ Retailer splits calculated using Circana Shopperview, Total Australia, MAT to 31.12.2023

- iii. Small retailers buying generally from a wholesaler/distributor often from smaller producers.

Each of these mechanisms is further considered below.

Large retailers buying pigs either directly from producers or from processors.

This market mechanism accounts for approximately 25-30% of all Australian pork produced, around half of all retail volume. Interactions generally have a high degree of transparency and are negotiated between sophisticated buyers and sellers. Retailers have defined specifications, which generally have more stringent "A grade" requirements to meet their desired shopper needs. These additional needs are recognised in the agreements that are struck on prices between retailers and suppliers (be they with producers or processors). This results in large retailers with agreements in place that flat the volatility in pig prices created by other market mechanisms.

There are numerous examples of long-term agreements, some of risk sharing and some very long-term relationships. There are commercial relationships with the two largest supermarket chains that have extended for 18 and 22 years. These relationships also often include mechanisms for price fluctuations based on known input cost fluctuations, such as grain prices.

Whilst large retailers certainly do have power in the market, we have found no evidence of misuse and producers involved in this market mechanism report no problems outside of normal commercial negotiations.

Large and small retailers contracting processors or wholesalers for specific cuts and volumes at specific prices.

This market mechanism also accounts for approximately 25-30% of Australian pork production. This mechanism incorporates some large retailers, many butchers and independent retailers (both supermarkets and foodservice).

This mechanism also has a range of agreements and they are typified as an agreed price for an agreed specification of a cut for a defined period of time. These time periods can be quarterly, monthly, or weekly, and are generally agreed and communicated in advance. The sharing of risk occurs in the larger volume agreements generally based on longer term forward periods and can include adjustment mechanisms for input cost changes, such as feed. Much of this business is conducted by sophisticated wholesalers who deal with the top two hundred or so largest producers in the pork industry. Many of these arrangements are long-standing and have stood the test of time.

We would make the observation that, generally, angst in relationships only tends to erupt when there are significant increases or decreases in prices and the wholesalers and producers do not have long term agreements in place. When this occurs, imperfect information about market prices in wholesale can put producers, who are unaware of movements in wholesale prices, at a disadvantage. This could be remedied by mandatory wholesale prices reporting by cut, similar to the USDA.

Small retailers buying generally from wholesalers/distributors often from smaller producers.

This market mechanism accounts for approximately 10-15% of Australian pork volume and tends to have the largest number of steps in the value chain. Frequently, this mechanism will include a producer, abattoir, wholesaler, and distributor before the product is delivered to the retail outlet.

Typically, this mechanism operates for smaller producers servicing niche or local markets. These producers generally see pork as part of their business, but it is not necessarily their primary focus. As a consequence, many producers in this category may have only one or two customers and are less likely to have solid on-going agreements. These producers are particularly vulnerable to changes in the market.

Theoretically, this should be the closest to “perfect competition” with many buyers and sellers. However, as outlined in the mechanism above, the imperfect information creates market asymmetry and lags as traders maximise margin during periods of volatility. This could be remedied by mandatory wholesale prices reporting by cuts, similar to what is done in the United States by the USDA.

An opportunity to support Australian food production supply chains to thrive

Food security, price volatility and cost-of-living pressures are being impacted by supply chain transparency and the complex regulatory environment which impacts cost competitive Australian food production.

Rising wage and feed costs as well as increasing regulatory costs hamper the profitability of pig production. Increasing the use of Australian pork in locally manufactured smallgoods would provide additional demand for pork and support the use of larger pigs. The creation of additional market opportunities would increase the long-term profitability, and therefore sustainability, of the Australian pork industry.

Priority areas where Government should consider providing support are those areas which support supply chain transparency and sustainable domestic food production.

There is an opportunity for further action on Country-of-Origin Labelling (CoOL) and for Government to consider support for campaigns that increase transparency and consumer understanding regarding food production.

APL’s Valuable Provenance campaign was designed to support consumers in the market who want to know the origin of the food they buy. Since COVID, more consumers prefer to buy food that has come only from Australia. Consumers are not fully aware of Country-of-Origin Labelling and there is a lot of confusion with how to read the various labels and definitions. This increases the risk of supply chain manipulation and reduces the opportunity for clear market signals back to Australia’s primary producers.

APL initiative – Valuable provenance campaigns and support for CoOL

In 2020 and 2021, APL took the initiative to educate the Adelaide market on how to read CoOL on package information. The campaign was implemented on Free to air TV, Radio, outdoor billboards, online & social media. Our objective was to create the awareness that

majority of the ham and bacon consumers are buying are imported. Consumer research told us that knowing the origin of ham and bacon isn't reason enough for consumers to buy Australian, given the price premium in the market.

We went back to Adelaide in 2023 with our Valuable Provenance campaign. This was likewise implemented on Free to air TV, Radio, Online, Outdoor, PR and Socials. Collaboration with smallgoods makers was key, as they likewise wanted to take advantage of the campaign. We used levy funds for this Awareness and Valuable Provenance campaign and implemented research to understand the results of both campaigns.

What we now know

1. Adelaide 2020/2021 Campaign results:

- Strong comprehension with campaign message take-out was 92% (Promote Australian, Raise awareness of CoOL/Australian ingredients).
- Awareness of CoOL on meat products increased to 78% (those that have seen the campaign), vs those who have not seen the campaign at 51%.
- 43% (those that have seen the campaign) checked CoOL the last time they purchased ham/bacon vs 17% those who have not seen the campaign.
- Total Australian volume sales for Ham & Bacon increased in South Australia by 21.5%, vs National Sales growth at only 8%.

2. Virtual Reality (Choice Modelling Shopper) Research 2021 and 2023 results:

- The TV campaign raised awareness for CoOL. 81% awareness for those that have seen the TV ad vs 68% from those that have not seen the ad.
- Based on the brands the consumers are used to buying, 40% claimed they purchased Australian when, only 11% of those products purchased were actually Australian.
- Valuable Provenance messaging, having the Australian Pork logo on pack (which made it easier for consumers to find/identify Australian Ham and Bacon, showed increase in pick up rate (from 6% to 9%) and conversion to sales (from 50% to 85%). This led to increase in overall Category Volume and Value growth for Ham and Bacon.
- Half of our respondents claimed the Valuable Provenance messaging had influenced their choice for Australian of products in subsequent shops.

3. Valuable Provenance 2023 Campaign Results:

- Exposure to this campaign has led to strong uplifts around the CoOL understanding and behaviour (checking the label).
- Positive perceptions towards buying Australian are impacted by exposure
- Almost 50% have said the ad has made them feel proud of Australian products.
- Impact/Influence in behaviour also showed positive results with:
 - 55% claiming they are more likely to buy Australian
 - 57% more likely to look at the label on the pack
 - 58% more likely to check for majority Australian ingredients

Creating awareness was the first step. While we found that awareness alone did shift sales towards Australian, this campaign is also the key first step to allow us to communicate the quality and standards of our industry and products without having misattribution to imported

products. For the second step, which is the Valuable Provenance messaging, to be effective in the market, media investment will be needed to establish Reach and Frequency. We need to be able to reach as many consumers as possible and be able to reach them at least three times.

Key recommendation

There is an opportunity for the Government to support greater awareness of Australian food production and increase supply chain transparency, reducing the opportunity for market failure. APL has continues to support the following recommendations regarding Country of origin labelling:

1. Supporting mainstream mass-media advertising and education campaigns, such as the APL CoOL Advertising Campaign, to support consumer choices and provide clearer market signals back through the supply chain. Consumers need the opportunity to understand:
 - a. that they may be inadvertently buying imported goods
 - b. how to look for CoOL and correctly interpret the CoOL labelling system
2. Mandate the use of CoOL in Quick Service Restaurants (QSR's) with more than 100 outlets nationwide.
3. Replace the claim 'Made in' with 'Manufactured in' to better identify that the CoOL logo refers to the processing of a product, not that the substantial ingredients in the product are Australian.

APL recommends and sees significant value in government support to extend APLs Valuable Provenance campaign to a national campaign. This will address one aspect of market impact by improving the current lack of information flow, reduce ability to send manipulated market signals and allow consumers to support local food producers which will result in sustainable supply chains and increased food security.

Thank you for the opportunity to provide a submission.

Yours sincerely,

Margo Andrae
Chief Executive Officer