

TasFarmers

Submission to the Senate Select Committee on Supermarket Prices

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TasFarmers
A UNITED VOICE FOR TASMANIAN FARMERS



Introduction:

TasFarmers is the peak body representing Tasmanian primary producers. Agriculture is one of the key pillars of the Tasmanian economy and we are committed to ensuring that the sector remains profitable and sustainable. TasFarmers welcomes the opportunity to provide further feedback regarding submissions to the Senate Select Committee on Supermarket Prices.

The affordability and accessibility of essential items in Australian supermarkets are fundamental aspects of ensuring the well-being of our citizens. However, concerns have arisen regarding the pricing practices of major supermarket chains, prompting the need for a thorough inquiry into the dynamics that shape our grocery market. This submission delves into the intricate landscape of price-setting practices and market power, specifically focusing on the conduct of major supermarket players. By addressing the terms of reference outlined for this inquiry, TasFarmers aims to shed light on the critical issues surrounding market concentration, corporate power, rising profits, and the prevalence of opportunistic pricing. This submission strives to contribute substantively to the discourse surrounding these matters and proposes actionable recommendations to foster a fair and competitive environment within the Australian grocery sector.

The discrepancy between farmgate prices and supermarket prices:

The widening gap between farmgate prices and supermarket prices stands as a pressing concern within the current market dynamics. Tasmanian primary producers, represented by TasFarmers, are grappling with a stark disparity that threatens the economic viability of the agricultural sector. While farmers face the challenges of fluctuating commodity prices, the retail sector experiences a different reality, where consumers bear the brunt of rising costs for essential items. This discrepancy highlights an urgent need for a fair and transparent pricing structure that ensures equitable returns for farmers while addressing the affordability concerns consumers face. Bridging this gap requires comprehensive measures that consider the entire supply chain, from production to retail, and necessitates the cooperation of policymakers, regulatory bodies, and industry stakeholders to create a sustainable and balanced pricing system that benefits both producers and consumers alike.

Adverse effects occurring from terms of trade placed on agricultural goods:

Imposing unfavourable terms of trade on agricultural goods by supermarkets adversely affects the agricultural sector. This creates a power imbalance, pressuring farmers and reducing their income. The demand for lower prices and strict quality standards hinders investment in sustainable practices. Unpredictable trade terms disrupt long-term planning, jeopardising the stability of the agricultural sector and compromising overall product quality. Addressing these issues is crucial for a fair and sustainable system.

a. The effect of market concentration and the exercise of corporate power on the price of food and groceries:

The concentration of the grocery market in Australia, dominated by a limited number of major supermarket chains, has significantly influenced the pricing of food and groceries. This concentration has granted these entities substantial corporate power, enabling them to dictate terms to suppliers and impact the overall market dynamics. Consequently, consumers often bear the brunt of higher prices for essential items.

Recommendations and Solutions:

1. **Enhanced Competition Regulation:** Strengthen competition regulations to prevent anti-competitive practices and foster a more competitive environment. This may involve stricter scrutiny of mergers and acquisitions within the grocery sector.
2. **Price Monitoring Mechanisms:** Establish robust mechanisms for monitoring and regulating prices of essential items. This could involve the creation of an independent body tasked with overseeing and ensuring fair pricing practices and investigating potential instances of price gouging.
3. **Transparency Requirements:** Implement transparency measures that compel supermarkets to disclose their pricing strategies and the factors influencing price changes. This ensures that consumers are informed and can make more educated choices.

b. The pattern of price setting between the two major supermarket chains:

The pattern of price setting between the major supermarket chains, often characterised by oligopolistic behaviour, has significant implications for suppliers, consumers, and market competition. Analysis reveals that a lack of robust competition can lead to inflated prices and reduced choices for consumers.

Recommendations and Solutions:

1. **Strengthen Competition Policy:** Advocate for the enhancement of competition policies to foster a more competitive environment within the supermarket industry. This could include stricter regulations on anti-competitive practices and the promotion of fair trading, encouraging the entry of new players into the market.
2. **Price Transparency Initiatives:** Introduce measures to enhance price transparency, empowering consumers with clear information on the pricing of essential items. This can be achieved through mandatory disclosure of pricing strategies, regular audits, and the development of accessible online platforms that enable consumers to compare prices across different supermarket chains.
3. **Independent Pricing Regulator:** Establish an independent pricing regulator with the authority to monitor and regulate the pricing practices of major supermarket chains. This regulator would ensure adherence to fair pricing standards, investigate complaints, and impose penalties for non-compliance. The regulator should be empowered to publish regular reports on pricing trends and market competition.

c. Rising supermarket profits and the large increase in the price of essential items:

The escalating profits of major supermarkets have been accompanied by a substantial increase in the prices of essential items, posing a significant challenge to consumers. While profits ultimately benefit shareholders, including superannuation funds, this trend not only impacts the cost of living but also raises concerns about the accessibility of necessities.

Recommendations and Solutions:

1. **Price Monitoring and Regulation:** Implement a robust system for monitoring and regulating prices on essential items to prevent arbitrary hikes. Establishing an independent regulatory body with the authority to oversee and intervene in pricing practices can act as a deterrent against unjustifiable price increases. Regular audits and reporting mechanisms can ensure compliance and transparency.

2. **Promotion of Competition through Incentives:** Encourage competition among supermarkets by introducing incentives that reward fair pricing practices. This could involve tax breaks or other benefits for supermarkets that demonstrate a commitment to maintaining reasonable prices on essential items. Incentivising fair competition fosters a market environment where consumers can access affordable goods without compromising the sustainability of businesses.

d. The prevalence of opportunistic pricing, price mark-ups and discounts that are not discounts:

Opportunistic pricing, unjustifiable mark-ups, and misleading discounts erode consumer trust and contribute to the perception of unfair business practices. It is crucial to address these issues to ensure a fair and transparent retail environment.

Recommendations and Solutions:

1. **Enhanced Regulatory Oversight:** Recommend the establishment of a dedicated regulatory body or the empowerment of an existing authority to monitor and enforce pricing practices. This body should be able to investigate and penalise supermarkets engaging in opportunistic pricing, mark-ups, or deceptive discounting.
2. **Transparent Pricing Policies:** Advocate for mandatory disclosure of pricing policies by supermarkets. This includes providing clear and comprehensive information on the factors influencing pricing decisions, such as production costs, distribution expenses, and profit margins. Transparency can empower consumers to make informed choices and discourage unfair pricing strategies.
3. **Regular Audits and Reporting:** Propose a system of regular audits conducted by independent third parties to assess supermarkets' pricing practices. The results of these audits should be made public, creating accountability, and encouraging supermarkets to adhere to fair pricing standards. Establishing a transparent reporting mechanism can also help track and address issues promptly.

e. The contribution of home brand products to the concentration of corporate power:

The proliferation of home brand products in major supermarkets has significantly contributed to the concentration of corporate power in the Australian retail landscape. These private-label products, often marketed under the supermarkets' brands, and often given dominant shelf space, can create an environment where consumer choices are limited, and smaller suppliers face challenges in competing. This concentration of power can result in a reduction of diversity in product offerings, potentially limiting consumer options.

Recommendations and Solutions:

1. **Enhance Transparency and Disclosure:**

Advocate for increased transparency in the sourcing and production of home brand products. Supermarkets should disclose information about the suppliers, production methods, and quality standards of their private-label items. This transparency can empower consumers to make informed choices and encourage fair supplier competition.

2. Promote Competition through Independent Labels:

Encourage the promotion and support of independent labels and brands within supermarket spaces. Supermarkets could allocate dedicated sections or shelves for locally produced or niche products, fostering diversity in the market. This initiative would give smaller suppliers equal visibility and a fair chance to compete alongside home-brand products.

3. Implement Fair Pricing Agreements:

Advocate for establishing fair pricing agreements between supermarkets and suppliers, particularly for home brand products. Such agreements should ensure that suppliers receive fair compensation for their products, preventing exploitation and fostering a more equitable distribution of profits. This approach would help in balancing the power dynamic between supermarkets and suppliers.

f. The use of technology and automation to extract cost-savings from consumers and employees:

The integration of technology and automation in supermarket operations has undoubtedly brought efficiency gains but raises concerns about the potential exploitation of consumers and employees. Supermarkets often leverage technology to optimise processes, reduce costs, and enhance their profit margins. However, this can inadvertently lead to negative consequences for both consumers and employees.

Implications of Technology and Automation:

Supermarkets may employ algorithms to dynamically adjust prices, capitalise on consumer behaviour data, and automate various aspects of their supply chain. While these practices can contribute to cost savings, they can also result in pricing strategies that exploit consumer vulnerabilities. Additionally, the widespread use of automation raises concerns about potential job losses and precarious working conditions for employees.

Recommendations and Solutions:

1. **Transparency in Pricing Algorithms:** Advocate for transparency in the use of pricing algorithms. Supermarkets should disclose how algorithms determine pricing, ensuring that consumers are informed about the factors influencing the cost of products. This transparency can empower consumers to make informed choices and hold supermarkets accountable for fair pricing practices.
2. **Ethical Use of Automation:** Encourage supermarkets to adopt ethical guidelines for the implementation of automation. This includes ensuring that the introduction of automation does not result in significant job losses and that employees are appropriately trained to work alongside automated systems. Companies should prioritise the well-being of their workforce and invest in upskilling programs to mitigate negative impacts.
3. **Consumer Education and Advocacy:** Promote consumer education initiatives that raise awareness about the impact of technology on pricing. Establish consumer advocacy groups that actively monitor and challenge unfair pricing practices. Empowered and informed consumers can drive demand for ethical pricing practices, influencing supermarkets to prioritise fair and transparent pricing strategies.

h. Frameworks to protect suppliers when interacting with the major supermarkets:

Suppliers play a crucial role in the supply chain, and protecting their interests is essential for fostering a fair and competitive marketplace. The following recommendations propose frameworks to safeguard suppliers when dealing with major supermarkets:

Recommendations and Solutions:

1. **Transparent Contractual Agreements:** Advocate for the implementation of transparent contractual agreements between supermarkets and suppliers. These agreements should clearly outline pricing mechanisms, payment terms, and any potential changes, ensuring fairness and predictability for suppliers.
 2. **Establishment of a Supplier Ombudsman:** Create an independent Supplier Ombudsman to mediate disputes and ensure fair dealings between suppliers and major supermarkets. This third-party entity can investigate complaints, resolve issues, and provide a neutral platform for dispute resolution, promoting a balanced power dynamic.
 3. **Fair Price Monitoring Mechanism:** Introduce a fair price monitoring mechanism to assess the reasonableness of prices offered by major supermarkets to suppliers. This mechanism can involve regular audits and assessments to identify and address any instances of unfair pricing practices, protecting suppliers from exploitation.
- i. The role of multinational food companies in price inflation:

Multinational food companies play a significant role in shaping the pricing landscape of Australian supermarkets. Their global reach, supply chain influence, and market presence can impact pricing structures and contribute to inflation in the prices of essential items. Understanding and addressing this role is crucial for fostering fair competition and ensuring reasonable pricing for consumers.

1. **Increased Transparency and Reporting:** Propose mandatory transparency requirements for multinational food companies operating in Australia. This includes regular reporting on pricing strategies, profit margins, and supply chain practices. Establish a centralised platform or regulatory body to collect, analyse, and publish data on the pricing practices of multinational companies, fostering accountability and enabling informed consumer choices.
2. **Strengthening Anti-Monopoly Measures:** Enhance existing anti-monopoly regulations to curb excessive market dominance by multinational food companies. Implement stricter guidelines on mergers and acquisitions to prevent monopolistic practices that could lead to inflated prices. Advocate for periodic reviews of market concentration levels and consider implementing divestiture measures if a company's market share exceeds a certain threshold.
3. **Support for Local and Sustainable Alternatives:** Encourage policies that promote the growth of local and sustainable food producers and suppliers. This can be achieved through financial incentives, streamlined regulatory processes, and marketing support. Develop labelling standards that identify and differentiate products based on their origin and sustainability practices, empowering consumers to make informed choices that support local businesses.

Conclusion:

In conclusion, TasFarmers, as the representative of Tasmanian primary producers, underscores the critical need for comprehensive reforms to address the multifaceted challenges within the Australian grocery sector. The widening gap between Farmgate Prices and Supermarket Prices poses a threat to the economic viability of the agricultural sector, necessitating the establishment of fair and transparent pricing structures. The concentration of market power in major supermarket chains demands strengthened competition regulations, transparent pricing policies, and the establishment of an independent pricing regulator.

The escalating profits of supermarkets, marked by a surge in essential item prices, call for robust monitoring and regulation mechanisms. Opportunistic pricing, marked-up costs, and misleading discounts necessitate enhanced regulatory oversight and transparent pricing policies. The proliferation of home brand products requires increased transparency, support for independent labels, and fair pricing agreements. The integration of technology and automation must prioritise transparency in pricing algorithms and ethical use to prevent consumer exploitation and safeguard employee well-being.

Frameworks to protect suppliers include transparent contractual agreements, the establishment of a Supplier Ombudsman, and fair price monitoring mechanisms. Lastly, addressing the role of multinational food companies in price inflation mandates increased transparency and reporting, strengthened anti-monopoly measures, and support for local and sustainable alternatives. These recommendations collectively aim to foster a fair, competitive, and sustainable grocery sector that benefits both producers and consumers alike.

Yours sincerely,

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