



Level 19, 644 Chapel Street, South Yarra, VIC 3141 Tel: +61 3 8844 5536 Fax: +61 3 9826 3642

Inquiry into Constitutional Corporations (Farm Gate to Plate) Bill

Introduction

Founded in 2009, PMA Australia-New Zealand Limited (“PMA A-NZ”) is the first international affiliate of Produce Marketing Association (PMA), the global produce and floral industry’s leading trade association. PMA A-NZ’s 150 voluntary members are leading companies from all parts of Australia and New Zealand and represent all sectors of the fresh produce and floral industry value chain from seed companies and growers through to wholesalers and retailers. The organisation is governed by a local Board of 12 Directors, elected by the members. For more information, visit www.pma-anz.com.

Opinion

PMA A-NZ wishes to express its objection to the proposed Constitutional Corporations (Farm Gate to Plate) Bill which will require major grocery retailers to display the farm gate price of fresh fruit and vegetables next to the retail price and on their websites.

There are four main reasons for our objection:

1. The definition of farm-gate price as defined is not clear;
2. It will be extremely complex and expensive to implement;
3. It will make no difference to consumers or producers; and,
4. It discriminates against suppliers who sell to major retailers;

Each of these objections will be discussed in greater detail below.

Definition of Farm-gate Price

Under the proposed bill, the farm-gate price is defined as *“the price of produce available at the farm, excluding the costs of transport, processing, storage and marketing and profit margins of any entities involved, including the grocery retailer.”* However there are very few products that are available at the farm-gate in the same form that they are harvested, i.e. the produce almost always incurs some costs of transportation, processing or storage or profit margin to get it from the paddock to the “farm-gate”. Therefore, the calculation of farm-gate price (as defined) is in itself complex and open to different interpretations and application.

Complex and Expensive to Implement

Retailers purchase fruits and vegetables from a number of sources and it would require incredibly complex systems to capture all the information to give a true “farm gate” price (notwithstanding comments above on the definition of farm-gate price).

Retailers buy fruits and vegetables from:

- a) **Growers:** these growers grade and pack their own produce and do not source from other growers and therefore are able to calculate the price of their product as it leaves the farm-gate, but they would need to deduct all processing, storage and the profit margins made on processing and storage to come up with a price that meets the definition of “farm-gate price”;
- b) **Packers who source from many growers:** this would require the packers to provide the next person in the value chain with the prices they have paid growers (less any processing and storage costs or profit margins). In all cases, the retailers are only taking part of the crop (product of certain sizes and quality grades), but in many cases the packer will have paid a single “bin” price (covering product of all grades, including waste product) to the grower, making it almost impossible to calculate the value of the particular part of the crop that is ultimately sold to the retailer;
- c) **Processors who source from many growers:** for some products, such as packaged salads, there are multiple suppliers of different ingredients in a single salad product; the retailer only knows the price of the product paid to the processor, not what price the processor has paid to growers or other intermediaries for each of the ingredients that make up the product;
- d) **Wholesalers:** for many products, the retailers buy from the wholesale markets and do not have “transparency” to the price the wholesaler has paid to the grower or other intermediary.

Most produce purchased by the retailers has passed through a number of hands post-harvest and therefore it would require a massively complex audit trail to trace back to the theoretical farm-gate price that has had all *costs of transport, processing, storage and marketing and profit margins* of all these intermediary entities removed.

In addition to the above, when the retailers display the produce in the stores, it is most likely that it will have been purchased from more than one source (at different prices) and therefore it will be almost impossible to determine the weighted average farm-gate price (from multiple sources) at any one time.

To develop, implement, maintain and audit (for integrity and accuracy) any system that is capable of capturing all of the above will be extremely costly and complex; these costs would most likely be borne either by the consumer or the producer.

No Benefit to Consumers or Producers

By showing the retail price and the farmgate price on every item of fruit and vegetable is unlikely to have any benefit for the consumer or the producer (but will have significant costs).

For the consumer, showing a farmgate price will only be of any value if:

- e) it also showed all the costs (grading and packing/processing, storage, packaging, freight, finance, capital, administration, profit margins of all intermediaries, etc) of getting the product from the farmgate to the retail shelf; and
- f) the same system was in place through all other outlets where the same product can be purchased (e.g. independent retailers, online stores, farmers’ markets, etc), so that the consumer can make an informed comparison of the prices paid to producers through the different ‘channels to market’.

As neither of these is proposed, there is no benefit to the consumer of knowing what the farmgate price is, if indeed it was possible to show an accurate farmgate price in the first place.

The producer on the other hand already knows what he/she is receiving for the product relative to what it has cost at the point of handover to the next person in the value chain (i.e. whether or not he has made a profit or

loss on the transaction); therefore showing the farmgate price at the point of retail is of no value whatsoever unless, as with the consumer, he also knows all the costs incurred between what he has been paid and what the consumer is paying for his product and hence can reach an informed conclusion on the relative returns (on capital employed) of all parts of the value chain.

For both producer and consumer, it is difficult to understand what they would do differently if both prices were displayed, especially as they have nothing to compare the farmgate prices against. Would the consumer change their shopping habits? Would the producer sell to other customers?

Therefore having both prices shown does not in any way appear to benefit the producer or the consumer and therefore if there is no benefit, why implement a costly system?

Discriminates against Suppliers to Major Retailers

Of all the fresh produce sold in Australia, approximately 25% is sold to the food-service sector and about 25% sold through independent retailers. Therefore about 50% is sold through the major retailers.

By legislating that the major retailers must show both prices is discriminatory against those suppliers who sell to these retailers. On what grounds should they be required to, when all other retailers would not be required to show the prices they have paid to their suppliers? The suppliers to these other retailers now have a competitive advantage from being able to compare what they have been paid compared to what suppliers have been paid by the major retailers.

To overcome this unfair advantage to one set of suppliers, then all outlets for fresh produce should be subject to the same legislation, not just 50% of outlets.

It is also not in the best interest for suppliers to have their prices displayed as it will probably have the effect of decreasing prices, as buyers from competitor retailers could use this now visible information to negotiate with their suppliers to the lowest farm-gate price displayed.

It also raises the question as to why this bill is being proposed for just fresh fruit and vegetables. Why are frozen fruits and vegetables, meat, eggs, milk, bread, etc (or for that matter any food or grocery product) not also subject to the same pricing information?

Conclusion

PMA Australia-New Zealand Limited does not support this bill as it appears to be of no benefit to anyone, will be extremely complex and costly to implement and discriminates against suppliers to the major retailers.

Yours sincerely,

Michael Worthington
Chief Executive Officer

31st October 2011