

2<sup>nd</sup> November, 2011

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Dear Dr Grant,

**Re: ANRA position on Constitutional Corporations (Farm gate to Plate) Bill 2011**

I write to outline the Australian National Retailers' Association (ANRA) position on the Constitutional Corporations (Farm Gate to Plate) Bill 2011 (the *Bill*) and to clarify a number of potential misconceptions about Australia's retail grocery industry.

For background, ANRA represents Australia's leading national retailers across the full spectrum of retail goods and services; including household names in supermarkets, department stores and specialty retailers. ANRA's grocery members include Coles, Costco and Woolworths. These businesses employ around 300,000 people, or nearly one-quarter of the Australian retail workforce.

ANRA's grocery members are significant supporters of Australia's primary food producers. Around 95% of the fresh food sold in supermarkets is sourced from Australian producers. Imported produce is typically only sourced to maintain supplies of customers' favoured produce throughout the year.

In its current form the *Bill* would force larger grocery retailers to display an 'average farm gate price' – presumably for the previous calendar or financial year – for all fresh fruit and vegetables, alongside the offered retail price. I note that large retailers account for around half of the retail fruit and vegetable sales in Australia, with the other half of retail sales supplied by fruit shops, independent grocers and produce markets.<sup>1</sup> This leaves a significant portion of the market not covered by the *Bill*.

In short, ANRA does not support the *Bill*. The requirements of the *Bill* are impractical from an implementation perspective and represent an additional (quite unnecessary in this case) compliance burden for Australia's fresh food industry – particularly farmers and wholesale supply businesses/co-operatives. ANRA believes the *Bill* would likely confuse or antagonise retail customers. Furthermore, the *Bill* appears to be motivated by a number of misconceptions about Australia's retail grocery industry and the broader economic environment.

Thank you for considering ANRA's views on the Constitutional Corporations (Farm Gate to Plate) Bill 2011. I would be happy to discuss ANRA's position in person or via telephone

Sincerely,

Margy Osmond  
Chief Executive

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<sup>1</sup> Roy Morgan (2011) Supermarket Monitor. June edition.

## **Average 'Farm Gate Price' is Impractical**

The *Bill* defines a 'farm gate price' 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'.<sup>2</sup>*

In practice this requirement would mean that large retailers' must 'discover' the prices that farmers are paid for their produce. This is highly problematic, if not impossible. Large retailers do not currently have direct access to the details of prices that fruit and vegetable farmers receive for their produce. ANRA's supermarket members typically source fruit and vegetable supplies from a variety of providers; including farmers' co-operatives, wholesalers and produce markets – where produce is consolidated, graded, packed etc before purchase by retailers.

As a result, in the clear majority (almost all) of cases the fruit and vegetable prices that large retailers' have an understanding of also incorporate *their* suppliers' transport, processing and marketing costs, amongst other factors – including suppliers' profit.

It is also not clear which farmers have provided the produce that large retailers are ultimately supplied with. ANRA's grocery members have minimum standards for any product they sell, and quality is a particularly important determinant of fresh fruit and vegetable prices. This gives rise to the need for wholesalers to sort and grade the produce they buy from farmers – meaning that a particular consignment of fresh fruit or vegetables is likely to have been contributed to by a variety of farmers.

Even if this information was easily obtainable, and in ANRA's view it is not, attempting to compile and maintain a database of 'farm-gate prices' for retailers to refer to would also impose a significant regulatory impost on farmers and the wholesale businesses they supply. ANRA's views on this requirement are not solitary. For example, the Produce Marketing Association Australia-New Zealand note that:

*'fruit and vegetable prices change almost daily, depending on supply and demand, so the task of monitoring and updating prices would be monumental'.<sup>3</sup>*

## **Likely Customer Confusion**

ANRA understands the proponents of the *Bill* believe this requirement would provide consumers with an indication of food retailers' profit margins.<sup>4</sup> ANRA has highlighted that retail food prices also reflect transport, processing, storage, handling and marketing costs, amongst others, in addition to profit margins. This is also recognised implicitly within the definition of *farm gate price* in section seven (7) of the *Bill*.

ANRA believes that even if this 'information' were available for retailers' to display it would likely be highly misleading for consumers and act to antagonise customers that do not have a full understanding of the processes and costs involved in bringing fresh produce to their local food retailer.

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<sup>2</sup> Constitutional Corporations (Farm Gate to Plate) Bill 2011.

<sup>3</sup> PMA Australia-New Zealand (2011), *PMA rejects moves by Katter, Xenophon to require supermarkets to reveal prices paid to growers*.

<sup>4</sup> See, for example, Constitutional Corporations (Farm Gate to Plate) Bill 2011, second reading speech.

Indeed, it appears a primary motivator for the *Bill* is the mistaken belief that grocery retailers are earning 'unfair' margins.<sup>5</sup> In contrast, food retailing margins are well below average. Australia's food retailers achieved a pre-tax profit margin of only 5.8% in 2009/10 – less than six cents for every dollar of sales.<sup>6</sup> This compares with 5.3% for the retail sector and 11.1% across all industries.

ANRA also believes that displaying an average farm gate price alongside the offered retail price will be confusing for consumers of produce that exhibits highly seasonal variation in supply and demand levels (and therefore prices). Retail prices are determined by a myriad of factors and reflect current conditions with that particular market. In contrast, the average farm gate price structure would reflect those factors over a far longer (and distant) period and would smooth out much of this seasonality. As a result, there could well be instances where the average farm gate price could exceed the price offered by the food retailer.

Consider, for example, the case of bananas. You are very likely aware that a significant portion of Australia's domestic banana supply was destroyed by natural disasters in Queensland in early 2011 and therefore prices – both at the farm gate and in food retailers – for surviving produce rose in response. Now that Australia's banana supplies are returning to more 'normal' levels, it is likely that prices – at both the farm gate and food retailers – will fall in response.<sup>7</sup> This suggests that an average farm gate price could well be above the price offered by food retailers.

### **Broader Economic Context**

Turning to broader issues, ANRA notes that the Australian Competition and Consumer Commission (ACCC) has reviewed the conduct of supermarkets with particular reference to pricing of standard grocery items.<sup>8</sup> When discussing the specific case of fresh fruit and vegetables and the conduct of major supermarket chains (MSCs), the ACCC concluded that:

*'It is easy to look to the MSCs given their size and related buying power and assume that this is leading to a widening of the gap between farm gate and retail prices. However, the data available to the ACCC certainly do not support that as a universal picture. Indeed, the data contradicts it in many fruit and vegetable categories.'*<sup>9</sup>

ANRA members believe this view remains representative of the current marketplace.

ANRA acknowledges that Australian food prices have increased by 44% or 3.5% on average per year between the year 2000 and 2010. This has occurred during a period where Australian households faced broadly similar (3.0% on average) increases in the prices of most other household expenses over the corresponding period.<sup>10</sup>

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<sup>5</sup> Ibid.

<sup>6</sup> Defined as the ratio of operating profit before tax to sales & service income. Latest data available from the Australian Bureau of Statistics (2011), '81550DO002\_200910 Australian Industry, 2009-10'.

<sup>7</sup> Australian Banana Growers Council (2011), 'Bananas coming back to reality for growers and consumers alike'.

<sup>8</sup> ACCC (2008), *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*. July.

<sup>9</sup> Ibid, p307.

<sup>10</sup> Based on the Consumer Price Index excluding volatile items, like automotive fuel.

During this time incomes have increased by 4.8% on average per year and the proportion of household budgets devoted to food has actually fallen from 14.4% in 1998/99 to 12.1% in 2009/10.<sup>11</sup>

To put these numbers into some international context, Australian food price inflation has been in line with the European experience (also 3.5%) and just ahead of New Zealand (3.1%) for the corresponding period.<sup>12</sup> Food price inflation has been slightly weaker in the United Kingdom (2.9%), Canada (2.7%) and the United States (2.5%). However, with the exception of New Zealand, the economic performances of these other economies, and therefore broader inflationary pressures, have been much weaker. Table 1 below provides further details.

**Table 1: Average Annual Growth in Food Prices and Real GDP (% , 2000 – 2010)**

	Food Prices	Real GDP
Australia	3.5	3.0
Canada	2.7	2.2
New Zealand	3.1	2.6
OECD Europe	3.5	1.6
United Kingdom	2.9	1.7
United States	2.5	1.8
<i>Source</i>	<i>OECD.StatExtracts</i>	<i>OECD.StatExtracts</i>

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<sup>11</sup> Australian Bureau of Statistics (2011), '640109 CPI Analytical series', '630202 Average Weekly Earnings' and Household Expenditure Surveys in 1998/99 and 2009/10.

<sup>12</sup> Organisation for Economic Cooperation and Development (OECD) member nations in Europe.