Fruit Growers Victoria

# Senate Select Committee Inquiry on Supermarket Prices
# Fruit Growers Victoria Ltd Submission

Fruit Growers Victoria (FGV) is a member-based organisation representing apple, pear and stonefruit growers and packing sheds in Victoria. Our industry grows around 90% of Australian pears, 50% of Australian apples and 75% of Australian stone fruit.

Our purpose is to maintain a strong, sustainable fruit growing industry. FGV's members grow fruit in the Goulburn Valley, Murray Valley, Northeast, Gippsland, Yarra Valley, Bacchus Marsh, Mornington Peninsula and Harcourt districts of Victoria. As our headquarters are in Shepparton, in the heart of orchard country, we have a close rapport with growers who we see daily.

This submission is made on behalf of apple, pear and stonefruit growers in Victoria.

**Price setting practices and market power of major supermarkets**

We are concerned that abuse of market power and unfair buying terms is making fruit growing uneconomic, with our members reporting being forced to sell fruit below the cost of production.

The two major retailers, Coles and Woolworths are able to set the price for horticultural produce, due to their dominant 65 per cent market share (APAL, 2024). Growers must accept prices offered because their produce is perishable, they require cash flow to meet production costs, or because they are afraid of retribution.

The price is set by the lowest price available, which is regularly below cost of production. The 2010 Horticulture Code of Conduct and Food and Grocery Code of Conduct have had little if any material effect on the predatory pricing behaviour of the major supermarkets.

We are in an unsustainable situation, for both growers who need to make a living, and the public who rely on fruit producers maintaining production over the long term.

**Tender process**

The buying process unfolds as follows. Buying prices for apples, pears and stone fruit are determined weekly via an online tender process with each of the retailers and their vendors/suppliers. Week to week pricing fluctuations can make it difficult for businesses to plan and budget for their operations.

Whilst this tender process appears to be a competitive process, unfortunately for suppliers the lowest price becomes the price in this process heavily weighted to the retailers. There are some factors that force suppliers to take this lowest price that at many times are not able to even meet the basic cost of production.

1. *Perishable nature of the product*

Fruit has a limited shelf-life and so product must move through the system. If suppliers are in oversupply of fruits, they cannot hold them until they get a better price and they will continue to supply even though the price is not profitable to their own business.

*2. Lack of pricing transparency*

Supermarkets have all pricing information, and often communicate to suppliers that this is the current price that "everyone" is supplying at. Suppliers have no way of judging the voracity of that information and this reduces the bargaining power of fruit producers.

*3. Fear of losing market share*

Suppliers are sometimes fearful that they will lose market share if they do not supply to the tender prices. They fear being offered fewer orders on the next occasion as punishment.

**High markup trends of supermarkets**

There are pressures on staff within major supermarkets to increase profit margins and then gain market share through competitive pricing, with no thought to what impact the low prices will have on suppliers. Supermarkets may sometimes deliberately maintain an informational asymmetry for the purpose of extracting surplus margins from the grower (NFF, 2020).

*"There is a real risk that fruit suppliers' margins can be simply absorbed by the supermarkets setting low weekly buying prices"* (APAL, 2024).

A major issue with the current arrangement is the lack of transparency along the supply chain to be able to determine what constitutes price gouging by supermarkets, and what is attributable to cost increases incurred between packing sheds and retail sale.

However, certain supermarket mark-up price trends (Figure 1 & Figure 2), observable to industry, suggest that both growers and consumers are the economic losers of the current anti-competitive environment.

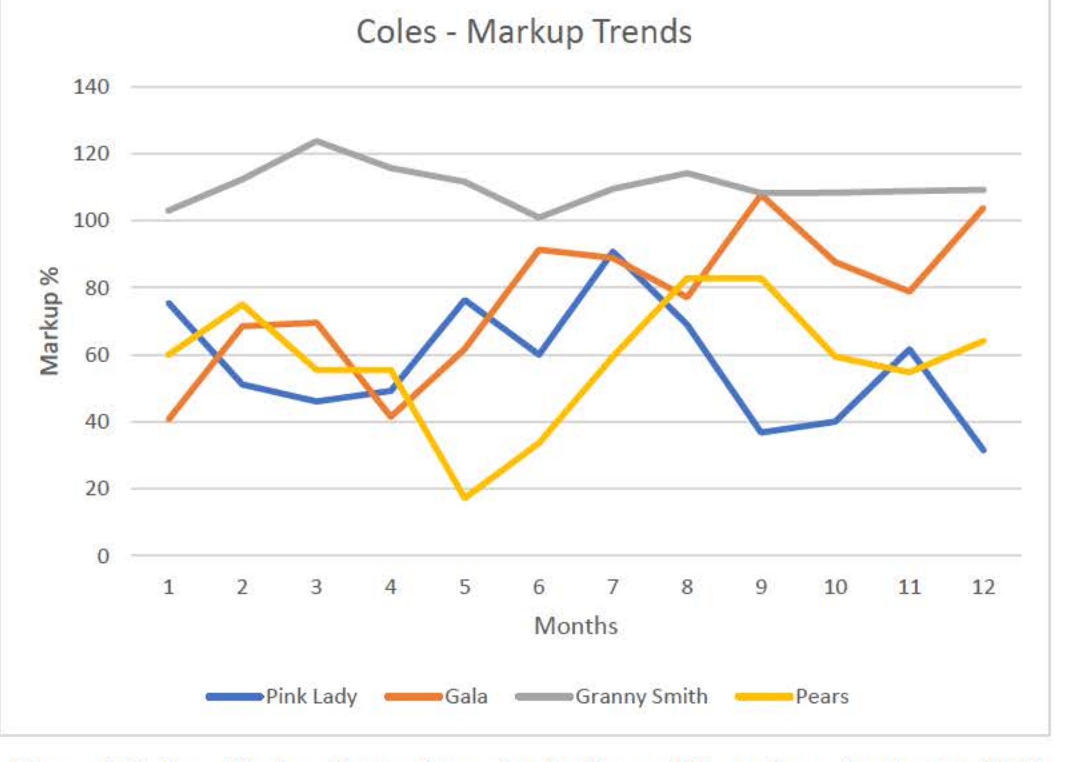


**Figure 1. Coles – Markup Percentages for Apples and Pears from Jan to Dec 2023**

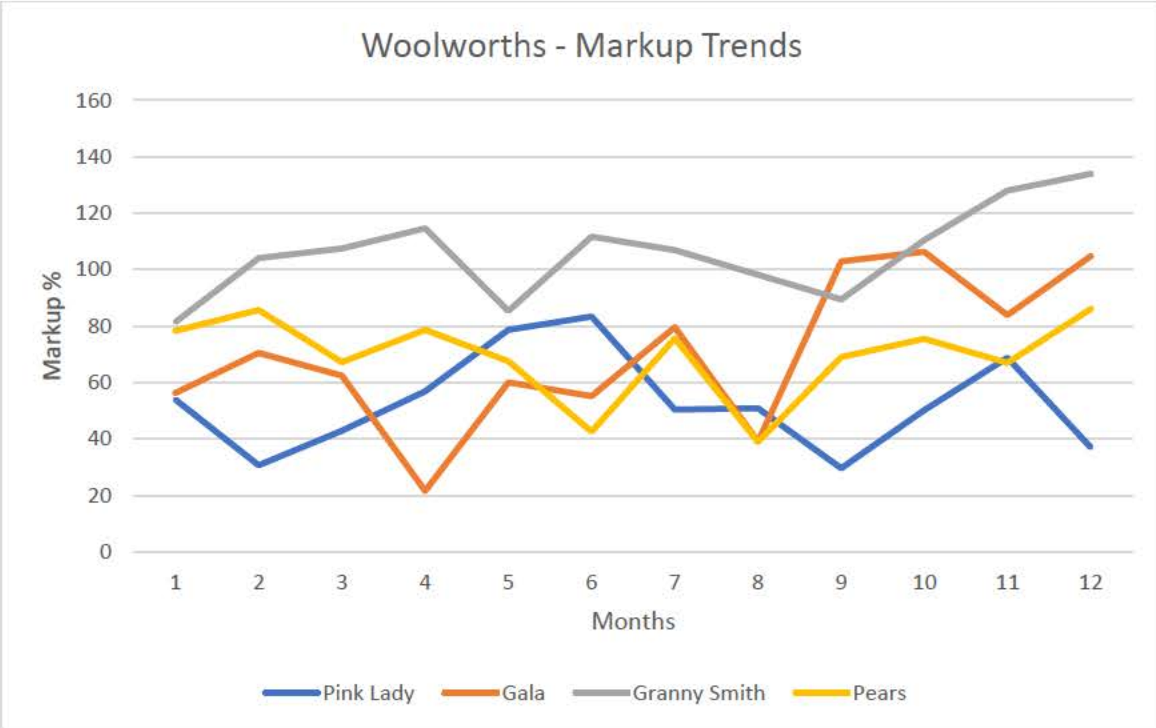


**Figure 2. Woolworths – Markup Percentages for Apples and Pears from Jan to Dec 2023**

When considering *Granny Smith* apples, despite the continuous low buying prices, both supermarkets had higher markup percentages i.e. Coles had more than 100% markup percentage throughout the year, Woolworths had 128% and 134% markup percentages in November and December respectively (Figures 1 & 2).

The low buying prices of Granny smith has impacted the profitability at farmgate. Most growers' average farmgate return for Granny Smith during this period has been between 50 to 60 cents per kg which is below the current cost of production.

**Frameworks to protect suppliers when interacting with the major supermarkets.**

Our growers want to build a strong and sustainable relationship with the retailers. Our growers recognise supermarkets as their primary route to consumers - over 70% of Australia's apples and pears are sold via the major supermarkets (FGV, 2020). It is therefore essential industry and supply chains work together to ensure consistent and fair priced supply, preventing fruit growers from needing to sustain businesses from an unprofitable position.

Produce category managers should always consider the grower at farm gate and whether the price that a supplier accepts may impact the grower that supplies a packer or marketer of his/her produce. Industry and supermarkets can work collectively to be proactive in assisting growers in seasons of oversupply, via increased promotion and without dumping prices.

However, trust and goodwill on an ad hoc basis are no longer viable as a long term solution. FGV does not consider that sustainable relationship can be maintained in the absence of a strong regulatory framework to prevent supermarkets abusing their market power. We therefore recommend the following policy reform measures:

1. The ACCC is the conduit to the price transparency necessary to ensure compliance with existing arrangements, and inform future policy measures. The government should ask the

ACCC to conduct an investigation into current supply chains and where margins are being take

2. Introduce mandatory price reporting from the two major supermarkets to the ACCC, outlining supply chain costs and margins. While this represents an imposition on the supermarkets, their social licence has been compromised to the extent this is now a necessary measure.

3. Increase the capacity of the ACCC to undertake compliance on existing market power and unfair contract terms, with the resources needed to capture and analyse data.

4. Strengthening current regulatory arrangements covering unfair contract terms, and enabling options for collective bargaining to redress power imbalances.

Yours sincerely,

Mitchell McNab

Chairperson – Fruit Growers Victoria

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