

31 October 2011

Dr Richard Grant  
Acting Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

**By email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)**

Dear Dr Grant

**Re: Constitutional Corporations (Farm Gate to Plate) Bill 2011**

Woolworths Limited welcomes the opportunity to provide comments on the *Constitutional Corporations (Farm Gate to Plate) Bill 2011*.

Woolworths is committed to supporting Australian farmers. We source 100 per cent of our fresh meat (beef, lamb, pork and poultry) and 97 per cent of our fresh fruit and vegetables domestically, with the remaining 3 per cent of produce imported counter-seasonally or when supply is not available in Australia.

In all our trading relationships with farmers and wholesalers, Woolworths is committed to undertaking fair dealings and abides by industry codes of conduct. Of our hundreds of suppliers, over 80 per cent have worked with us for more than 10 years, with many trading with Woolworths for 30 to 50 years.

Woolworths invests heavily in partnerships with industry to develop new products, promote innovation, increase local supply, build leadership in the agricultural sector's future leaders and foster sustainable practices to ensure our country's long term food security. Over the past five years, we have provided over \$20 million to agricultural communities including funding Landcare projects and 150 scholarships, while also contributing over \$20 million in natural disaster relief through fundraising and matching.

While Woolworths appreciates the intention behind this Bill is to support Australian farmers, we do not believe the proposed legislation would have the desired effect. The provisions of the Bill are not supported by the evidence of recent inquiries. The Australian Competition and Consumer Commission (ACCC) previously reviewed the buying power of supermarkets and their profit margins on fresh produce. In its 2008 Grocery Inquiry report, the ACCC stated:

"It is easy to look to the MSCs [major supermarket chains] 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>1</sup>

There is not only a lack of evidence for retail prices moving ahead of farm gate prices generally, but the actual concept of a farm gate price as described in the Bill simply does not exist in practice. The flat price paid to farmers when they first on-sell their produce will include various levels of value adding that are not separated out from any basic price for harvested produce including transport and packing. In addition, for the most part Woolworths does not see this first buy price for farmers. The majority of our produce is purchased through wholesalers. We only have visibility of the buy price we pay to these intermediaries, at which point in time we are paying for further processes such as quality control, quarantine treatment, ripening, transport to our distribution centre, packaging and grading.

Woolworths is of the view that the proposed legislation would be unworkable, cause distortions in the fruit and vegetable market, place additional and costly regulatory burdens on farmers and retailers, potentially reduce farm gate prices and provide misleading information to consumers. For these reasons we do not support the Bill.

Yours sincerely

**Nathalie Samia**  
**Group Manager – Government Relations and Industry Affairs**  
**Woolworths Limited**

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<sup>1</sup> Australian Competition and Consumer Commission, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, 2008, p307.

# WOOLWORTHS LIMITED

**Woolworths Limited**

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**Submission to the Senate Economics Committee  
Inquiry into the *Constitutional Corporations (Farm  
Gate to Plate) Bill 2011***

## 1 Executive Summary

Woolworths Limited welcomes the opportunity to provide comments on the *Constitutional Corporations (Farm Gate to Plate) Bill 2011*.

The Australian horticulture industry is dynamic, diverse and competitive. Our farmers grow an extensive range of fruit and vegetables across the country and supply a variety of markets including export, processors and manufacturers, restaurants and retailers.

Woolworths is committed to supporting Australian farmers and sources 100 per cent of our fresh meat and poultry and 97 per cent of our fresh fruit and vegetables domestically. This includes over 360 different lines of fruit and vegetables.

Our supermarkets source fruits and vegetables from hundreds of producers and suppliers across the country, the majority of whom in turn source produce from hundreds more growers. We negotiate prices on a daily basis taking into account fluctuations in market prices according to supply and demand and pay a single price to our suppliers for product delivered to our distribution centres around the country. Between being harvested and arriving on our doorstep, both growers and producers undertake a range of other processes including treatment, grading, packing, transport, quality control, ripening and storage.

The legislation specifically excludes the majority of these supply chain costs from the calculation of a farm gate price. Woolworths do not see the initial price paid to farmers as we only have visibility of our cost price when we purchase the product several steps into this supply chain. Not only do we see the price paid to the majority of farmers who grow our produce, but the actual concept of a farm gate price as defined in the proposed Bill does not exist in practice. This is because a farmer is not paid for “produce available at the farm” as the Bill requires. The price paid to farmers when they first on-sell their produce will include various levels of value-adding that are not separated out from any basic price for harvested produce.

Woolworths appreciates that the Bill is intended to support our farmers and ensure they achieve fair prices for their produce. One of the pillars of our business is to provide fair returns to growers and fair prices to our customers. The proposed legislation will not deliver its intended outcomes for farmers and may in fact have the detrimental effect of driving down prices by setting a price ceiling and will create costly regulatory burdens for producers.

The proposed legislation would also not provide meaningful, informative or useful information to consumers. We are committed to empowering our customers and providing them with a variety of information about our fresh produce. The scheme outlined in the Bill would not provide such information and would actually provide incredibly misleading indications of profit margins.

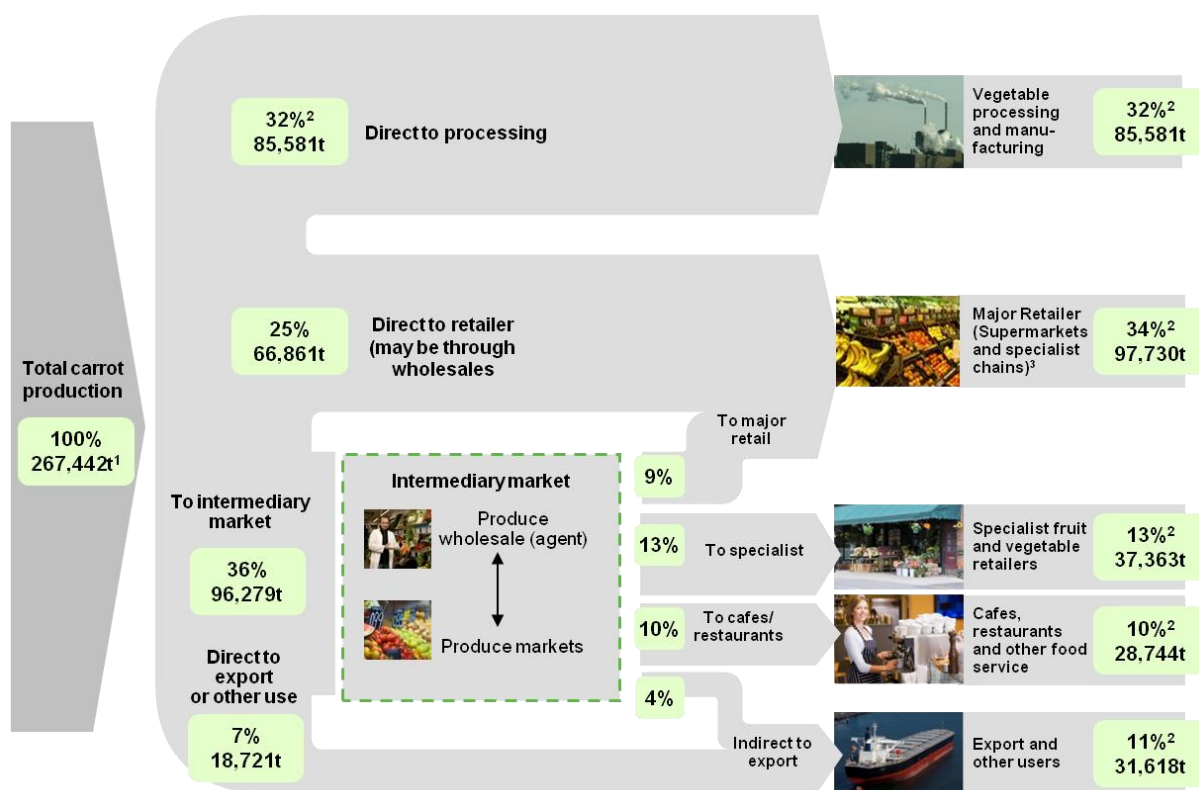
Overall, Woolworths does not believe this legislation would provide positive outcomes. We feel that our current practices of adopting strong, long-term trading relationships, moving the retail price in line with changes to market prices and providing a suite of provenance and market information to our customers already lead to positive outcomes for the entire supply chain.

## 2 Overview

Woolworths is committed to supporting Australia's farmers and domestic sourcing of our fresh produce. One hundred per cent of our fresh meat and poultry and 97 per cent of our fruit and vegetables are grown in Australia. Our fruit and vegetable range includes over 360 different lines and varieties. The remainder of the Australian grown produce is exported and bought by manufacturers, restaurants and other retailers.

Fruit and vegetable growers have a variety of end users they supply produce to other than retailers. The remaining produce is exported, sent to processors and manufacturers, purchased by restaurants or sourced by other retailers. For each different product, the shares of each end user will vary greatly. For example, Figure I depicts the breakdown of the end users of carrots grown in Australia. Around 30 per cent of carrots are not available for retail sale, leaving wholesalers controlling up to 55 per cent of the remaining product.

**FIGURE I** END USERS OF AUSTRALIAN CARROTS<sup>2</sup>

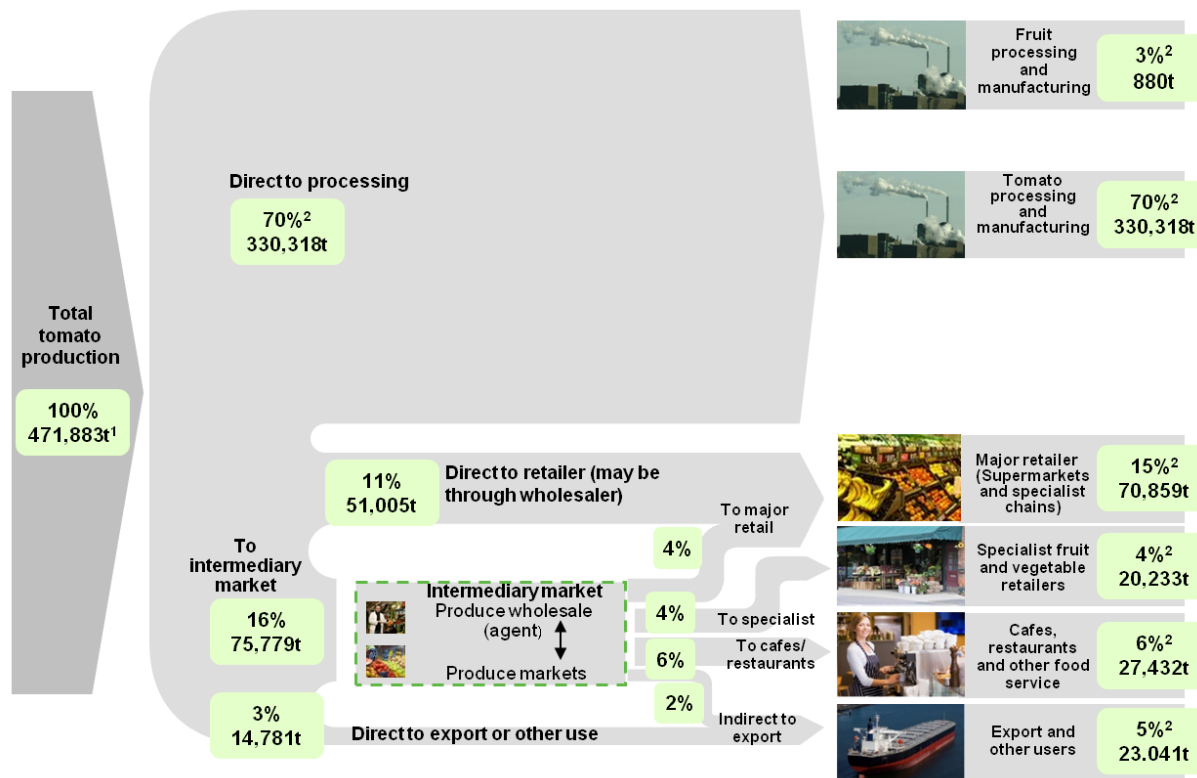


<sup>1</sup> ABS, *Agricultural commodities 2009-10*, n° 7121.0, April 2011

<sup>2</sup> IbisWorld, *A0113 Vegetable Growing in Australia Industry Report*, February 2011

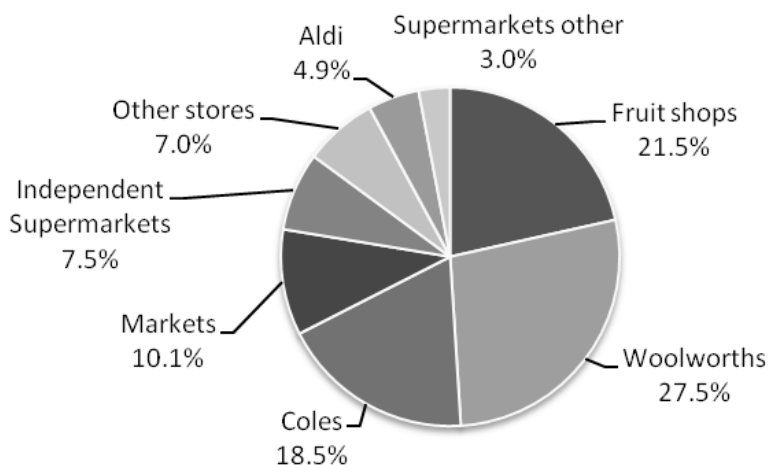
Tomatoes provide a very different example of the variety of end users. Seventy per cent of tomato production is for the processing sector while half of the remaining tomatoes are sold through wholesalers.

**FIGURE II END USERS OF AUSTRALIAN TOMATOES<sup>3</sup>**



The retail fruit and vegetable sector is diverse and competitive. Figure III below depicts the breakdown of sales across retailers. According to Roy Morgan's June 2011 Supermarket Monitor, Woolworths sells 27.5 per cent of fruit and vegetables in the retail sector, fruit shops 21.5 per cent, Coles 18.5 per cent, markets make up 10.1 per cent, independent supermarkets sell 7 per cent and Aldi 4.9 per cent.

**FIGURE III SALES SHARES FOR RETAIL FRUIT AND VEGETABLES**



<sup>3</sup> 1. ABS, *ibid.*

2. IbisWorld, *ibid.*

### **3.1 Long term relationships**

In sourcing our produce from these growers, one of our key objectives is to provide long lines of consistent quality product to our customers. We supply fruit and vegetables daily to over 850 stores across the country. In our trading relationships, our priority is to ensure we build partnerships with producers who can ensure reliability and availability so that we can provide the products our customers demand. Woolworths has strict quality standards for our fresh produce, and we ensure our chosen suppliers are aligned with customers needs for consistently safe quality fresh food.

The vast majority of our trading relationships are long-term and established. More than 80 per cent of our suppliers have been with us for more than 10 years and many have worked with us for 30 to 50 years. We are very proud of the relationships that we have with our suppliers and many of them have been able to grow their business thanks to the surety of a long term partnership with Woolworths.

### **3.2 Fair dealings**

Woolworths is committed to fair dealings with our suppliers, including Australia's farmers. We work to a strict Woolworths Code of Conduct and an Internal Produce Code of Conduct. These are underpinned by the voluntary Produce and Grocery Industry Code of Conduct (<http://www.produceandgrocerycode.com.au/>) of which Woolworths was an inaugural member. The Code is aimed at promoting fair trading practices and building better business relationships, while also providing access to a simple and accessible dispute resolution procedure.

## 4 Working in partnership

Beyond our day to day trading relationships, Woolworths regularly partners with industry to innovate, promote sustainable practices and ensure Australia's future food security. Initiatives include increasing domestic production of certain lines, trialling new products on the market and producing new product lines to ensure our customers have the widest variety possible. Our joint objective and challenge with the sector is to ensure our Australian grown produce is plentiful, can meet national demand and is superior to anything that can be offered from international sources.

### 4.1 Innovation

Woolworths has partnered with industry to improve the local supply of fruit and vegetables for many years. Ten years ago we came together with Australian Garlic Producers (AGP) to increase the local supply of garlic. At the time, all garlic in Australia was a product of China, but Woolworths supported an AGP initiative and provided an understanding that what was produced would be sold in Woolworths stores. This commitment helped AGP secure the necessary finance to expand their business and start to produce commercial quantities. As a result of this partnership and investment, Australian garlic is now available on supermarket shelves and each year the supply window gets longer and the volumes greater. The shared objective of AGP and Woolworths is to have a national supply of Australian garlic bulbs within the next few years.

We have also successfully worked with the Mulgowie Farming Company for over 15 years, including building produce categories such as fresh sweet corn, green beans and broccoli. In 2003, Woolworths approached Mulgowie to produce and develop a supply chain for fresh Australian baby corn. Fresh baby corn at the time was sourced from overseas. Today, Mulgowie supplies 100 per cent of Woolworth's fresh baby corn requirements nationally. This partnership did not just mean increased domestic sourcing of products - the collaboration also led to the direct creation of around 20 new jobs.

### 4.2 Supporting rural communities

Woolworths also works to ensure Australia's food security into the future and encourages the development of sustainably grown local produce. Our Fresh Food Future program draws together a number of initiatives to advance agricultural sustainability and includes components dealing with research, the adoption of sustainable agriculture practices, increasing production capacity and building leadership. Over the past five years, Woolworths has invested over \$20 million to support our regional communities and secure the future of Australian agriculture. Initiatives include:

- over 150 Landcare projects;
- since 2007, offering 150 young Australians every year the opportunity to attend the Woolworths Agricultural Business Scholarship program;
- funding participants in the Rural Industries Research and Development Corporation's Investing in Youth Studentship program;
- sponsoring the Art4Agriculture Archibull Prize;
- working in partnership with Primary Industry Centre for Science Education to promote agricultural sciences as part secondary school curriculum;
- providing long-term support for the Australian Rural Leadership Foundation;



- sponsoring the Nuffield Scholarship to increase practical farming knowledge and management skills and techniques in the primary production sector; and
- sponsoring industry body conferences and field days.

Woolworths is also a foundation partner of the inaugural Australian Year of the Farmer, including contributing \$500 000 in financial support. This initiative aims to promote the importance of farming and rural communities. Throughout the year a range of events will be hosted including country roadshows, food of origin exhibitions, activities to promote agricultural education and career opportunities, and an Agricultural Innovation and Technology Expo.

As recent events have shown us all too clearly, natural disasters can have a devastating effect on our country. Over the last five years, Woolworths has provided farming communities with support to help them in times of need. This has included \$1 million for the Victorian bushfire recovery efforts, \$19.5 million after the Queensland floods and \$1 million to the flood-affected dairy industry.

## 5 Farm gate to plate

The Australian horticulture industry is dynamic, diverse and competitive. Australian farmers grow an extensive range of fruit and vegetables across the country and supply a variety of buyers including export, processors and manufacturers, restaurants and retailers.

### 5.1 Produce pricing: supply and demand

Woolworths works with our various suppliers all around the country on a daily basis to source quality products. Each week our trading partners, be they growers or traders, furnish Woolworths with quotes for their produce. Woolworths and our suppliers will then engage in price negotiations which will take into account current and forecast market price levels as well as availability, grade and quality.

The prices we are quoted will fluctuate on a daily basis in accordance with the current supply. Given the perishable nature of fresh produce, the levels of supply of fruit and vegetables will vary greatly each day. Factors influencing supply will include seasonality, quality, export markets, shelf-life, climate conditions and demand from other buyers. This was recognised by the ACCC in its 2008 Grocery Inquiry, finding that “prices are dictated by supply-and demand conditions in the marketplace at the time the growers’ products are ready for market. The ACCC has no concerns about the competitiveness of any market at this level.”<sup>4</sup>

The ACCC also described the fresh produce pricing structure and farm gate prices. It noted “evidence available to the inquiry suggests that retailers do not set farm gate prices, but rather these prices mirror supply and demand factors in the relevant market. In general, the MSCs [major supermarket chains] do not buy sufficient amounts of product to control the market price”<sup>5</sup>. Woolworths considers this remains an accurate description and remains valid in 2011.

### 5.2 Farm gate prices

In the course of our buying arrangements, Woolworths only has visibility of the cost price we pay to our suppliers, not the price paid to the majority of farmers. Woolworths would therefore not be able to report on what farmers are paid for their produce, because for the most part, we do not see the first buy price in the supply chain, we only see what we pay to suppliers and wholesalers.

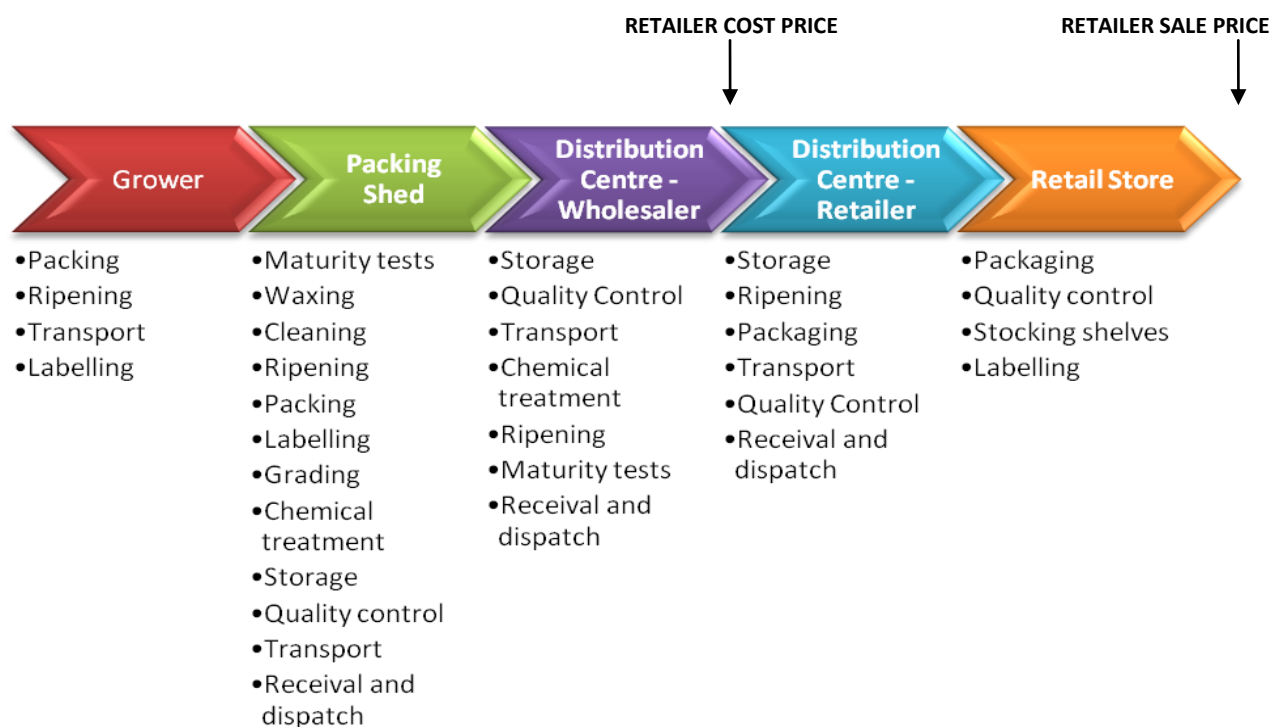
Not only does Woolworths not have visibility of the price paid to farmers, the actual concept of a farm gate price as defined in the proposed Bill simply does not exist. This is because a farmer is not paid for “produce available at the farm” as the Bill requires. The price paid to farmers when they first on-sell their produce will include various levels of value adding that is not separated out from any basic price for harvested produce. For instance, the wholesaler or grower may first undertake activities such as packing, transport, grading and quality control. The range of processes that take place before we purchase a product can be seen in Figure IV below. For this reason, retailers would not be able to report on a farm gate price, because there simply isn’t one for fruit and vegetable produce.

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<sup>4</sup> Australian Competition and Consumer Commission, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, 2008, p220.

<sup>5</sup> *Ibid.*, p301.

**FIGURE IV VALUE ADDING AT VARIOUS STAGES OF THE SUPPLY CHAIN**



### 5.3 Retail prices

When setting the final retail price, retailers don't only take into account the cost price, but also various other business costs including staffing, utilities, marketing, maintenance and rent amongst many others. The parliamentary speeches introducing the Bill have indicated that one of the purposes of the legislation would be to highlight the perceived gap between the price paid to farmers and these final retail prices. The ACCC previously reviewed the buying power of supermarkets and their profit margins on fresh produce, finding that:

"It is easy to look to the MSCs [major supermarket chains] 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>6</sup>

<sup>6</sup> *ibid.*, p307.

## 6 Fair returns to farmers

Woolworths Limited is committed to supporting Australian farmers and recognises that the intent behind the proposed legislation is to assist our agricultural sector. However, the Bill will not deliver its objective of increasing returns to farmers and could potentially drive market prices down.

The majority of Woolworths' fresh produce is sourced from intermediaries such as packing sheds and wholesalers, rather than from dealing directly with growers. The price agreed between the two parties is of a commercial in confidence nature. We do not know what price our suppliers are purchasing their product for, or what they are charging other purchasers buying from them. Nor do we know what our direct growers are charging wholesalers or other direct buyers. Growers are at liberty to set different prices for different buyers to ensure they get the maximum return for their crops. If farmers were forced to release pricing information to their buyers, it would potentially cause buyers to compare the rates they were charging others and force prices down across the market to match the lowest sell price. This in turn could actually decrease returns to farmers and remove their autonomy to determine their business structures and selling arrangements.

Additionally, such a reform would create additional costs for farmers. If information about buy prices and their costs associated with processing had to be disclosed, this would create a significant amount of red tape for farmers and place unnecessary regulatory burdens on them. Collating all their pricing information over a year, adapting their IT systems and supplying their commercial information to the various retail businesses would take considerable resources which would in turn diminish their profit margins.

## 7 Empowering our customers

Woolworths provides a range of information to our customers about current conditions in the fruit and vegetable sector. We are committed to ensuring this information timely and meaningful to assist them to make informed choices. Our customers tell us that they want helpful and relevant information about local product, what is in season and what to look for when selecting individual items. Unfortunately, the Bill will not provide this type of meaningful, contextual information but will actually deliver the opposite.

### 7.1 Providing meaningful information

**FIGURE V FRESH MARKET UPDATES IN STORE**



Our supermarkets provide updates about the causes of significant changes in prices of our fruit and vegetables. We also let our customers know why the appearance of the produce may be different to what they usually find in our stores. In consumer surveys our customers tell us that they want to understand where their produce comes from, how to pick fruit and vegetables and why there are price fluctuations at certain times of the year.

**FIGURE VI FRESH MARKET UPDATES ON TELEVISION**



Examples of these initiatives include providing updates regarding seasonal variations as well as informing our customers about a product's provenance, including country of origin, and mapping the growing regions the produce is sourced from.

**FIGURE VII IN STORE DISPLAYS**



**FIGURE VIII BUYING AND PROVENANCE INFORMATION**

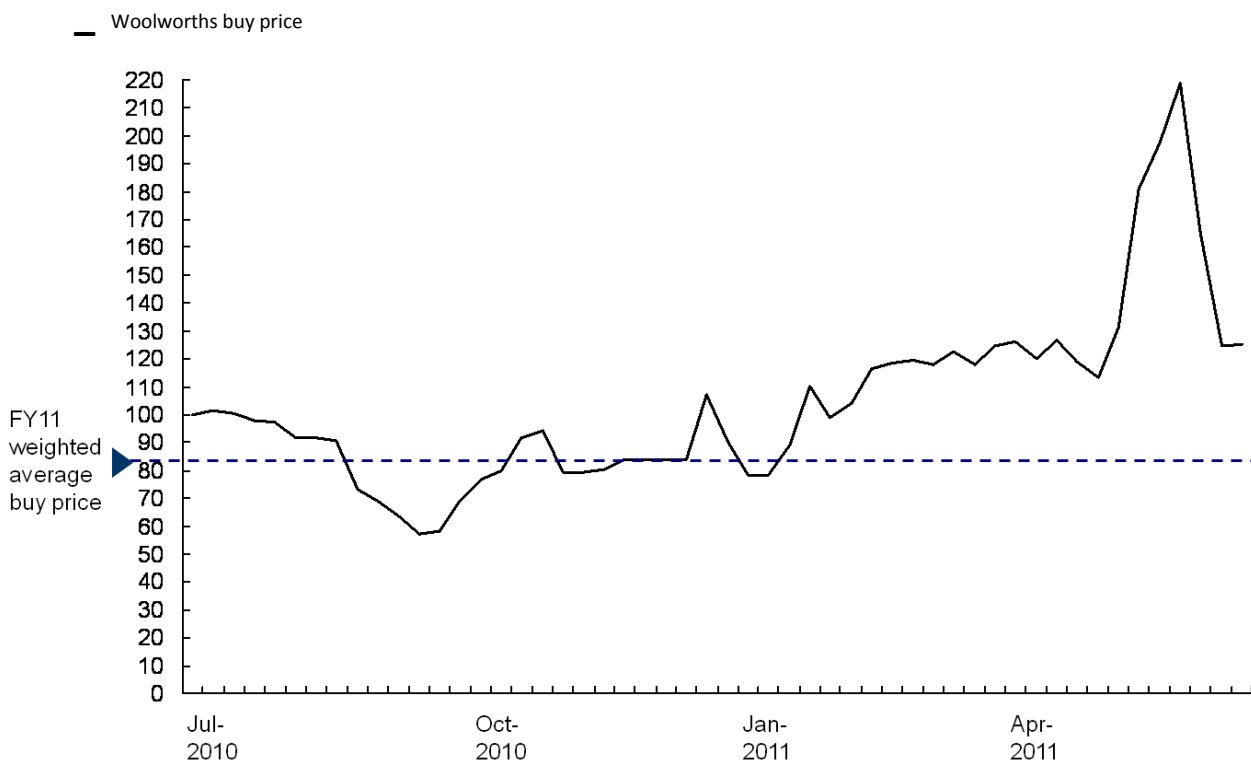


## 7.2 Market volatility

The labelling of average farm gate prices would not provide our customers with meaningful information to inform their purchases. Firstly, the information will be quickly out of date. As described above, horticulture is a volatile and dynamic industry and prices change on a daily basis. This is true for all products, whether they are available year round or only seasonally. Changes in retail prices closely mirror changes in market prices throughout the year. When a customer views an average annual buy price on a product it would have no relation to the price a retailer paid for the product in front of them.

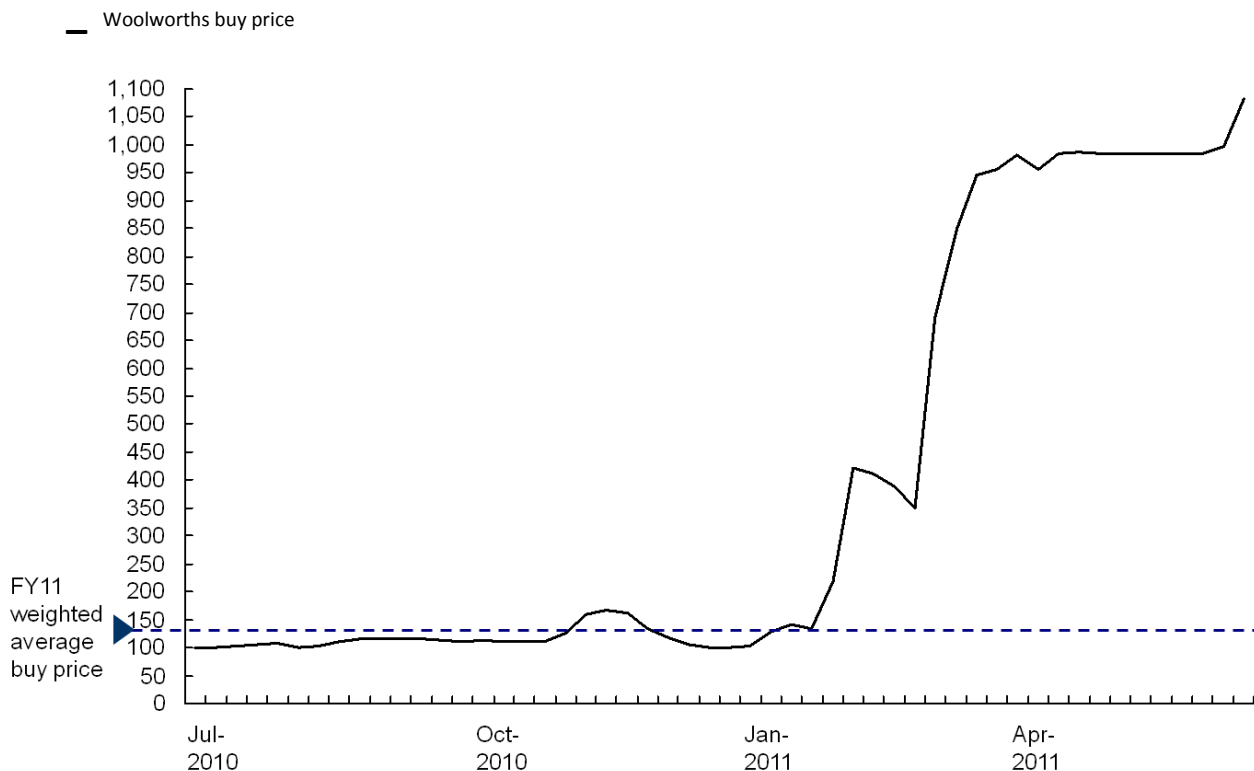
Strawberries are an example of a product that is seasonal and therefore the buy price would vary greatly throughout the year in line with supply and demand. As Figure IX below shows, an average price will be completely out of step with the buy price during much of the year. At any given time of the year, a customer may think we are making 100 per cent profit on the item, or that we are charging below cost price. In reality, the retail price throughout the year will generally fluctuate with the market price.

**FIGURE IX ANNUAL INDEXED BUY PRICE FOR STRAWBERRIES 2010-11**  
(INDEX 100 IN JULY 2010)



As we have seen in the past year, natural disasters can also cause extremes in pricing in the market. The example at Figure X shows the volatility in banana prices following Cyclone Yasi and the Queensland floods and demonstrates how misleading an average annual farm gate price could be in relation to current retail prices.

**FIGURE X ANNUAL INDEXED PRICE FOR BANANAS IN 2010-11**  
(INDEX 100 IN JULY 2010)



## 7.1 Profit margins

The Explanatory Memorandum for the Bill states that the object of the legislation is to “enable consumer to understand the pricing practices of grocery retailers in relation to fresh produce”<sup>7</sup>. Providing an annual average that does not take into account supply chain costs would not achieve this aim and would in fact be extremely misleading for customers. The ACCC supports this position.

“Comparing farm gate prices with retail prices of some products is difficult and not necessarily instructive, given the level of processing that occurs after the product leaves the primary producer. For these products, given the high proportion that the cost of processing is to the end retail price, changes in farm gate prices may show very little correlation with the prices paid at the retail level.”<sup>8</sup>

Woolworths believes that this Bill will confuse and mislead our customers and will not assist them in making purchasing decisions.

<sup>7</sup> Explanatory Memorandum, *Constitutional Corporations (Farm Gate to Plate) Bill 2011*, Clause 3.

<sup>8</sup> Australian Competition and Consumer Commission, *ibid.*, p382.



## 8 Conclusion

Woolworths Limited welcomes the opportunity to provide comments on the *Constitutional Corporations (Farm Gate to Plate) Bill 2011*.

Woolworths is committed to supporting Australian farmers and providing our customers with the resources to make informed decisions about their purchases. One of the pillars of our business is to provide fair returns to growers and fair prices to our customers. We do not believe the Bill will assist either farmers or customers.

This Bill would be impossible to implement. The simplistic definition of a farm gate price outlined in the Bill does not exist in practice and could not be extrapolated out of any cost price paid to farmers. Additionally, for the most part Woolworths does not see the initial price paid to farmers as we only have visibility of our cost price when we purchase the product several steps into the supply chain.

The ACCC has already conducted thorough investigations into the relationship between farm gate and retail prices and found this is not a significant issue. Implementing this legislation could only cause the prices paid to farmers to be driven down and mislead customers.

For these reasons, Woolworths does not support the Bill.