Tasmanian Farmers and Graziers Association

Vegetable Council

Fair Dinkum Food Campaign

Submission to the Inquiry of the Parliamentary Joint Committee on Corporations and Financial Services into Corporate Responsibility

December 2005

The Tasmanian Farmers and Graziers' *Fair Dinkum Food Campaign* (FDFC) welcomes the Inquiry into Corporate Responsibility by the Parliamentary Joint Committee on Corporations and Financial Services.

FDFC welcomes the opportunity to participate in such an Inquiry.

The FDFC submission is a reference to parts (a); (b); (e); (f) and (g) of the Terms of Reference for the Inquiry.

Fair Dinkum Food Campaign

The FDFC emerged from Tasmanian vegetable growers' concern with the unilateral decision-making of corporate entities such as McDonald's in halving existing contracts for the supply of potatoes for frozen fry supplies with Tasmanian based vegetable processors.

Tasmania provides the bulk of Australia's processed vegetables and the industry is a very important component of the State's economy. Vegetables represent 20% of the value of agriculture or $160 million at the farm gate.

This decision, on top of contract reductions in peas and other vegetables was estimated to see a $16.5 million reduction in farm gate values in 2005/2006. Imported frozen vegetable products have increased in value from $71.8 million in the year to June 2001, to $105 million in the year to June 2005.

A $16.5 million reduction in regional well-being – with a multiplier of between 1.7 and 2.4 across regional income and employment – in a close-knit regional community has a far greater socio-economic impact, relative to the perceived cost advantage for McDonald's bottom line.

The main feature of the FDFC lobbying has been around the issue of food labelling and the need to provide consumers with accurate information that informs their decision-making. This is not a protectionist plot as some media commentators have claimed, but an authentic attempt to correct weaknesses in the Food Standards Australian and New Zealand (FSANZ) labelling standards as they apply to Country of Origin labelling (CoOL). It also recognises that it is impossible to build a brand position in the Australian market place if locally grown processed products cannot be identified.

The FDFC has been instrumental in driving change in these standards so that accurate labelling is now applied to fresh vegetables and a current Ministerial reference within FSANZ will hopefully extend this requirement to two whole ingredients within processed and packaged vegetables.

The essence of the FDFC submission to this Inquiry is linked to corporate responsibility: food labels need to state where a product is from, not simply where it is made. It is a matter of corporate integrity to provide accurate labelling that informs consumer choice. In short, there is ambiguity attached to the origins of food labelled ‘product of’ and ‘made in’. The latter enables food that is manufactured in Australia – perhaps the package or container – to be labelled ‘made in’ whereas its food ingredients may be fully or partially imported.

Terms of Reference (a) and (b)

The experience of vegetable growers in Tasmania in recent years, faced with a series of *ad hoc*, unilateral decisions being made by corporations with little regard to the impact of those decisions, means the FDFC has strong views on issues relating to the interests of stakeholders *other* than shareholders.

Regional communities such as the north-west coast of Tasmania, where the bulk of the growers and processors reside, are joined at the hip with the agricultural sector. This regional dynamic is critical to the sustainability of its community well-being. Its networks of small to medium size enterprises (SME) operate in an environment often divorced from the arbitrary decision-making of a transnational corporate board-room. Most local business operators in the region are fully aware that decisions to reduce contracts, terminate employment or import technical expertise at the expense of existing relationships will have an impact well beyond the *immediate* decision to improve their bottom-line.

Ironically, McDonalds’ decision, with no reference to this multiplier impact, has probably significantly *dented* the bottom line of their regionally based franchises, to a far greater degree, than any *cost* advantage anticipated by the decision to use imported product. Regional communities continue to voice their disapproval by voting with their feet.

Corporate decisions to *not use* existing regional supply chain infrastructures that currently support communities, families and individuals have profoundly significant impacts on stakeholders beyond the corporate/shareholder bottom-line.

These include:

- Impacts on industry sustainability and transfer within families and between generations;
- Immense structural change, that potentially destroys existing competitive supply chains in other sectors – transport and input businesses;
- A lack of respect for *how* regional market places operate and the nature of those market places – plundering a customer base for their own corporate ends where the impact goes well beyond the targeted trader;

- Structural adjustment for regional communities and governments goes well beyond the economics of the decision-making – the soci-economic impact is profound in terms of extended welfare and health support;
- Corporations in regional communities making these decisions act like government – without the representation or responsibility – influencing infrastructure decision-making in the region, without reference to the potential medium to long-term costs.

A clear example of this is Woolworths' grocery distribution in Tasmania. Woolworths has in excess of 50% of the fast moving grocery business in Tasmania, a fair proportion of this is distributed through a joint warehouse. This is 60% controlled by Woolworths and 40% by independent wholesalers, many of whom operate in smaller regional communities. Should Woolworths withdraw from this arrangement, to establish their own distribution centre, the cost of distribution for smaller retailers would be prohibitive. The impact of such a decision would be felt most by the elderly and low-income earners in smaller regional and rural communities who couldn't afford to travel to shop in larger retail centres. Prices would rise by more than 20%. This is a clear example of why decision-making needs to be framed beyond shareholder gain.

The FDFC submits that corporate decision-makers have little regard for the interests of stakeholders in the broader community, beyond their shareholders.

It should be mandatory for larger organisations to take account of the impact of pending changes to supply contracts.

This should include reference to:

- The reliance of that firm on the business they are about to withdraw;
- The part that business plays in a particular community;
- The likely lay-offs that could occur, and the job prospects for redundant workers in that community; and
- Reasons and criteria as to why business is withdrawn.

The FDFC submits that these corporate decision-makers should have high regard to the impact their decisions can have on not only the immediate target of their decisions, but the broader community. In rural and regional Australia, the socio-economic impact is not only measurable in dollars but has a potentially profound impact on the fabric and sustainability of those communities at the human resource level.

The 'boom and bust' cycles attached to much of Australia's commodity based industries, such as vegetable processing, means that decision-making based on short term cost competitiveness is not necessarily in the long term interests of the industry sector, nor the regional communities that support them. This is because the ultimate cost competitiveness of these sectors is likely to be based on a range of pertinent long-term issues, beyond immediate cost advantages: climate, soil, diversity in product line and innovation in business models. This is an issue of sustainability, not necessarily taken into account when decisions are made on short-term, cost competitiveness. Can these practices be sustained into the future? What are the implications for local regional economies?

Terms of Reference (d); (e); (f); and (g)

The FDFC supports efforts by some corporate and public entities to embrace triple-bottom-line (TBL) reporting on their activities and as a basis for their governance. This is a welcome but cautionary development, because TBL places a premium on consumer sovereignty and informed decision-making (refer also to *Advertising and Marketing: Corporate Integrity and Consumer Sovereignty*, below).

TBL reporting will enhance the capacity of consumers to know more about the governance of incorporated entities and the values of their directors. Some consumers will regard TBL to be a crucial aspect of their decision-making with regard to investment in corporations. Reporting on social and environmental data in relation to corporate governance and auditing will assist that decision-making.

TBL also embraces a range of impact assessment not only into corporate governance but should extend to decision-making that impacts on stakeholders other than shareholders. If TBL is to be the value-system supporting governance reporting, it should also shape impact assessment of decision-making outside of the corporation.

The FDFC greets the introduction of TBL reporting as a cautionary development because in its own experience as a voluntary, community-based organisation, the key component for informed consumer decision-making, is the *integrity* of the policy response, be it product labelling around CoOL provisions or in this case, TBL reporting.

TBL must not be seen to be another brand management exercise with little regard to the integrity of the process. It is not insignificant that corporate entities will embrace TBL as a brand management exercise when they are forced to respond to criticism of demonstrably *irresponsible* business practices or aloof management structures. What the FDFC don't wish to see is for TBL to emerge under the vagaries of a regime that is not mandated or is mandated with extensive opportunities for deceit and fraud to operate, such as CoOL.

The mere production of a TBL regime within a company tells us very little about a firm's actual commitment to the principles expressed in their *Mission Statement.* Here, TBL has all the weight of a 'Made in Australia' claim under the redundant CoOL provisions.

Advertising and Marketing: Corporate Integrity and Consumer Sovereignty

The FDFC's campaign in relation to food labelling under CoOL regimes has confirmed the extent to which marketing and promotion can and does influence consumer sovereignty and the right to make informed market choices.

There is a prevailing view in the industry sector that the market is the best way for consumers to be informed. The FDFC submits that without regulation supported by significant non-compliance costs and policing of regulatory regimes, the assumptions that accurate information and consumer sovereignty are secure is undermined by the extent to which $9 billion is spent on marketing and promotion with a view to distorting that consumer right to know.

An unregulated market place – or where policing is non-existent or non-compliance costs minimal – does not provide consumers with information to assist in making an informed choice; its only objective is to attempt to position *a* product ahead of a *rival* product. The only reliable means for a consumer to be ensured of an informed choice is where information is not misleading. That can only be secured through regulation, backed up with monitoring, compliance and policing support.

The FDFC believes that this regulatory requirement must extend to advertising, where regimes are currently weak – in terms of prosecution - and become essentially self-regulatory.

Increases in market share are accentuated when it comes to marketing. Larger organisations increase their advertising budget per capita as their market share increases, allowing for distortions in consumer opinion and perception.

Advertising is all about securing market share. Images of corporate organisations as, for example, community-minded organisations linked to a number of social and environmental *causes* tell the consumer little about the corporation's relationship to local growers, processors or small suppliers. This is an issue of corporate integrity.

This advertising is a marketing exercise in self-promotion, not a budgetary allocation based on recognition of a *worthy* cause. The FDFC believes that TBL accounting should demonstrate – as a percentage – the extent to which charitable contributions are real in that they address real *need*, as distinct from mere marketing exercises.

In summary, FDFC would like to highlight a number of issues in relation to market power and market share that it believes should be considered in the deliberations of the Inquiry.

These include:

- Investigate the broader impacts of concentration of market power on rural communities, including the social and economic costs of losing family businesses and major processor operations in rural areas; and
- Respond to the findings of these investigations through supporting and recommending stronger legislation and regulation, and introducing new policies that make companies accountable for the social impacts of their practices.

The FDFC would welcome the opportunity to expand on this submission through the public inquiry component of the Joint Committee deliberations.

We would recommend enquiry member's should read as a reference *Sustainable Capitalism* by Professor John Ikerd; ISBN 1-56549-206-4

CONTACT DETAILS

Richard Bovill
Coordinator, Fair Dinkum Food Campaign

Email	rbovill@bigpond.com
Phone	0408 140 017
Mail	C/Cradle Coast Authority, PO Box 338, Burnie, Tasmania, 7320