

Supermarket Pricing Inquiry

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SUBMISSION BY BUNDABERG FRUIT AND VEGETABLE GROWERS LTD

Supermarket Pricing Select Committee

Inquiry into Supermarket Pricing

APRIL 2024

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Supermarket Pricing Select Committee
Parliament House, George Street
Brisbane, QLD 4001
By email: spsc@parliament.qld.gov.au

12th April, 2024
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Re: Supermarket Pricing Submission

To the select committee, On behalf of growers of fresh fruit, vegetable, herb and nut commodities in the Wide Bay Burnett of Queensland we thank the Queensland Government for establishing the Select Committee on Supermarket Pricing (the Committee) to examine the causes and effects of increased supermarket prices and identify opportunities to increase transparency in the supermarket sector for consumers and producers.

In speaking with producers when forming this submission, they wished for us to be clear in the value they place on supermarkets within the supply chain of fresh production horticulture. The significant role they play in purchasing large volumes of product and employing hundreds of thousands of workers place them as a valuable stakeholder in our supply chain matrix and we can appreciate that as large companies they have a role in maximising profits for shareholders.

Access to affordable, fresh, healthy food should a necessity and not a luxury and given the large volumes of clean green product grown in Australia turning to imported products should not be considered when these products can be sourced domestically. Australian producers contribute to national food security, and we call for their role to be acknowledged, applauded and appreciated in a way that ensures they can operate as viable businesses.

The Growing Harvest is an intriguing and insightful book exploring the Bundaberg District Fruit and Vegetable Industry written by Mr Neville Rackemann. In it he writes

“For many years Bundaberg district fruit and vegetable growers were virtually without a say in the management of their industry. Most prices were controlled by a group or groups of retailers, abetted in many cases by auctioneers who were willing at times to ‘turn a blind eye’ at least, to many not to ethical practices. This was one of the main reasons which led to growers presenting a united front by forming the Bundaberg and District Fruit and Vegetable Growers Association”.

This occurred in 1948, 76years later we remain a united front however are still being controlled by a group of retailers. What differs now is we are strong advocates for our farmers, and we will call out unscrupulous behaviour.

The production horticulture supply chain is incredibly complex and there are no simple standalone solutions to return fairness and equity to Australian farmers however we are hopeful that inquiries like this will shine a light on the challenges growers face every day with major retailers and Government must do all that it can to create sustainable change or risk experiencing a mass exodus of farmers who are currently on their knees, have little left to give and are at breaking point.

With regards



Bree Watson

Chief Executive Officer

About BFGV

As a not-for-profit regional organisation, Bundaberg Fruit and Vegetable Growers Limited (BFGV) represents the interests of fruit, vegetable, nut and herb growers and the businesses that support them across the entire supply chain in the Wide Bay Burnett region of Queensland. Formed in 1948, BFGV works with our members to improve on-farm practices, educate consumers, the community and assist with building a secure workforce.

A diverse growing area, the Wide Bay Burnett is Queensland's most productive irrigated agricultural region. In addition to leading the state in output of citrus and avocado we are the largest producing region in Australia for sweet potato, macadamia, chilli, and passionfruit. Home to a thriving berry industry from blueberry to strawberry we also have significant protected cropping environments that support year-round production of figs, cucumber, and many other crops.

Local advanced manufacturers rely on the production volumes of this region to support a wide range of value-add products which alongside our fresh produce is exported globally. A significant food bowl for Australia that grows commercial quantities of over forty different major commodities, we're putting fresh produce on plates around the world.

The region contributes over \$1.5billion to Queensland's economy each year due to our significant production horticulture industry which has a gross value of production of \$573million for fruit and nut commodities, \$413million for vegetable commodities and \$177million for field crops including sugarcane, sorghum, and maize¹.

Inquiry Response

a) Rising grocery prices in Queensland and discrepancies between retail and wholesale and farmgate prices, including different-sized businesses.

Growers have been challenged significantly in recent years with rising input costs which have increased on average by 37 percent with key inputs such as fertiliser increasing 107 percent² in addition to supply chain disruptions. Always at the mercy of weather, access to parametric insurance for many is either unavailable or simply not affordable. Despite this, farmers have continued to grow and supply record volumes of produce to the domestic market and now once more to export markets.

Unlike other businesses and sectors growers have been labelled price takers not price makers meaning they have little ability to set the price and are instead at the mercy of retailers and what they are willing to pay for that product. Despite significant increases to the cost of production many growers we represent are receiving the same price or less from retailers than what they were receiving many years ago.

In 1984 the Bundaberg region took out the title of Australia's Tomato Capital with production surpassing that of Bowen, another major production region. In that year, prices fluctuated at the bottomed rate of \$3.32 a carton to an average of \$16.00 a carton. Late last year (39 years later) tomatoes averaged

¹ <https://ausveg.com.au/>

² 2023. 'Producer costs and prices report', Global Coalition of Fresh Produce. <https://producecoalition.net/wpcontent/uploads/2023/09/Producer-Costs-and-Prices-Report.pdf>

\$20.00 a carton. Considering the massive difference in cost of production from then to now, it defies belief that farmers are still getting roughly the same price for their product that they were back then.

The challenging part about sustained low prices is farmers seeing how much their product is being sold to the consumer. There is growing disparity between the price received by farmers and the price it is sold. This disparity is a critical issue and sheds light on the systemic inequities of the food supply chain. Farmers receive a miniscule fraction of what the product is sold for whilst major retailers benefit from significant mark-ups. We recognise food production and distribution is a complex and intricate web with many contributing factors including supply chain complexities, operational costs of retailers, market power and consumer demand but each layer diminishes the share of the price that goes back to the farmer – who without there would be no product to sell.

Our organisation worked closely with local growers back in September 2023 to investigate the harsh reality of price disparity farmers were facing. We were able to showcase this, and the table below provides a snapshot of our findings which includes the average break-even costs for some common vegetables. These are costs provided by local growers and incorporate the costs required to produce the commodity and we recognise there is variability from farm to farm.

The second column shows the average price they received for this product in September 2023 at central markets of which there are 5 throughout Australia. The third column is the average retail price consumers paid for this product in the same month. Whilst now outdated data this table is a snapshot of the weekly challenges growers face, and it is recommended the Committee completes its own comparison chart with current data.

Price disparity of common vegetables September 2023			
Commodity	Average cost of production price per kg September 2023	Market price received price per kg (average) September 2023	Average retail price per kg September 2023
Zucchini	\$2.00	\$1.47	\$5.90
Tomato gourmet	\$2.05	\$1.80	\$3.90
Pumpkin jap	\$0.75	\$0.85	\$3.50
Capsicum red	\$2.30	\$1.90	\$4.90

We have seen many commodity prices drop below cost of production and whilst they fluctuate due to supply and demand, this trend is not sustainable. While farmers struggle to pay their bills Australia’s largest retailers’ net profits have increased 4.6-4.8 percent³.

b. the variability in supermarket offerings and pricing across the state, particularly in regional Queensland and in remote Aboriginal and Torres Strait Islander communities;

We have no comment here.

³ <https://www.9news.com.au/finance/coles-full-year-results-2023-inflation-profits-fresh-produce/fb4ec6ce-34e6-4c77-b007-fa1d4ab53cc9>

c. the long-term trends in profits accruing along the supply chain for perishable produce, with particular regard to impediments to the profitability of primary producers;

There are many factors affecting grower confidence and profitability. Changes within government policies that impact the cost of production are a major factor and one that industry does not see decreasing. Farm wages are among the most expensive input cost for farmers. Since 2020, the National Minimum Wage has increased from \$19.84 to \$23.23 an increase of 17 percent and the horticulture award under which many workers are employed has experienced additional changes including the insertion of a floor rate in piece rates which was how many workers were commonly paid. Farmers pay these costs yet have no ability to pass on these costs.

Other input costs that have increased for farmers include energy prices. There have been several changes and phasing out of tariffs in the sector and whilst some Tariff's such as Tariff 22C which presents a great price per kWh of 10.87c between the hours of 9am and 4pm, this jump to 63c/kWh (an increase of 141 percent) from 4pm to 9pm⁴ making this option unsustainable for many farmers operating cold rooms and pumps at nighttime.

Land availability and pricing has also impacted overall profitability particularly in the Bundaberg region. Bundaberg was one of twenty local government areas to be valued in 2024 and Category 9 – Rural properties increased by an overall 63.8 percent⁵ with some growers reporting 100 plus percent increases. This is on top of the valuations received in 2021 where some growers land valuation attracted an increased rates notice of 235 percent. These regular increases again are expected to be absorbed by the farm and not passed on.

Consumer preferences have also impacted on profitability. Specifications for accepted produce have increasingly tightened and this leads to significant rejections, lower prices or increased waste. Retailers say they change specifications based on consumer demand and feedback however little insight to this is ever provided. Some commodities like zucchini can and are picked daily to ensure the preferred size is sent to achieve the best price, other crops do not have this opportunity and the product is either sent or destroyed due to not meeting the 'specs'. Additionally, the preferred specifications can and does change regularly, where once large zucchinis were the preferred size, it is now small medium that are requested, and this will change back seemingly at whim.

Finally, the most common challenge raised with our organisation on an almost daily basis is ever increasing compliance, cost of compliance and the burden this place on farming operations. Growers are expected to bear the brunt of meeting international standards of ethical sourcing, sustainability and food safety. Retailers demand incredibly high standards of their vendors with little awareness nor understanding of the requirements of these programs. Given their programs are already covered by existing compliance systems in place, all they do is create additional work for growers as their retailer vendors for no additional benefit.

It also seems contradictory that retailers demand such high standards of compliance from their vendors, but this does not apply when they need to source additional orders from other suppliers through

⁴ <https://www.qff.org.au/blog/electricity-tariffs-on-the-rise-its-time-to-check-your-tariffs/#:~:text=The%20time%20of%20use%20business%20tariffs%20for%20small,c%2FkWh%20and%20a%20%E2%80%98peak%E2%80%99%20rate%20of%2063.837%20c%2FkWh.>

⁵ chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.qld.gov.au/__data/assets/pdf_file/0033/467862/bundaberg-land-valuations.pdf

indirect supply. Transparency is needed at this level to ensure those growers complying with their demands are not at a disadvantage to those that are not meeting the same stringent compliance needs. The chain of responsibility is also of concern, growers are required to have risk assessments in place for example about pathogen introduction via crates of fruit touching green grass in the inter rows however in the supermarket there are no protocols that protect the produce from ungloved, unwashed random people who can touch, squeeze and generally infect the produce.

Currently, separate to supermarket inquiries Food Standards Australia New Zealand (FSANZ) is proposing new production and processing requirements for high-risk horticultural products including leafy vegetables, melons and berries⁶. If Australian farmers currently implement a recognised food safety standard such as *Freshcare* they already meet the proposed assessments by FSANZ. However, the Queensland Government is considering additional legislation on top of this. This is an example of over regulation, and one which we also face at the retailer level. Our concern is that if the Government more heavily regulates any aspect of food safety or retailers it will be the growers that bear the cost and burden of this.

d. the conduct of retailers in negotiations with Queensland producers, and the prevalence and effects of information asymmetry between these parties;

Within the supply chain, supply agreements between retailers and suppliers are not adhered to by retailers, so growers are planting large volumes without certainty of price nor volume. In speaking with growers when preparing this submission, it was commented that forecast volumes used to be provided however they were rarely adhered to so if reintroduced there would need to be further structure surrounding them. These forecasts were provided six monthly, then yearly then two yearly. They do however conduct commodity reviews every 2 years and the questions asked within this review have increasingly asked for more confidential data than ever before. To now be asking for total farm revenue for example is data that is not needed by the retailer. One must question the validity of the data that has been supplied and how it influences the role of the retailer in negotiating when many farmers have not been willing to share this information.

In addition to lack of forecast volumes, growers regularly report of orders being cut, sometimes even when the product is on the truck destined for the distribution centre. This leaves the grower in a predicament whereby if the central market cannot take the product, they have little other choice than to dispose of the product, they still however need to pay all the costs associated with getting it to that point including the transport. It has been reported that those growers that direct sell to the retailers experience less orders being cut at the last minute than those that sell via their market agent, they still experience cut orders, they just have a few more days' notice.

Lack of regional knowledge in some retailer agents has also resulted in cut orders due to impending weather events which did not eventuate. In this example the application of misinformation did result in a grower's orders being cut despite their farm not being impacted by the weather conditions happening in a different growing region. Even within one region like Bundaberg weather impacts on farm can be widely varied, whilst some growers may experience hail for example others will not. It is therefore important retailer agents liaise regularly with all growers in their commodity portfolio.

The overuse of 'specials' is also causing damage to suppliers. There have been instances where product volumes have been reduced due to weather impacts and yet that same product has been on special in

⁶ <https://www.safefood.qld.gov.au/newsroom/fsanz-releases-proposal-p1052-for-high-risk-horticulture/>

the retail stores. Likewise, products have been on special at the very start of a commodity season which is when better prices would be expected by the grower particularly if a specific region has commenced harvest prior to other regions giving them a short advantage window over others. There has been little transparency around how specials are set and if set weeks in advance they cannot be based on volume availability. Some growers are on the phone every single day to their retail agent and prices vary not only week to week but sometimes day to day, this can be incredibly challenging for the grower to remain sustainable.

A lack of negotiation power in the retailer-grower transaction has been widely reported by growers. As an industry representative body, we recognised the need to empower our growers in negotiation and have offered negotiation courses locally. Previously these courses have only been offered in the metro cities and this presents significant costs and challenges for producers to take time away from their business to upskill in this area. We therefore offered this course locally however they are incredibly expensive courses; alternative options need to be sourced to ensure growers have the appropriate skills to negotiate with their agents.

There are many tactics employed during the negotiation process and this could include offering a more attractive price in some States of Australia but only if the grower accepts a much lower rate in another State for example. Once locked in the majority of the volumes are then pushed through the cheaper State and only a few minor orders are taken through the States with the better price. This presents an unfair playing field and leaves the grower at a disadvantage.

Additionally, retailers have been known to indicate their intention with several growers at once to purchase certain volumes which has created a rapid succession of planting of a certain commodity only to renege on this causing oversupply through the domestic markets driving down the price for everyone. To be fair, there were no formal agreements in place and there is much that needs to be done to support growers in understanding the importance of contracts, written agreements and negotiating so that they are not found in this situation. We support the campaign by Queensland Fruit and Vegetable Growers 'We Give a Fork'⁷ which among other support mechanisms calls for no more verbal agreements between growers and agents.

e. improvements to Queensland's policy environment to increase transparency for producers, including what data will reduce information asymmetry, and/or reduce prices for consumers;

In asking producers this question many responded with 'what's the point?' which highlights their frustration over what can be achieved when it's reported the major retailer's control around 70 percent⁸ of the market share (depending on the report you read).

There are policies however that can assist, and it is recommended the Government liaises closely with the Queensland Horticulture Council which is the preeminent forum for sharing and deliberating horticulture issues and policy in Queensland. It is comprised of representatives from each of the major regional grower groups and associations and as a founding member BFVG regularly provides contribution to policy development through this forum.

⁷ <https://www.wegiveafork.com.au/>

⁸ <https://theconversation.com/factcheck-is-our-grocery-market-one-of-the-most-concentrated-in-the-world-16520>

Policy that supports technology to drive down cost of production will assist producers in improving efficiencies and maximise profits. Traceability of product and ethylene control is important to ensure the product arrives with a maximum shelf life and the grower has access to data on temperature control throughout the journey.

Policy that ensures our roads are in optimal condition will reduce bruising in transit and ensures the product the grower worked for arrives in the best possible condition reducing the opportunity for rejections. Energy policy that provides reliable and cost-effective energy solutions for growers that have year-round energy needs is a must.

Public reporting and benchmarking will help Queenslanders know how much they are paying for fresh produce compared to other states and a better understanding of the supply chain will ensure the complexities of this industry are better managed. Decentralised distribution centres could also be explored to avoid the regular occurrence of product coming South to a distribution centre only to turn around and head North to the retail outlets. During times of natural disasters many truckloads of produce are destroyed as they cannot get to the distribution centre. Despite their ability to physically travel to a retail outlet the inflexibility of major retailers has ended up with destroyed product, lost revenue for farmers and less available produce for consumers resulting in overpriced commodities.

f. any other reviews or inquiries occurring in Australia regarding this matter, with a view to complement these analyses by focusing on potential Queensland Government responses.

As a member of the Queensland Horticulture Council, we have supported the submissions by Peak Industry Bodies into the Senate Select Committee's Inquiry on Supermarket Prices. In particular we liaise closely with Queensland Fruit and Vegetable Growers and AUSVEG and strongly support their submissions. We look to the Queensland Minister for Agriculture to be our advocate at the Federal level to ensure transparency, efficient and fair market conditions for producers to ultimately lead to better outcomes for the sector and consumers.

BFVG appreciates the opportunity to provide comment on the supermarket pricing inquiry on the behalf of fruit, vegetable, herb, and nut producers in the Wide Bay Burnett of Queensland.

If you require any further information regarding this topic, please do not hesitate to contact us.