



Public Submission to ACCC Grocery Inquiry

Sydney Food Fairness Alliance

11 March 2008

The Sydney Food Fairness Alliance is a not for profit organisation that works to promote food security and sustainable food systems across Sydney. Its membership includes community workers, health professionals, social justice advocates, community gardeners, academics and development practitioners. Members of the Alliance undertake advocacy, education, research and networking to promote access to affordable, healthy food that has been produced in a sustainable manner.

In response to the Grocery Price Inquiry, the Alliance called for contributions from its membership. Members in turn responded to several of the questions posed by the ACCC Issues Paper. The Sydney Food Fairness Alliance tenders these answers for the consideration of the ACCC.

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1. What have been the major causes of rising food prices in Australia (e.g. drought, transport costs, etc.)? In particular, what have been major causes of the rising prices of products such as milk, cheese, bread, fruit and vegetables?

The Sydney Food Fairness Alliance acknowledges that an array of factors have contributed to rising food prices in Australia. Locally, drought conditions are reported to have adversely affected the supply of grains and produce and to have in turn pushed up food prices. The impacts of rising energy and transport costs have also been widely noted. The selection of particular crops unsuited to the climate in which they were cultivated may also have contributed to price increases. Internationally, increased demand for agricultural products in Asia – particularly China – has been charged with placing upward pressure on global food prices. So too, the allocation of agricultural land and crops for biofuel production in the US and Europe has pushed up the global price of grains and products that rely on grain such as meat, cereal and bread. Limited retail and wholesale competition in the Australian grocery industry may also have seen consumers pay more at the cash register.

The Alliance notes that the relative impact of these and other pressures is difficult to determine without comprehensive price surveillance mechanisms. It in turn supports the implementation of regular, thorough and independent monitoring of prices at each stage along the food production line.

3. What have been the major changes to the structure of grocery retailing in Australia over the past 5 to 10 years?

It appears that there has been increasing concentration of grocery retailing into the two major supermarket chains, resulting in both fewer supermarket chains and a reduction in local shops selling specific types of staple foods such as fruit and vegetable shops, butchers and bakers. The increased number of specialty food stores and delicatessens in more affluent areas may mask this trend if numbers alone are taken into consideration.

A survey of food outlets in South West Sydney in 2004 showed that fruit and vegetables sold in local stores were competitively priced, and of better quality, than those available in either supermarkets or convenience stores (Lowry 2003). The loss

of local shops impacts disproportionately upon people without private transport, people with mobility issues such as the frail, elderly or people with a disability, or those living in areas poorly serviced by public transport. Loss of local shopping strips also impacts on the 'walkability' of neighbourhoods and results in decreased social connectivity.

4. What factors have driven these changes (e.g. changes in trading hours, one-stop convenience of supermarket shopping, mergers and acquisitions, etc.)? What has been the relative importance of these and other factors?

Local government and town planners do not have the powers to determine what type of shops will be in retail zones and are consequently unable to ensure that all neighbourhoods contain local retail outlets which provide easy access to staple and fresh foods by all in the community.

23. Would unit pricing (a requirement that the price per kilogram or per 100 grams etc is displayed on the supermarket shelf or product) improve the ability for customers to compare prices? Should unit pricing be made compulsory? Would unit pricing lower the cost of shopping for customers?

The Sydney Food Fairness Alliance believes that mandatory unit pricing would improve the capacity of shoppers to compare the prices of like products and in turn select the items and brands that maximise the quantity of food able to be purchased with available resources.

Alliance members consider that some food manufacturers currently engage in behaviour that make price comparisons and product and brand substitutions deliberately difficult. Namely, weights of products can be altered from the accepted norm to make it challenging for consumers to compare prices. Mandatory unit pricing would go some way to nullify this practice.

It is noted that some manufacturers reduce the size or weight of products whilst maintaining the price at which the larger or heavier items were charged. This practice may occur without a commensurate reduction in the size of the packaging or with a reduction that is not apparent to the consumer (e.g. a reduction in the thickness of a

box of cereal that is not apparent whilst on the supermarket shelf). Consumers in turn receive less product for their dollar. Displaying the unit price would minimise the success of this behaviour.

The adoption of unit pricing would be particularly valuable to people with limited numeracy skills who experience difficulty calculating the most cost effective shopping options. Of note, the correlation between innumeracy and socioeconomic disadvantage suggests that people with limited numeracy skills are currently amongst those least able to afford to purchase enough healthy food.

The success of unit costing would require consistency across the industry in the weights selected to price like items. Signage must also be located along side products (in addition to, rather than instead of, at a central location inside the store) and must be large and clear enough to be read by consumers.

The Sydney Food Fairness Alliance supports the adoption of mandatory unit pricing for Australian grocery retailers.

24. How important to consumers is the convenience of purchasing from a retailer offering a broad range of grocery products (meat, fruit and vegetables, packaged products, etc)?

For many Australians the availability of multiple products is less a matter of convenience than it is a necessity. Many frail older people and people with physical disabilities regularly experience difficulties both getting to and from the shops and lifting and carrying grocery items. Living with a mental illness such as agoraphobia or depression can also challenge the capacity of some consumers to access public spaces. In such cases, the decision about where to shop is intricately linked to the need to access a variety of items in the one place.

Inadequate access to public and private transport can also limit the choices consumers have about where to shop for groceries. A healthy basket that includes an adequate quantity of fruits and vegetables is likely to be both bulky and heavy and in turn difficult to transport when transport options are limited. This is particularly demanding for people purchasing a significant quantity of groceries to meet the

nutritional needs of their families. In such cases consumers may have little choice other than purchase groceries from the store most easy to get to which may or may not stock the necessary variety and quality of food at the best available prices.

25. How important is price for consumers when they decide where to buy groceries?

Members of the Sydney Food Fairness Alliance recognise that price is the most significant influence on the purchasing behaviour of many consumers and is often the sole consideration for the alarming number of Australians who regularly experience difficulty accessing enough, healthy food.

Over the last decade a number of studies have illustrated the extent to which access to adequate food is linked to affordability for many Australians. The 1995 Australian National Nutrition Survey reported that 5.2% or over 940,000 Australians “ran out of food and could not afford to purchase more” at some stage over the course of the year (NSW Centre for Public Health and Nutrition 2003, p.2). Using this measure of food insecurity, 8% of respondents were found to be food insecure in the 1995-1996 Australian Bureau of Statistics Population Survey Monitor (Booth 2001) and 6.2% in the 2001 NSW Child Health Survey (NSW Centre for Public Health and Nutrition 2003, p.2). In 2003 a report from the NSW Chief Health Officer indicated that “6.1% of people in NSW reported that they had experienced food insecurity in the last 12 months, in that they had run out of food and could not afford to buy more” (New South Wales Chief Health Officer 2004, p.2).

Alarming results from localised and in-depth studies indicate that people who experience social or economic disadvantage are more likely than the general population to run out of food and be unable to afford to purchase more. In 2006 a telephone survey that focused upon three socially disadvantaged localities in south west Sydney revealed 30% of families with dependent children and almost 50% of sole parent families experienced food insecurity (Nolan et al 2006). The authors conclude that this estimate was considerably higher than previous national figures because of the socio economics of the sample and questions probing the dimensions of food insecurity (Nolan et al 2006). Similarly, data from the 2001 NSW Child Health Survey revealed that “parents from low income areas were three times more likely to run out of food and not have enough money to buy more than parents from

other areas” (NSW Centre for Public Health and Nutrition 2003, p.2). It also indicated that Indigenous Australians, ethnic minorities and people with physical disabilities were chronically affected (Anglicare Sydney Research and Planning Unit 2003, p.11). The NSW Chief Health Officer concurred with such correlations by suggesting that “food insecurity increased with decreasing socioeconomic status” (2004, p.2).

In a series of qualitative interviews conducted by the Redfern Waterloo Food Security Project in 2007 all participants who indicated an inability to access enough food cited their capacity to pay for food as the primary reason (Ludbrooke 2007, p.26-29). Almost all of these participants in turn viewed affordability as an issue of price. Put simply, the local supermarkets were too expensive for these community members to always be able to afford to buy enough food. As one participant noted:

“There are times when we can’t afford enough”.

Some people identified supermarket strategies as the source of these high prices.

“There is no more savings brand. They changed that to Coles brand which is more expensive. They get you.”

Community members who suggested that they could not access healthy food also identified the price of food as a key factor.

“The price of fruit at Coles is enough to make your mind blow!”

Several participants indicated that the cost of adhering to a special diet impacted upon their ability to afford to purchase enough healthy food.

“The only thing I think of is what happens if I have another heart attack? It’s always in the back of my mind because I can’t always afford the expensive recommended dietary requirements for my condition”.

It was also suggested that changing demographics meant prices were established to capitalise on the disposable income of high income earners and that lower income earners were in turn priced out of the market.

“There are people in Redfern who can afford to pay so Coles charges more. I’m a pensioner. Pensioners can’t afford that”.

Of note, the results of interviews repudiated the notion that wayward expenditure is to blame for lack of affordability. Community members revealed that they cast a watchful eye over their limited finances:

“I don’t smoke and I don’t drink. I still have to budget very rigidly”.

“I’m always keeping an eye out for the cheapest things”.

The abovementioned evidence of the difficulties that many Australians experience affording enough healthy food supports the notion that price is a critical component of considerations about where to shop for groceries.

26. How important are factors such as distance of travel, freshness of perishable items, product range, etc?

The Alliance notes that a growing number of Australians are making decisions about their diet based upon the environmental implications of their consumption. The distance that food travels from paddock to plate – referred to as food miles – is one such consideration. Freight, especially by air and road, consumes large quantities of fuel and releases greenhouse gases that contribute to global climate change.

It is also understood that there is a relationship between the freshness of some foods and their nutritional content. That is, the greater the time between the harvesting and eating of certain fruits and vegetables, the fewer the nutrients available to consumers.

In response to the connections between food miles and both climate change and optimal nutrition, the Alliance supports the availability of locally produced food in the Sydney Basin.

Periurban and urban agriculture is being increasingly recognised worldwide for its importance in food security, local food production, the production of fresh food,

particularly perishable fruit and vegetables, the concept of food miles and the environmental cost of food transport with climate change and increasing fuel costs.

Periurban agriculture in the Sydney Basin supplies 90% of Sydney's perishable vegetables. 80-90% of market gardeners are from different cultural backgrounds (Chinese, Maltese, Italians, Lebanese, Vietnamese, Cambodians, Koreans, and most recently Africans, etc), frequently have limited English and operate small intensive family farms (Parker 2007, p. 2). Farming is important both for their economic and social livelihood and its vital role in local food production supplying Sydney with fresh vegetables. Historically these farms are extremely efficient and the farmers entrepreneurial.

The sector is however under increasing threat from urbanisation and market forces, in particular the role of the large supermarkets. If this sector is diminished there will be environmental costs because produce will have to be cultivated further away and will in turn have to travel further to get to consumers. The economic cost of transporting produce longer distances is also likely to lead to higher grocery prices. Many farming families will also lose their source of income and experience disconnection from their communities.

There is considerable evidence on the value of small family farms compared with large agribusiness but government policy and the large supermarkets generally push for agribusiness. The Alliance deems this unlikely to be in the long term interests of the community in terms of its access to fresh, affordable fruit and vegetables.

In addition, agriculture will be forced away from fertile floodplains and coastal areas with relatively high rainfall, at a time of increasing concern about the effects of climate change on the availability of water in inland Australia.

33. To what degree do Coles and Woolworths compete against each other? To what degree does the option of shopping at other supermarket chains (e.g. IGA) constrain the conduct of the MSCs? To what degree does the option of shopping at specialist grocery retailers constrain the conduct of the MSCs? To what degree does the option of shopping at convenience stores constrain the conduct of the MSCs? How does this differ by product group? How does this depend on the type of shopping trip (i.e.

weekly or “top-up”)?

Consensus amongst members of the Sydney Food Fairness Alliance is that competition from smaller supermarkets forces major supermarket chains to lower the prices of identical and similar items.

The results of qualitative interviews conducted by the Redfern Waterloo Food Security Group echo these sentiments. The arrival of a new and cheaper supermarket, namely a Franklins or an Aldi, was seen as a path to cheaper groceries in the local area. This was primarily because these stores were regarded as having lower prices than both of the existing local supermarkets but it was also thought that the increased competition would force both supermarkets to lower their prices (Ludbrooke 2007, p. 36).

34. Has the move by Coles and Woolworths into petrol retailing and the adoption of petrol shopper docket schemes altered competition between the MSCs and competition in grocery retailing more broadly? If so how?

Members of the Alliance understand that many shoppers across Sydney take advantage of the petrol shopper docket schemes. It is suspected that the supermarket chains have made up for the cost of these schemes by increasing the price of groceries. It is in turn noted that people with insufficient resources to purchase and maintain their own vehicles will be disadvantaged by such price hikes both because they are unable to take advantage of the discount fuel and are less likely to be able to afford to pay for adequate groceries.

36. To what degree do grocery prices differ between metropolitan, regional and country areas? How does this differ by product group? What are the major reasons for differences in grocery prices between metropolitan, regional and country areas (transport costs, land costs, market structure and competition, etc.)?

In 2006 The Cancer Council New South Wales surveyed the price, quality and variety of food available in 150 stores across the state. The results indicated that the cost of both a total food basket and fruits and vegetables increased by remoteness (Cancer Council NSW 2006). Similarly, the 2006 Healthy Food Access Basket conducted by

Queensland Health determined that consumers in remote areas pay more for their food than those living in major cities and regional inner centres (Queensland Health 2006).

44. Can grocery retailers 'bypass' the large grocery wholesalers? If so, how? Does this vary by the type of product or type of retailer?

The Alliance notes that small grocery retailers in Sydney can purchase wholesale fresh produce directly from growers and agents at Flemington Markets.

52. Are there other forms of behaviour or conduct by supermarkets in their dealings with producers or suppliers that may indicate market power?

The Sydney Food Fairness Alliance understands that, for farmers in the Sydney Basin, the large supermarkets set the price for the year, irrespective of the production costs. As such, when retail prices increase there is no increase in the return to the grower, even during times of market shortage. The impact on growers is amplified by increasing production costs. For example, in the drought in 2003 Chinese growers were forced to buy more water to produce crops to fulfil their contracts, so that the production cost far exceeded the return. Many were in dire financial circumstances but continued producing to meet their contracts, despite the increase in costs. Conventional economic theory and common sense would suggest that growers would stop growing as it became too expensive, but the lack of flexibility for growers in the contracts distorted the market.

It is also notable that individual growers cannot openly criticise merchants/agents because the agents/merchants can simply stop buying their produce. They cannot afford to criticise and are in a subservient relationship with merchants/agents.

The Alliance recognises that supermarket chains have the market power to insist on rigid quality control at the farm gate – such as the size and appearance of produce – but notes that this does not necessarily translate to quality produce at the retail level. In addition, controls over size and appearance result in large-scale waste, which in turn pushes up prices.

The Alliance also understands that there is no written contract between the agent/merchant and the grower, and the agent/merchant tells the grower that he will take the produce at the price nominated by the agent/ merchant. If the grower does not supply the agent/merchant at this price the agent/merchant gives the business to another grower.

81. What has been the impact (if any) of the [Horticulture] Code [of Conduct] on market behaviour along the supply chain for horticultural products?

Growers in the Sydney Basin have made the following comments about the Code:

- To date this has had no positive effect for growers
- It is relatively new; there has been a lot of talk but little education as to its implementation
- Only applies to new arrangements but many of the growers are operating under previous arrangements established before the Code came into effect.
- The Code applies only to the first trade and there are so many exemptions that it is ineffective
- It hasn't addressed the imbalance of power in the market place between growers and agents/merchants, and the large supermarkets
- The ACCC hasn't promoted it effectively
- It's a "political dog fight"
- In real terms growers are not getting any benefit from the implementation of the Code.
- The Code is intended as a tool to provide more transparency but hasn't had the intended effect
- There were reports that contracts at Sydney markets were only available in English, whereas many of the growers have limited English. It was reported that in some cases the contracts were translated verbally, and incorrectly, and growers "had to sign the contracts" which did not include a price, i.e. they signed the contracts with crucial information not included.
- The implementation of the Horticulture Code of Conduct has not addressed the ongoing issue of the relationship between the agent/merchant and growers; it hasn't addressed the fundamental issues in practice
- The ACCC and the ATO have not enforced the Code of Conduct

Other Issues

The Sydney Food Fairness Alliance brings together representatives from welfare, health, farming, gardening and religious organisations, to promote sustainable food systems which provide access to the healthy foods needed by all Australians to avoid massive future health and environmental costs. The Alliance argues that grocery retailing practices are only one part of the larger picture concerning the future of food in Australia, and that a comprehensive policy approach needs to be developed to guarantee food security for all. Key issues that will impact on future costs are: current plans to build over some of the most fertile and productive land on our cities' urban fringes; lack of attention to rainfall patterns; unsustainable use of fertilisers and pesticides destroying future soil fertility.

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