

KJ & YJ Smith
Bowhill
RSD 568
Mannum SA 5238
Ph 08 8570 4278
fax 08 8570 4188
bowhprod@bigpond.com

BOWHILL PRODUCE PTY LTD

ATF KJ & YJ Smith Family Trust

ABN 31 393 565 966

Public Submission to ACCC Grocery Inquiry by Yvonne Smith on 11/3/2008

This submission will address questions in Part G and Part I of the issues paper "ACCC inquiry into the competitiveness of retail prices for standard groceries.

Question 66-67: Please refer to attachments 1 and 2, which are letters to the then Agriculture Ministers regarding pricing in the supply chain from farmgate to Supermarket shelf. The data is taken from the "Price Determination in the Australian Food Industry" report prepared for DAFF, 2004.

The only difference between the figures in the attachment and now, is the farm gate price is higher, approximately 60-80c/kg, with perhaps changes allowed for in costs along the chain. However, the retail price is the same, indicating that price at the retail end is not reflective of fluctuations in supply or related at all to farm gate prices. This means that the supermarkets have been inflating the price at the retail end for several years at both the consumer and the suppliers expense. In the time between the previous example and now, the cost of production has increased through water shortages, fuel, electricity, fertiliser, chemical and labour cost increases. The higher returns this season are not reflective of that, but more reflective of a lower supply than in most years. In both cases the retail price is the same.

Qu 68: Generally we cannot sell directly to supermarkets, but through preferred suppliers and the wholesale market floor. Exports are an attractive alternative and we are looking to move more and more product this way, rather than put up with the lack of transparency in the supply chain in Australia.

I believe qu 70 and 71 are covered above as well.

Qu 81 and 82: From a growers perspective there has been no obvious change with the introduction of the Code on the price of horticultural products. Without the inclusion of supermarkets in the code, there is no scope for full transparency along the chain.

Qu 83: The effectiveness of the code with the inclusion of supermarkets would only improve provided it was policed properly, and it was clear how disputes could be resolved. Also there is a need to know that suppliers will not be black banned from a supermarkets supply chain for speaking out, which is certainly not the perception at the moment.

Please don't allow this investigation to become yet another useless exercise that makes no difference to the marketplace. This investigation is long overdue.

Yours sincerely

Yvonne Smith B.Ag.Sc(Hons) GAICD

KJ & YJ Smith
2 Main Road
Bowhill SA 5238
Ph 08 8570 4278
fax 08 8570 4188
bowhprod@bigpond.com

BOWHILL PRODUCE PTY LTD
ATF KJ & YJ Smith Family Trust

ABN 31 393 565 966

6/5/2005

The Hon Warren Truss MP
Minister for Agriculture Fisheries and Forestry
House of Representatives
Canberra ACT 2600

Dear Sir,

I am writing out of concern for a whole range of people involved in the fruit and vegetable industry. Growers through to consumers are being ripped off and we don't know by whom.

Let me present an example. Brown onions are currently selling for almost \$3 a kilo in many supermarkets. It may surprise the average consumer to know that growers are only returning between 20 – 25 c per kilo. From that grower return is all the costs for production that have to be covered. And before you ask, no it is not enough to cover the ever increasing cost of water supply, electricity, diesel, fertiliser, spray, labour, packaging, repairs etc. However, growers have seen years like this before and realise that there is the issue of supply and demand, and naturally when produce is plentiful it is also cheap.

Why then does this not reflected in the end user price. There is up to \$2.80 per kilo that is covering freight, middle men, repackaging, and supermarket costs and profit. Profit for who? Who is making all the money here? Where is the transparency? As I mentioned earlier, we are being ripped off but don't know by whom.

We could find many more such examples on our supermarket shelves. Supermarkets claim to follow the Trade Practices Act to the letter of the law, competition policy is being met, isn't it? Wholesalers don't make the money, do they?

The system is rubbish. There is no transparency in the chain, and consumers are paying too much for goods, and growers are going backwards. At the very least, if consumers were paying less, there may be more demand and if not prices, at least sales would improve. Simple really.

An enquiry is necessary immediately to expose the disastrous sorting of the system of fruit and vegetables sales in this country.

Yours sincerely

Yvonne Smith B.Ag.Sc.(Hons) GAICD JP
Director
Bowhill Produce Pty Ltd

CC. MP Federal, Anderson, Truss, Secker. State SA McKewan, Kerin, Lewis,
Schaefer, Venning, Xenophon

KJ & YJ Smith
2 Main Road
Bowhill SA 5238
Ph 08 8570 4278
fax 08 8570 4188
bowhprod@bigpond.com

BOWHILL PRODUCE PTY LTD
ATF KJ & YJ Smith Family Trust

ABN 31 393 565 966

30/1/2007

The Hon Peter McGauran MP

Minister for Agriculture, Fisheries and Forestry; Deputy Leader of the House.
House of Representatives
Parliament House
Canberra ACT 2600

Dear Sir,

Recently I wrote to the former Agriculture Minister and various other parliamentarians over an issue within the area of fresh vegetable marketing. I have enclosed that letter for you information.

I am now following up my previous correspondence with the former Minister. In answer to my letter he has referred to some reports and highlighted what the Government is doing in this area. I enclose his response for you information.

However, I must question the validity of the reports mentioned in the reply and once again stress the urgency and hopelessness at this stage of our plight.

The minister made reference to a report – *Price Determination in The Australian Food Industry*- and that it stated that it is misleading to compare farm gate and retail prices. He mentions a complex mix of factors which determine price after the farm gate, and he is of course correct. These factors are discussed in depth in the report and examples are shown, and I have no argument with these. In fact, if one is to take the report as correct, it only adds fuel to my own argument.

There is an example in the report with the apple industry which dissects the retail price and attributes a percentage of the price to each sector in a graph. I assume this has been well researched as the authors have stated considerable research in general. In the table below (Table 1) I have taken these percentages and applied them to the current situation in the onion pricing example that was in my previous letter. From there I have also shown an allowance for larger costs within the chain, for example transport or distribution costs, which may for some reason be larger in the onion chain than in the apple chain.

	apple example	\$2.98	a	reality	%		change %	\$2.98	
supermarket	35%	\$1.04		\$2.26	75.79	c	58.29	\$1.74	e
distribution centre	7.50%	\$0.22		\$0.22	7.50		15%	\$0.45	d
wholesaler	5%	\$0.15		\$0.15	5.00		10%	\$0.30	d
transport	5%	\$0.15		\$0.15	5.00		10%	\$0.30	d
packer	15%	\$0.45		\$0.20	6.71	b	6.71%	\$0.20	b
grower	32.50%	\$0.97							

Table 1: Percentage return to each sector in the supply chain of the retail price. First column uses apple example, second column uses actual grower returns, and the third column allows an increased return in other areas of the supply chain than the original example.

The table above shows several sectors of the supply chain. This would be typical of the supply chain in onions. The price per Kg for onions is currently, and has been for some time, \$2.98 (a) in many Supermarkets. The apple example shows what should be the returns from that retail price to all the sectors in the supply chain. The next column however shows the reality assuming the intermediate sector percentages are correct, working from the bottom up based on the \$4.00/20kg bag return (b), which has been standard for good quality onions for some months at the same retail price. This shows the resultant return (c) that must be attributed to the retail sector. Further to this I have allowed in column three for an increase in the percentages to the intermediate sectors (d) but of course the return to the grower remains the same (b). The remainder after reduction from the other sectors is again attributed to the Supermarkets (e) and is still very high.

Of course the price here is a gross return and the high cost of labour and stacking shelves and shelf space must be considered before profit is assessed. This again only adds to my argument, as the growers price must reflect the cost of land, water, seed, fertiliser, spray, labour, diesel, electricity, packaging, storage, finance etc etc. It is very, very clear from these figures that the return is not being distributed fairly in the supply chain. I see this as a blatant abuse of market power.

Please remember that this data and information is all sourced from the same report that the Government refers to justify further investigations. Is the report correct? Are the assumptions from the report correct?

Further to this, from the same report then is the justification to develop the mandatory Horticulture Code of Conduct. And it is this code which was the main point of reference given to me from replies to my original letter. This code however will not address the problems I have identified, as it only refers to the dealings between growers and the first point of sale.

It could be argued that I have excluded the possibility of profiteering from the wholesale sector in the examples shown in table 1. There is however enough transparency in the system to know that our wholesalers are not achieving anywhere near the 30c/kg return demonstrated in the third column of table 1, or anything above that, that could impact on the

return to the retail sector shown. Transport costs too can be easily checked, and the amounts in column three would take a kilogram of onions and be able to transport it across Australia three times. So there is unlikely to be a higher percentage of money in that sector. It is obvious that the real lack of transparency exists in the supply chain past the first point of sale.

My real complaint is not that as a grower we should be returning more per kilogram this year. There is a problem with supply and demand and this is why the returns to growers are so poor. We have seen this before. However, the retail price is not reflecting the high supply, and thus is being kept unreasonably high, and would be affecting the volumes of sales that could be achieved at a lower retail price. This in turn would increase demand, and potentially increase prices, or at least prevent farmers having to dump thousands of tonne of produce for no return at all. This is a blatant case of price manipulation and abuse of market power.

I am confident that there are a vast range of commodities where the same areas of concern exist. This is not a problem unique to the onion industry. For that reason I implore the Government to show initiative and explore the evidence that shows abuse of market power by the Supermarkets. Much of the price determination reports explorations are based on allegations of abuse in the wholesale sector, so presumably allegations against the Supermarket sector can be followed up as well. I think I have shown real evidence that this is the case and further evidence would not be difficult to find, particularly in the case of an official enquiry.

I note that there will be an enquiry conducted by the WA Government on the suspected abuse of market power by Supermarkets in that State, and although I do not know the terms of reference, I believe this could be followed up on a National basis.

I note a daily media brief from your department dated the 13th July 2005 where it was stated that you would "champion the interests of farmers and rural communities" and that your "starting and finishing point is the interest of farmers". I commend you for that approach.

Farmers and wholesalers and the public in general are suffering in silence at the hands of the supermarkets. It is time a stand was made against the price manipulation, profiteering and abuse of market power that exists in the horticultural industry.

Something must be done, and someone has to do it.

Yours sincerely

Yvonne Smith B.Ag.Sc(Hons) GAICD JP
Director
Bowhill Produce Pty Ltd
Former Chair Australian Onion Industry Association