

Public Submission to ACCC Grocery Inquiry by Bundaberg Fruit and Vegetable Growers on 11 March 2008.

1. Our Organisation

Bundaberg Fruit and Vegetable Growers (BFVG) is a grower cooperative with over 400 members. Our vision is: "Represent members and their interests as fruit, vegetable and nut growers, obtain and provide them with information, training and other services and promote their industry in a way which results in its overall expansion and success." Our purpose is to provide services to our members and to ensure their voice is heard on a wide variety of issues. BFVG was established in 1948 and represents an industry that produces annually over \$350 million of healthy nutritious fruit, vegetable, nut and herb products, providing food security for Australians and a key employer for the Bundaberg Region. Our members are horticultural growers in the Bundaberg, Gin Gin, Childers, Hinkler and Gympie areas.

2. Our Concerns

With increasing drought, climate change, rising input costs, stagnating sale prices, rising imports, reduced exports and continual additional red-tape requirements, the Australian horticulture sector, of which Bundaberg is a significant contributor, is facing a difficult period. The serious long-term food security for Australian's is dependent on maintaining a profitable and sustainable primary industry sector. The healthy nutritious fruits, vegetables, nuts and herbs grown by our members form a vital part of a healthy diet. The fresh produce needed by working families is a priority part of healthy diets. For Australian's to ensure continued access to these products ALL parts of the supply chain have to be profitable and sustainable. BFVG is concerned that growers are falling behind other sections of the supply chain in terms of their long-term profitability. Our comments are targeted at the fresh horticulture sector only and do not attempt to reflect other food staples such as dairy or grains.

a. The value of Queensland horticulture

The value of Queensland's primary industries' production is forecast to rise to \$12.235 billion to 2007/8 according to DPI&F's latest Prospects publication. Queensland horticulture annual production is valued at in excess of \$2 billion, second only to beef in terms of commodities. Bundaberg's regional contribution in 2006 is over \$350m. The farm gate value of Queensland's primary industry commodities is forecast at \$9.425 billion in 2007-08, two per cent higher than 2006-07, and the value of first-stage processing of agricultural commodities forecast at \$2.81 billion.

Small Area Labour Markets data for the Wide Bay Burnett region show unemployment levels in the Federal Electorates of both Hinkler and Wide Bay has dropped a full 10% since March 1996, and the region is leading the country in providing jobs. It is no coincidence that in the same period the horticulture industry in Bundaberg has significantly expanded production, rising from 7,000 hectares in 1997 to over 13,000 hectares in 2006. Horticulture is an intensive agriculture industry and is a tremendous user of support services and products which further drives employment and economic growth. Electorates with the 10 largest reductions in their unemployment rate since March 1996 are shown below.

Electoral Division	Mar-96(%)	Jun-07(%)	% Change
Hinkler (Qld)	15.0	4.9	-10.1
Wide Bay (Qld)	16.5	6.5	-10.0
Wills (Vic)	14.1	4.4	-9.7

Electoral Division	Mar-96(%)	Jun-07(%)	% Change
Reid (NSW)	15.7	6.4	-9.3
Fisher (Qld)	14.2	5.0	-9.2
Gellibrand (Vic)	15.8	6.7	-9.1
Fairfax (Qld)	14.5	5.7	-8.8
Longman (Qld)	14.0	5.8	-8.2
Batman (Vic)	13.7	6.2	-7.5
Brand (WA)	11.9	4.6	-7.3

b. Trade Concerns and future viability

According to the *Australian* (Thursday 10 January 2008), rural exports have slumped by 10pc for the year to November 2007. The November 2007 trade deficit was \$2.3 billion — the 68th consecutive monthly trade deficit. According to the Department of Trade, in the first five months of the 2007-08 financial years Australia recorded a cumulative trade deficit of \$10 billion – almost as much as the total deficit of \$12.4 billion recorded for the 2006-07 financial year. In the 12 months to November 2007, exports were up 4pc compared with the same period to November 2006. Service exports were up by 10pc and manufactured exports grew by 8pc, but rural exports slumped by 10pc in the 12 months to November 2007.

Unless the Australian horticulture industry develops a strong export culture, it is doomed to a future of limited growth and prosperity in the face of steadily rising imports from low cost countries such as China. This is one of the key premises in a discussion paper released in August as the first stage in a project called Future Focus, aimed at developing a long term strategic plan to wrench the industry away from the prospect of a slow decline. The paper paints a picture of an industry able to supply the domestic market with an impressive and expanding range of fruit and vegetables, but losing out badly in the export field. Exports have been static or declining while imports have been rising, resulting in Australia becoming a net importer.

Imports of fresh and processed fruit and vegetables in 2005-06 totalled \$1.9 billion, compared with exports of only \$1.1 billion. The figures don't include those for the ultimate success story, Australia's wine industry, whose annual exports are approaching the \$3 billion mark. Australia is also lagging drastically behind other southern-hemisphere countries that share the same counter-seasonal advantage in northern hemisphere markets, the discussion paper says.

In 2004-05, Australia's exports totalled 383,350 tonnes, compared with Chile's 2.44 million tonnes, South Africa's 2.63m tonnes and New Zealand's 891,974t. The paper says domestic per capita consumption of fruit and vegetables has risen steadily and there could be scope for lifting it further. But this will require adding features and quality to products that will, to some extent, cannibalise other horticultural products.

c. What the individual grower sees.

A survey of vegetable growers across Australia, commissioned by the Australian Vegetable Industry Development Group (AVIDG), was undertaken by the Australian Bureau of Agricultural and Resource Economics (ABARE). The results provide an important foundation for the Australian vegetable industry to assess its performance and identify potential indicators for the industry's future. While this is specific to vegetables it could be expected that similar results would exist for fruits, nuts and herbs, albeit with variability based on specific commodities and the season. Key findings of the survey include:

- 56% of Queensland growers surveyed reported experiencing drought conditions.

- Average farm business profit (FBP) in Queensland was \$71,140. The highest average FBP was Victoria with \$137,740 and the lowest Tasmania at -\$72,930
- The survey found financial performance was highly correlated to scale of vegetable production with around **half** of all growers surveyed reporting a loss in 2005-06.
- The economic performance of vegetable growers in 2005-06 was better than that of broad acre farmers (wool, beef and cropping farms) with an average rate of return from capital (excluding capital appreciation) of 3.2% for vegetable farms compared to 0.6% for broad acre farms.

For an average farm profit of \$71,140 a grower could expect to spend significantly greater amounts on inputs such as machinery, labour, fertilisers, water and many other items, both capital and expendables. This expenditure drives regional centre economies like Bundaberg and many others around the State. The potential risk in operating in an outdoor, exposed environment (e.g. hail, wind, pests, diseases, flood and drought) for a return of 3.2% is pitiful. It would be easier for a grower to invest into managed funds and accumulate +10% returns from the share market. THIS would not provide jobs, drive economies or most importantly provide food security for Australians. It is also worth considering that this average return of \$71,140 for a business may require the full-time working input of multiple family members.

d. Rising costs, stagnate returns

The very topical issue of retail price verses farm gate price for agricultural produce was debated in 2007 and has continued in 2008 with the Federal Labour Government announcing this enquiry by the Australian Competition and Consumer Commission (ACCC) into food prices. Some sample comments from 2007 are listed below to articulate the main concerns of the horticulture industry and the Australian consumers.

- Queensland Farmers' Federation chief executive, John Cherry, says that over the last four years to June 2006, retail food prices have risen on average by 17.8pc, while average prices received by farmers rose by just 2.3pc. "The increase certainly isn't going to farmers, who over that period were struggling with the worst drought in a century which saw their cost of production rise by 16.5pc," Mr Cherry said. "Food prices are not delivering fair results for either consumers or farmers."
- Then Federal Opposition Leader Kevin Rudd said families in Adelaide were paying 35pc more for fruit and vegetables than five years ago, while in Melbourne the prices had increased by about three times the rate of inflation. "What we've seen is that in a number of areas like fruit and vegetables they've gone up in excess of what is formally registered through the CPI," he said. "The point is to establish whether there are other factors beyond seasonal and environmental factors which are at play here."
- Woolworths has warned shoppers their growing weekly food budgets are about to be stretched even further, with chicken, red meat and milk likely to rise in price because of the drought. The chief executive of Woolworths, Michael Luscombe, said the higher price of grain would push up chicken prices in coming months. Milk and meat would rise because farmers had sold stock during the drought and had not had time to rebuild their herds.
- WAFarmers president, Trevor De Landgraft, says farmers have long borne the brunt of on-farm price rises, but have not been fairly compensated. Mr De Landgraft says, "Back in 2000, the price per litre of milk went down at the farm gate at the time of deregulation in the dairy industry. "Seven years on and we are just getting back to those original levels, despite (our) input costs

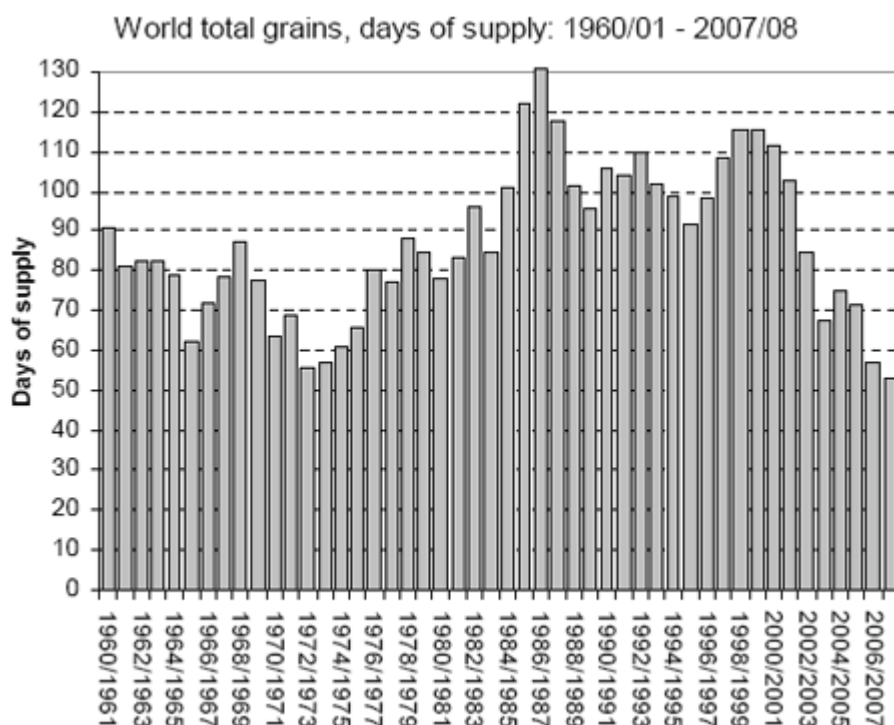
doubling during the same period. these price increases at the supermarket shelves have an uncanny ability not to make it back to farmers."

- Mark Panitz of Growcom said "Growers often complain to us that the prices for fruit and vegetables that they are paid at the markets or by supermarkets are in no way reflected in supermarket prices to the consumer which can be more than five times as high," he said. "Growcom believes there needs to be a mechanism whereby authorities can discern where there have been excessive mark-ups of fresh produce." Mr Panitz acknowledged that the prices of fruit and vegetables were volatile due to seasonal conditions and the vagaries of weather. "However, we also believe that it is easy for supermarkets to mask a price increase on the basis of a false premise such as drought. Horticultural produce is grown across a wide range of geographically dispersed regions which will not all experience the same weather problem at the same time."

e. The Global Picture

The following is an extract from an article by Professor Julian Cribb, a science communicator and Adjunct Professor of Science Communication at the University of Technology Sydney.

"World food security, as Australian consumers are soon to discover, is at its lowest since records were first kept almost half a century ago. The precipitous fall in world grain stocks in the last seven years (see chart) is a forewarning of what we may expect as the world runs low on water, land, nutrients, technology, as marine harvests collapse, as biofuels grow and as droughts intensify under climate change. It means, year on year, humanity now eats more than it produces.



In Australia, debate on the future of agriculture has largely been about drought and predictions of a hotter, drier climate, and has tended to overlook the fact that the world may be entering a prolonged period of shortages and famines at a time of vastly increased demand for food.

At our top policy levels there is apathy about a potentially extremely grave problem. Sixty per cent of all conflicts in the last 15 years have had, at their core, a scarcity of food, land or water. A major driver of

refugeeism both internal and international, is scarcity of food , land and water and the conflicts between different groups it precipitates.

Australia has not yet understood that agriculture policy is defence policy. It is refugee policy, immigration policy, environmental policy as well as health, food and economic policy. We persist in seeing it as an issue all on its own.

This is the only explanation for the long slashing of agricultural research by governments, state and federal, by universities and by science agencies at a time when agricultural scientists are retiring and university science enrolments collapsing. We are now heading into a second sort of drought: an agricultural knowledge drought.

However the decline in agricultural science in Australia in the past 25 years may be minor compared to the crash to come. Thanks to the drought, for every dollar that farmers can no longer contribute to R&D, the Commonwealth will take away a dollar also. Once the cash reserves of the main funding bodies, the R&D corporations are exhausted hundreds of agricultural scientists will lose their jobs and new recruits leave or be turned away. At precisely the moment in history when the world is running out of food, we will abandon one of the few scientific fields in which Australia can genuinely claim international leadership. This at a time when everyone else is leaving it also and the human race most needs it.

First it will make us food insecure (and subject to very high prices) at a time when the whole world is also insecure. Second, we will lose the economic benefit of having a substantial exportable food surplus. And third we will lack the scientific skills to help stabilise other neighbour countries' food production, leaving us with far more refugees and regional conflicts to deal with.

There is a national outcry over the shortage of doctors and some attempts to remedy it - but about the coming shortage of food which is potentially far more serious, there is silence. There is an outcry over the national shortage of geologists to create future mineral booms - but of the death of people who can unlock the nutritional wealth of this continent there is silence."

These comments are supported by the United Nations' (UN) Food and Agriculture Organisation records that the global cost of imported foods has risen by 21% in the past 12 months as the supply tightens, biofuel production increases and oil and freight charges rise. According to the UN the world's population in 2030 will reach 8.3 billion and the demand for food and fibre will be 60% higher than the current levels. That figure excludes increased demand from the non-food sector such as biofuels and carbon credits. Increased production will need to be achieved on less land. By 2020 available land worldwide is predicted to fall to around 0.2 Ha per person, less than half the 1960 levels.

3. The Specifics

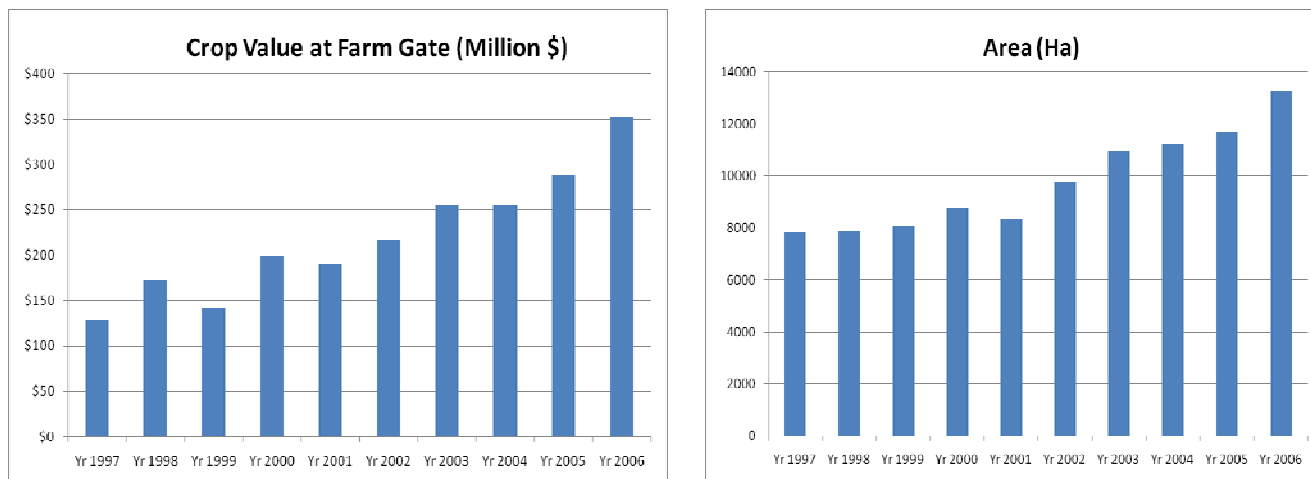
The ACCC discussion paper asks for the potential causes of food price rises and suggests two possibilities in terms of drought and transport costs. It also asks detailed questions applicable to certain sectors of the entire supply chain. BFVG has focused on providing comments that best reflect the circumstances that growers are experiencing in the supply of healthy nutritious fruits, vegetables, nuts and herbs.

Drought:

Horticulture growers are incredibly water efficient and make use of leading technologies and practices to maximise outputs with limited irrigation resources. The high dollar value per mega-litre of water used also lends itself to horticulture growers being able to purchase water from others at times of low supply. While BFVG cannot speak for all of Australia, we do not believe drought has had an impact on the supply of fresh horticulture produce from the Bundaberg area. In some cases it results in an increase in horticulture production as growers of other crops such as sugarcane will plant horticulture

crops during periods of low water supply due to better perceived returns for less available water inputs.

Horticulture in the Bundaberg region has expanded rapidly over the last decade reaching \$350 million of production grown on over 13,000 hectares in 2006. This expansion is illustrated in the below graphs and corresponds to one of the driest decades on record, including several years that recorded the some of the lowest regional rainfall amounts. The 2006 figures alone were produced on an announced allocation of less than 50% when the historical average is greater than 60%. It is worth noting that while overall industry value has increased this the result of increased production areas and cropping yields rather than any significant rises in unit prices.



Moreover there have been instance where growers in the Bundaberg region have had access to enough water but have not proceeded with harvests due to the low prices being received. They have left crops in the field while at the same time announcements have been made by major retailers that consumers should expect further increase in food prices due to the worsening drought. An example of an email from Sustainabundy, a local environmental group, highlights this and is reproduced as follows:

"To: SustainaBundy

Sent: Monday, November 26, 2007 9:28 PM

Subject: [sustainabundy] Re: Tomato Picking for Charity (and Us)!

*Who wants to pick some vine-ripened tomatoes this Wednesday morning? Keep some for yourself and family/friends and donate the rest to charity. Meals on Wheels make about 250 meals a day and use a lot of tomatoes, so are happy to take whatever we pick. The farm has 25 rows, each with more than 50 tomato plants. The tomatoes have been grown with bugs for bugs (natural biological control) and organic sprays. **The farmer stopped watering because his crop wasn't proving economically viable;** I spoke to him and he is happy to see the tomatoes go to a good cause and said whatever we can pick, we can have. Let's not let them go to waste- SustainaBundy troops unite!"*

Production Costs:

In the supply of fresh produce it is the norm for growers to pay all costs up to and including the delivery of produce to markets or retail distribution centres. Our growers have seen fuel levies applied to their transport charges from most transport companies. While these costs are difficult to manage transport companies are applying a standard business practice by simply taking an increased production cost and passing it on to their customers. Unfortunately growers do not have the same ability to pass these fuel cost increases onto their customers. As a result growers absorb the increases, they are not passed along the supply chain to the consumers. This is applicable to every input cost be they fertilisers, water, labour or machinery to name but a few.

Almost every stage in the horticulture supply chain has the luxury of applying costs plus margin to their sales price. Everyone except the grower. The market forces prevent this from being a possibility under the current structure of the market. Growers have experienced significant cost increases through input prices such as fertiliser, fuel and labour without an increased return for products. While other businesses with the horticulture supply chain have the ability to pass these rising costs along to their customers, growers are incapable of doing the same. This means that growers have in effect been acting to dampen inflation through the absorption of cost increases. Ultimately these result in reduced grower margins to the point where many in the industry believe they no longer have a future.

The high risk, high input nature of horticulture has in the past tended towards good returns, albeit in many instance depending on the failure of other growers. For example an unseasonal frost in Far North Queensland may cause temporary shortfalls in supply and if the demand is maintained then growers from other areas such as Bundaberg can continue to supply and may experience increases in return prices. However the concept of 'good seasons' to counter the bad are becoming less frequent. Growers have indicated that in the past making a sizable return once every couple of years was enough to justify poor returns or losses in the other years. However the decreased frequency of good years is making the interim periods much more difficult to manage. Depending on natural events and the misfortunes of other regions are not sustainable in the long term.

The current system where others in the supply chain are maintaining their profitability and sustainability at the expense of the profitability of growers is a very risky situation for the Nation. If the Federal Government wishes to maintain food security for the Australian people and not rely on imports of fresh horticulture products then every stage of the supply chain has to be profitable and sustainable. The entire system fails if one aspect of the chain disappears. Replacing domestically produced food through sourcing inputs from other countries is an option, but one that is a real risk to the food security and defence of Australia. Once growers exit the industry through decreasing margins and the inability to maintain returns, the industry and community is losing a vast skills and knowledge base that is not easily replaced.

One of the greatest concerns for growers is the lack of negotiation strength they have regarding the price of their product. As fresh horticulture crops are perishable goods there is very little opportunity for growers to seek better outcomes. The ability to 'hold out for a better deal' or to 'shop around' is non-existent. This is magnified by the strong relationships wholesalers can develop through working in close proximity to each other while growers are isolated by vast distances. Often growers are sending products great distances to markets where transparency is not always apparent. The inability to visually see and know what transactions occur leave many growers questioning how much their product is truly worth. Ensuring strong and transparent relationships between all within the supply chain is very important and an area that needs to be improved.

The lack of competition or options for direct retail selling also restricts the ability of growers to seek better outcomes. It is very much a 'take it or leave it' price negotiation process. Growers are price takers not setters and have very little capacity to negotiate from positions of strength. The exemption to the rule is where growers have positioned themselves as the preferred supplier either through volume, quality or niche marketing. In some very limited instances this has allowed growers to follow the business approach of others within the supply chain through effectively negotiating sale prices based on costs of production plus a margin.

4. Way forward

Horticulture is a supply and demand market and in recent years Australian domestic consumption appears to have been outstripped by supply. If specific commodities are over-supplied then the market forces can often reflect a price much less than the costs of production. This is resulting in stagnating farm gate prices coupled with rising costs of production. Increases in consumer pricing for products does not appear to be making its way back to the farm gate and is likely being absorbed at other levels within the supply chain. This is further compounded by imports which pose a significant threat to Australia's food security.

Significant investment has, and will continue to occur, into production research and development, marketing, supply chain efficiencies, economies of scale and numerous other areas which have the potential to further improve the efficiencies of production. However other production costs will continue to rise despite unlimited investment by Industry, Government and Commercial companies. Growers need to be compensated for these increasing costs of production, as others in the supply chain appear to be, if they are to remain profitable, a vital component of Australia's food security future, significant employers in regional communities and access support services and products which drivers the nation's economy. There are many outcomes that may result through system changes such as:

- a) Increased costs for consumers;
- b) The redistribution of current margins throughout the supply chain to minimise changes to consumer price;
- c) Streamlining of the supply chain to improve efficiencies, such as regional distribution focus to minimise costs, thereby minimising changes to consumer pricing;
- d) Expanding export markets to remove domestic market pressure thereby increasing farm gate price;
- e) Increased demand for products thereby altering the current supply demand balance resulting in increasing farm gate prices;
- f) Reducing the supply of products through the exiting of growers from the industry, a very difficult concept to accept given global food shortages and importance of healthy foods within every Australian's diet;
- g) Sourcing of products from overseas to minimise changes to consumer prices but with devastating impacts on Australia's food security, regional employment and regional economies.

5. Opportunity submit

BFVG welcomes the opportunity for our industry's concerns to be taken into considerations during the submission process. We believe that the slow etching away of the profitability of horticulture growers places Australia's food security in serious threat, specifically at a time when there are forecasted global food shortages in the very near future. We urge the ACCC to give close consideration to all stages of the supply chain to ensure each stage has the opportunity to be profitable and sustainable while maintaining affordable food prices. BFVG would welcome the opportunity for the ACCC to host a public session in the Bundaberg region. It is important to note that BFVG was disappointed at the short time frame provided to ensure a detailed submission was compiled. We hope that further details, data, information and case studies are still possible to be taken into consideration throughout the review process. Should further information or clarification be required please contact the BFVG Executive Officer office on (07) 4153 3007 or info@bfvg.com.au