



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL



AFGC SUBMISSION
ACCC Supermarkets Inquiry

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PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, beverage and grocery manufacturing sector.

With an annual turnover in the 2021-22 financial year of \$144 billion, Australia's food and grocery manufacturing sector makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

The diverse and sustainable industry is made up of over 17,000 businesses ranging from some of the largest globally significant multinational companies to small and medium enterprises. Each of these businesses contributed to an industry-wide \$3.2 billion capital investment in 2021-22.

Food, beverage and grocery manufacturing together forms Australia's largest manufacturing sector, representing over 32 per cent of total manufacturing turnover in Australia. The industry makes a large contribution to rural and regional Australia economies, with almost 40 per cent of its 271,000 employees being in rural and regional Australia.

It is essential to the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Throughout the COVID19 pandemic, the food and grocery manufacturing sector proved its essential contribution to Australian life. Over this time, while our supply chains were tested, they remain resilient but fragile.

The industry has a clear view, outlined in *Sustaining Australia: Food and Grocery Manufacturing 2030*, of its role in the post-COVID19 recovery through an expansion of domestic manufacturing, jobs growth, higher exports and enhancing the sovereign capability of the entire sector.

This submission has been prepared by the AFGC and reflects the collective views of the membership.

EXECUTIVE SUMMARY

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to contribute this submission to the ACCC Supermarkets Inquiry 2024-25.

As the peak body representing Australia's food and grocery suppliers, including domestic manufacturers and importers, the AFGC has a deep understanding and unique insights into the operations and commercial trading relationships of food and grocery suppliers and their supermarket (retailer) customers.

The AFGC recognises that there are several drivers for this inquiry, which centre on retailer and supply chain pricing and competition, and retailer treatment of suppliers. Our submission covers both areas, with a particular focus on the latter.

While the retail sector is competitive,¹ the concentrated nature of food and grocery retail markets in Australia has a significant bearing on the profitability of suppliers in Australia compared to other markets globally. Analysis contained in this submission shows that, contrary to the view of retailers, supplier profit margins and returns on invested capital – including for multinational operations in Australia – are below global peer equivalents. In contrast, profit margins for Australian supermarkets are above their global peers.

Given cost of living pressures, the attention of the public, politicians and the ACCC is understandably focused on the price of food and groceries as a component of overall inflation in the Australian economy. When considering the contribution that food and grocery supplier cost increases play in inflation, a number of factors need to be borne in mind over the last ten to fifteen years:

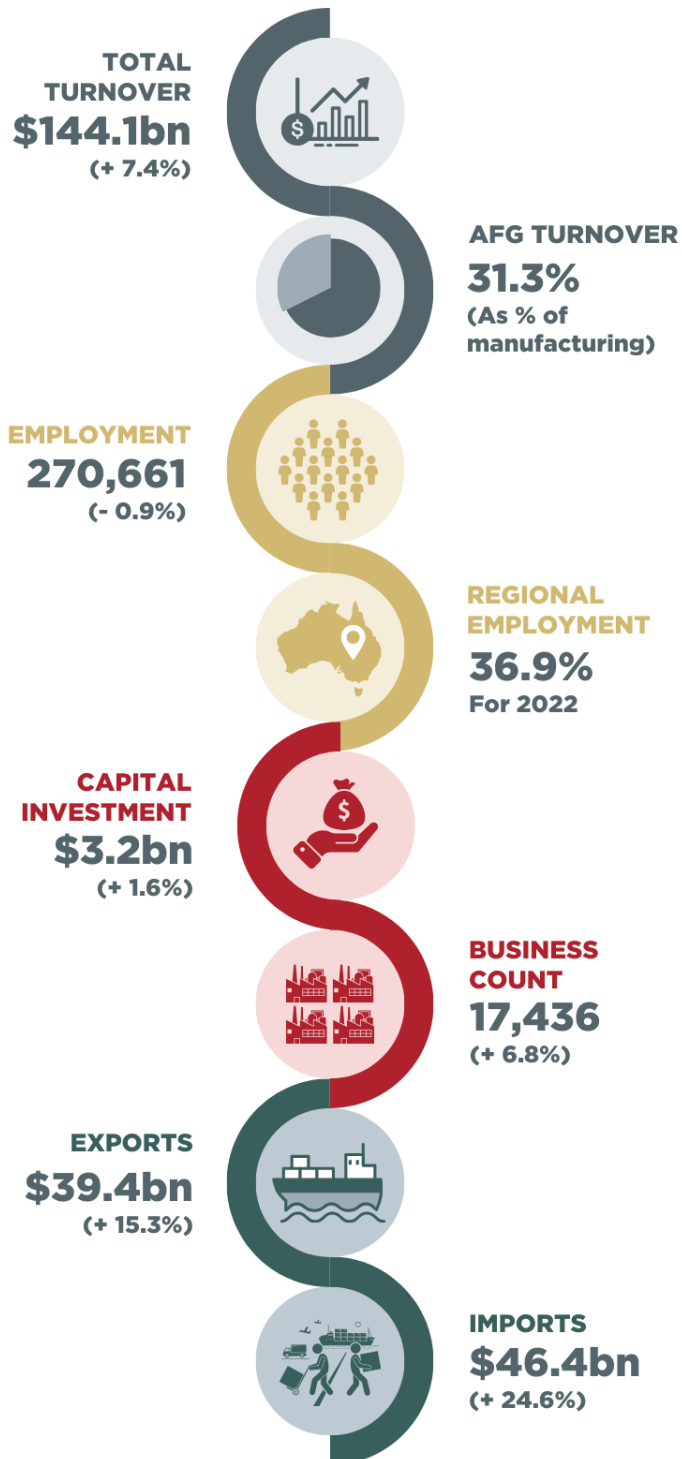
- Suppliers' price increases to retailers generally do not reflect the full extent of a supplier's cost increases. Historically, food and grocery suppliers absorb a higher proportion of costs compared to other manufacturing industries, which evidence shows pass through most cost increases over time.
- In the pre-COVID decade, suppliers' wholesale prices rose at only half the rate of their input costs, resulting in a fall in industry profitability from \$8 billion to \$5 billion and a stagnation in capital investment.
- In recent years, COVID saw significant supply chain disruptions. Coupled with adverse domestic and overseas weather events and geopolitical tensions, this resulted in significant increases in suppliers' input costs – including agricultural commodities, other ingredients, packaging, transport, warehousing and logistics, energy costs and more recently wages. These cost increases exacerbate underlying trends associated with additional sustainability and regulatory costs. This submission contains several data points that highlight the extent and breadth of cost increases.

¹ Here we distinguish between price *competition* between retailers, as opposed to a low number of *competitors* in the Australian market. For example, retail competition led to a low increase in food CPI of 1.6 per cent per year over the period 2011-2021. However, market concentration and resulting buyer power meant that suppliers essentially funded retail competition.

- Given the effect of the preceding period, suppliers were no longer able to absorb the level of costs coming through without risking the viability of their manufacturing operations and jobs. As a result, suppliers have sought to pass on a proportion of their cost increases, in many situations negotiating a price increase with the retailers for the first time in over a decade. As one supplier stated, “the fat was cut from suppliers and they were at risk of cutting into the bone”.
- In addition to supplier price increases, retailers have their own cost and profitability considerations. However, in some instances retailers have also sought to maintain or increase their profit margins, at a product level, at the same time.

State of Industry 2021-22

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The figures on this page exclude the fresh food sector and are based on 2021-22 ABS data.

1: This is total number of employees, head count basis and does not include seasonal employees.

2: Gross fixed capital formation for food, beverage and tobacco manufacturing subsector is taken as indicator of capital investment.