



FMA | FRESH MARKETS
AUSTRALIA

SUBMISSION TO ACCC Supermarkets Inquiry

The ACCC Supermarkets Inquiry Secretariat

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SUBMISSION TO
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TABLE OF CONTENTS

1. About Us1

2. Scope of Submission2

3. Grocery Retailing Competition Dynamics and Market Structure.....2

3.1. Case Study: Predatory Pricing in the Avocado Market2

3.2. The Central Market Supply Chain: The "Whole of Crop" Approach.....4

3.3. Trading Arrangements – in Grocery Supply Chain6

3.4. Margins and Price Transparency in Grocery Supply Chains6

3.5. Other Factors Impeding or Supporting Efficient Supply or Pricing6

4. Effectiveness of the Horticulture Code of Conduct6

4.1. Price Determination: Agreed Price or Formula-Based7

4.2. Regulatory Reporting: Grower Statements.....8

4.3. Supply and Demand Dynamics.....9

4.4. Mediation Adviser9

4.5. Impact of the Hort Code and Emerging Trading Environment.....10

5. Other10

5.1. Wholesalers: A Vital Link in the Fresh Produce Supply Chain10

5.2. Improving Price Transparency11

5.3. Consequences of Supermarket Rejected Produce12

5.4. Market Share – Independent Retail Sector12

5.5. FreshSpecs®14

6. Summation14



Fresh Markets Australia (FMA) welcomes the opportunity to participate in the *ACCC Supermarkets Inquiry*, to contribute to updating and improving the ACCC's understanding of the industry, as well as identifying areas of investigation for this Inquiry.

FMA advocates for a market environment where consumers have a better choice, and not compromised by predatory pricing practices.

1. About Us

FMA is the national industry body representing each of the five central market state industry bodies (Market Chambers), which themselves are organisations which represent fruit and vegetable wholesalers and supporting businesses in each of Australia's six central fresh fruit and vegetable wholesale Markets (Brisbane, Sydney, Melbourne, Adelaide, Perth, and Newcastle).

In confirming the role that Central Markets have in the horticulture industry in Australia, it is highlighted that they:

- are supplied by some 10,000 fruit and vegetable growers;
- have an estimated 13 million sales transactions take place annually;
- have an annual throughput volume of over 4 million tonnes, with a wholesale value now over \$8 billion annually on-sold by over 400 fruit and vegetable wholesalers;
- supply more than 21,000 food service businesses, and independent fruit and vegetable retailers¹ which rely on the Central Markets: and
- collectively employ over 17,000 people.

All fresh fruit and vegetable wholesalers' transactions with fruit and vegetable growers are regulated by *the Horticulture Code of Conduct* which is a mandatory industry code prescribed under the *Competition and Consumer Act 2010 (CCA)*. Wholesalers (acting as either a merchant or agent) receiving produce from a grower must comply with this mandatory Code.

The *Horticulture Code of Conduct* does not apply to:

- retailers – businesses buying produce for retail sale;
- exporters – businesses buying the produce for export; or
- processors – businesses buying the produce for processing.

Growers are afforded substantial protections under the provisions of this *Mandatory Horticulture Code of Conduct*.

The *Mandatory Horticulture Code of Conduct* imparts a compliance cost on fruit and vegetable wholesalers, thereby adding additional expenses to the fruit and vegetable supply chain, highlighting a significant compliance risk.

Many central market fruit and vegetable wholesalers are suppliers to supermarkets.

To gain a deeper understanding of Central Produce Markets, I encourage you watch the video "FMA Central Markets"²

¹ Independent Retailers are defined as: independent supermarkets and greengrocers/fruit and veg shops.

² "FMA Central Markets", 2022, <https://www.youtube.com/watch?v=eaWlqqJ5QXY>



2. Scope of Submission

This submission, presented by FMA, focuses on the fresh fruit and vegetable grocery sector, with an emphasis on the central market supply chain and the impact of the Horticulture Code of Conduct (Hort Code) on trading relationships between wholesalers and growers. Our objective is to illuminate the complexities within the supermarket sector, particularly through the lens of predatory pricing practices, as exemplified by our case study on the avocado market. This case study aims to highlight broader industry challenges, underscoring the impact of such pricing strategies on competition and market sustainability.

Key areas of focus within this submission include:

The Central Market Supply Chain - We explore the "whole of crop" principle and its relevance to competition, buyer power, sustainability, and efficiency in the central markets supply chain.

Trading Arrangements in the Grocery Supply Chain - We discuss trading terms and practices, the impact of buyer power, margins, and price transparency in grocery supply chains.

Effectiveness of the Horticulture Code of Conduct - We examine the impact of the Hort Code on price determination, regulatory reporting through grower statements, supply and demand dynamics, and the emerging trading environment since the Code's revision in 2017.

Other Considerations - We address topics such as improving price transparency, the consequences of supermarket rejected produce, and the market share of the independent retail sector.

FMA is committed to advocating for a fair and competitive market environment that protects the interests of all stakeholders, including consumers, growers, wholesalers, and Independent Retailers. Through our participation in this Inquiry, we aim to contribute valuable insights and advocate for policy measures that promote healthy competition and ensure the sustainability of the industry.

3. Grocery Retailing Competition Dynamics and Market Structure

3.1. Case Study: Predatory Pricing in the Avocado Market

Background

This case study explores the predatory pricing tactics of major supermarkets, focusing on the sale of top staple lines like avocados, berries, mushrooms, potatoes and the like. These products are often sold at no margin or even a negative margin by the large supermarket chains, frequently retailing for less than the wholesale cost. This strategy underscores the competitive pressures exerted on smaller market participants, revealing the challenges they face in maintaining profitability and sustainability in a market dominated by a few large players. The case of size 20 avocados in the Australian market, sold at a 'special' price by major supermarkets, serves as a vivid example of such predatory pricing tactics. FMA emphasizes the importance of ensuring that consumers have a better choice in terms of product variety and pricing.

In the week commencing 18 March 2024, a recurring intrigue was observed in the Australian avocado market, presenting a clear example of predatory pricing tactics employed by large supermarket chains. This case study examines the pricing strategy for size



20 avocados (i.e., 20 avocados in a tray), which were retailed by major supermarkets at \$1.50 each—a price point that significantly undercuts Independent Retailers and raises concerns about sustainable competition in the grocery sector.

Market Dynamics

Retail Price - Large supermarket chains set a 'special' retail price of \$1.50 for size 20 avocados. While avocados may be sold at cost or a loss, the supermarkets offset this by making profits on other items – often to the detriment of that supplier/grower.

Wholesale Cost - The amount returned to the grower (paid by a wholesaler) for the same size avocado was \$1.50.

Wholesaler Margin - To maintain business sustainability, wholesaler adds a margin, raising the cost for Independent Retailers to \$1.70 per avocado for the same avocado.

Independent Retailer's Challenge - Given the need for a sustainable business model, Independent Retailers found it impossible to compete with the supermarket's \$1.50 special. They were forced to look for differentiation strategies, such as offering different sizes of avocados (size 16 as a premium and size 28 to match the supermarket price point).

Strategic Placement by Supermarkets

Large Supermarkets leveraged strategic product placement, situating avocados at the forefront of their fruit and vegetable departments—right at the store's entry. This positioning not only highlights the product's affordability but also serves to attract customers into the store, potentially increasing overall sales volume across various product categories.

Analysis

This scenario illustrates a classic example of predatory pricing, where large supermarkets exploit their dominant market position to set prices at or below cost. The intent behind such a strategy can be to eliminate or significantly weaken competitors—namely, the Independent Retailers who cannot afford to sell at such low prices due to their smaller scale and higher operational costs.

Implications for Independent Retailers

Independent Retailers, faced with an inability to compete on price for size 20 avocados, must adopt differentiation strategies to sustain their businesses. Offering premium products (such as size 16 avocados) or competing products at a comparable price point (like size 28 avocados) are viable strategies. However, these alternatives may not fully compensate for the loss of competitiveness in a key product category.

Extension

This case study extends to a week earlier when the wholesaler incurred a \$20,000 loss to supply a regular independent supermarket customer for a promotion to match major supermarkets' prices, selling avocados below the cost paid to the grower by the wholesaler. This situation highlights the additional financial strains and market distortions created by predatory pricing, underscoring the precarious balance Independent Retailers and their suppliers must navigate to compete with major chains.



Transparency in Action

In an effort to provide transparency and concrete evidence of the financial strains caused by predatory pricing tactics, the wholesaler at the center of this case study has committed to opening their books confidentially to the ACCC. This unprecedented move will highlight the real economic impact of selling avocados below the cost price to match supermarket promotions, including the detailed account of a \$20,000 loss incurred in a single week. Through this action, the wholesaler aims to highlight the unsustainable pressures placed on Independent Retailers and suppliers within the grocery sector, underscoring the need for fair trading practices and regulatory oversight to protect the market's diversity and health.

Conclusion

The predatory pricing of avocados by large supermarkets, as illustrated in this case study, not only undermines the competitiveness of Independent Retailers but also poses long-term risks to the diversity and health of the fruit and vegetable market. While consumers may benefit from lower prices in the short term, the potential exit of Independent Retailers from the market could lead to less variety and higher prices in the future. This case underlines the need for regulatory oversight to ensure fair trading practices and to protect the interests of both consumers and small businesses in the grocery sector. The broader economic implications stress the urgent need for price settings and regulatory frameworks that ensure a fair and competitive market, safeguarding the interests of growers, wholesalers, and Independent Retailers alike. FMA's emphasis on consumer choice reinforces the importance of maintaining a diverse and competitive market to ensure that consumers have access to a wide range of products at fair prices.

3.2. The Central Market Supply Chain: The "Whole of Crop" Approach

Background

Central market wholesalers adopt a "whole of crop" approach when engaging with growers, emphasising a comprehensive and inclusive strategy that encompasses the entirety of the produce harvested. By taking this approach, wholesalers demonstrate a commitment to supporting growers throughout the entire lifecycle of their crops, from planting to harvesting and beyond. This entails collaborating closely with growers to understand their cultivation practices, crop yields, and quality standards. Additionally, wholesalers actively seek to utilise the entirety of each crop, minimising waste, and maximising efficiency. This approach fosters a mutually beneficial partnership between wholesalers and growers, ensuring that all produce is effectively marketed and distributed to meet consumer demand. Moreover, by embracing a "whole of crop" philosophy, wholesalers contribute to sustainable agricultural practices and promote economic resilience within the supply chain.

A Point of Difference

The central market system's "whole of crop" approach is a testament to a business model that prioritises:

Sustainability - By ensuring that every part of the harvest reaches the market, central markets significantly reduce waste and support environmentally friendly practices.



Fairness - This approach guarantees that growers receive compensation for their entire harvest, not just the select portions deemed 'marketable' by large supermarket standards. It stands in contrast to the practices of large supermarkets, where growers may be pressured into selling premium produce at or below cost.

Diversity and Choice - Central markets offer consumers access to a broader range of produce, including items that do not meet the stringent cosmetic standards of supermarkets but are equally nutritious and flavourful. This diversity enriches consumer choice and supports a more inclusive understanding of food value.

Advocacy for Recognition and Support

Given the "whole of crop" approach's unique benefits, our advocacy focuses on securing recognition and support for the central market system as a cornerstone of a healthy, diverse, and sustainable grocery sector. Regulatory frameworks and policies should be designed to bolster this system, recognising its distinct role and potential in:

Balancing Market Dynamics - By championing practices that diverge from those of large supermarkets, central markets inject healthy competition into the grocery sector, offering alternatives that align with sustainability and fairness.

Enhancing Food Security - The resilience of the food supply chain is strengthened through practices that minimise waste and promote the utilisation of the entire harvest.

Empowering Consumers and Growers - Ensuring that growers are compensated and that consumers have access to a wider variety of produce supports the well-being of the community at large.

Upholding the Central Market's Unique Role

The central market supply chain's adoption of the "whole of crop" principle represents a foundational ethos that values diversity, sustainability, and fairness. This ethos sets central markets apart. By emphasising this approach, we highlight the necessity for a grocery sector that not only meets the immediate needs of consumers but does so in a way that is equitable for growers and sustainable for our planet. It is a call to action for regulatory and policy support that recognises and nurtures the unique contributions of central markets to our food system.

Competition in Grocery Supply Chains

The competitive landscape within grocery supply chains is marked by significant disparities, particularly impacting Independent Retailers who purchase their stock from central markets wholesalers. In stark contrast, large supermarket chains often engage in practices where they secure produce directly from growers at cost or even below cost for promotional purposes. This practice places Independent Retailers at a competitive disadvantage and highlights the pressures on growers, who find themselves caught between the need to sell their produce and striving for fair compensation.



3.3. Trading Arrangements – in Grocery Supply Chain

Trading Terms and Practices

The trading terms between large supermarkets and growers typically can involve agreements where growers are effectively subsidising supermarket promotions by providing produce at extremely low prices, as illustrated in the avocado case study. This situation undermines the financial sustainability of smaller retailers, who cannot match these prices due to their reliance on wholesalers for their supply. Contrary to this, the 'whole of crop' approach in central markets supports a more equitable return for growers, emphasising the sustainability and fairness lacking in supermarket practices.

The Impact of Buyer Power

Large supermarkets' considerable buyer power allows them to dictate terms that are potentially unfavourable to fruit and vegetable growers, leading to market distortions that disadvantage Independent Retailers. This power imbalance necessitates a re-evaluation of regulatory oversight to ensure fair trading practices that support the entire supply chain, from growers to end consumers, including the vital role played by central markets wholesalers in providing diverse and competitive market options.

3.4. Margins and Price Transparency in Grocery Supply Chains

The large supermarkets' strategy of buying produce from growers at cost or below cost for promotional purposes necessitates greater transparency and fairness in the pricing and margins within the supply chain. Ensuring that growers receive compensation that accurately reflects the value of their produce is crucial for the supply chain's health and sustainability.

3.5. Other Factors Impeding or Supporting Efficient Supply or Pricing

Targeted regulatory interventions are required to address the imbalances within grocery supply chains, ensuring equitable treatment for Independent Retailers and fair compensation for growers. Such measures should aim to create a balanced promotional landscape, safeguard growers from the undue financial pressures of supermarket pricing strategies and enhance the competitiveness of Independent Retailers. Upholding practices that foster fairness, such as the 'whole of crop' approach, strengthens the grocery sector's efficiency, diversity, and resilience, leading to improved consumer choice and fair prices that truly reflect the growers' labour and the critical role of Independent Retailers.

4. Effectiveness of the Horticulture Code of Conduct

Background

Since its revision in 2017, the Horticulture Code of Conduct (Hort Code) has marked a significant shift towards establishing a more transparent and equitable trading environment between growers and wholesalers. This commentary will focus on the period from the Code's reset to the present, particularly highlighting the experiences of central market wholesalers, as represented by FMA. The Australian Competition and Consumer Commission (ACCC) has been proactive in enforcing compliance with the Hort Code, engaging in numerous rounds of compliance activities. It is noteworthy that central market wholesalers,



particularly those affiliated with the FMA, have demonstrated a commendable improvement in compliance levels. This is evidenced by the fact that most recent infringements issued were not attributed to members of the FMA cohort.

The Hort Code has been pivotal in introducing frameworks to enhance fairness, clarity, and transparency in the relationships between growers and wholesalers (traders). While its intentions are geared towards improving the overall dynamics of these interactions, it simultaneously introduced a series of regulatory challenges. Wholesalers, in navigating these complexities, play a crucial role in upholding compliant and sustainable trading relationships with growers, which in turn, contributes positively to this supply chain by instilling a culture of fair-trading practices.

An important aspect of this supply chain that the Hort Code touches, is the decades-long and generational relationships that form the cornerstone of a significant number of wholesaler-grower partnerships. These enduring relationships, built on trust and mutual respect, have been fundamental in creating a stable trading environment, where both parties have a deep understanding of each other's business needs and practices.

The introduction of the Hort Code has provided a formal structure to these longstanding relationships, ensuring that they are underpinned by clear and transparent agreements. The Code's emphasis on formal, written trading agreements, which outline terms of trade including price determination, quality specifications, delivery requirements, and payment processes, aims to reduce misunderstandings and disputes. This formalisation does not diminish the value of the historical ties between wholesalers and growers but rather enhances them by providing a clear framework within which these relationships can continue to thrive.

4.1. Price Determination: Agreed Price or Formula-Based

In the evolving landscape of this supply chain, it's noteworthy that the adoption of agreed pricing models between central market wholesalers and growers has seen a significant uptick. Current observations suggest that over 60% of all transactions in this domain now operate on an agreed price basis. This shift is indicative of a broader move towards enhancing predictability, stability, and clarity in trading relationships. Moreover, there are reports from some wholesalers within the sector affirming that all their transactions with growers adhere to this agreed price model.

It's important to note, however, that the formula method for price determination continues to hold its advantages and remains a viable option for many within the industry. This approach, which typically involves setting prices based on the gross sales price less a margin, offers flexibility and can align the incentives of both growers and wholesalers towards maximising market returns. It also allows for a shared risk model, where both parties' returns are subject to market conditions, encouraging collaboration and adaptation to market dynamics.

The move towards agreed pricing, while significant, does not diminish the value of the formula method. Both pricing strategies have their merits and can be employed effectively depending on the specific needs and circumstances of the trading partners. The growing commitment to transparency and fairness in the marketplace reflects a proactive adaptation to the principles enshrined in the Hort Code. The sector's dedication to cultivating equitable and sustainable trading practices is exemplified by



the thoughtful consideration and use of both agreed price and formula-based pricing methods. The flexibility in price determination methods—carries nuanced implications:

Predictability vs. Risk Sharing

Agreed prices offer growers predictability and easier financial planning but place the risk of market fluctuations on wholesalers. This approach can also provide current price certainty, as prices can be determined close to the delivery time, enhancing predictability and stability in trading relationships. Formula-based pricing introduces a shared risk, depending on market conditions, which requires a high degree of trust and transparency between parties.

Incentive Alignment

Formula-based pricing can align the incentives of growers and wholesalers, as both benefit from maximising the sales price. However, this depends on the fairness of the determined margin (which is documented in the HPA and is subject to acceptance by the grower) and the wholesaler's market effectiveness.

Complexity and Understanding

The complexity of formula-based pricing necessitates clear mutual understanding and trust, highlighting the importance of transparent communication to avoid disputes.

4.2. Regulatory Reporting: Grower Statements

In the realm of regulatory reporting under the Hort Code, the requirement for wholesalers to provide detailed grower statements on the outcomes of trades, including price determination, serves several crucial functions:

Transparency and Accountability

These statements enhance transaction transparency, offering growers concrete data to verify fair compensation and fostering accountability in wholesalers.

Record-Keeping and Dispute Resolution

Serving as official records, grower statements are invaluable for resolving disputes, simplifying the process by providing clear transaction details.

Business Insights

Beyond compliance, these statements offer growers insights into how various factors affect their returns, informing better business decisions.

Overcoming IT System Barriers

While there is an increasing focus among wholesalers to comply with the Hort Code's requirements, a notable barrier is the limitation of IT systems that are not equipped to provide compliant reporting. The modernisation of IT systems is a crucial step in



ensuring that wholesalers can meet the regulatory requirements while also providing growers with the information they need for transparency, dispute resolution, and business insights, however the cost is a significant barrier, though as the sector continues to evolve, the adoption of advanced IT solutions may play a pivotal role in facilitating compliance and enhancing the overall effectiveness of regulatory reporting.

4.3. Supply and Demand Dynamics

The supply and demand dynamics overlaying price determination play a crucial role in shaping trading relationships. Fluctuations in supply and demand can significantly impact the agreed price or the gross sales price used in formula-based pricing. For instance, a surplus in supply may lead to lower prices, affecting the returns for both growers and wholesalers. Conversely, high demand can drive prices up, benefiting both parties. Understanding these dynamics is essential for effective price determination and ensuring fair compensation.

4.4. Mediation Adviser

Under Clause 39 of the Horticulture Code of Conduct, the Minister administering the Horticulture Marketing and Research and Development Services Act 2000 is responsible for appointing a mediation adviser. The Minister for Agriculture, Fisheries and Forestry has appointed the Deputy Secretary as the mediation adviser. This role is crucial for guiding parties through the mediation process, offering a less formal and more cost-effective alternative to legal proceedings for resolving disputes within the horticulture sector.

However, there appears to be a significant lack of transparency regarding the number of disputes, the nature of these disputes, and the frequency of referrals to mediators. Despite thorough searches, no reports or data have been found on this matter. The Australian Competition and Consumer Commission (ACCC) website ³, *“the mediation adviser or the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) can refer parties to trained mediators with commercial experience in locations across Australia”*. This highlights the collaborative efforts to support small businesses in the horticulture sector for transactions regulated under the Hort Code, but also underscores the need for greater transparency in the dispute resolution process.

Enhancing transparency and understanding of this process is essential for maintaining a fair and effective system. It would not only benefit individual growers and traders but also contribute to the overall health and sustainability of the horticulture sector in Australia. Providing more detailed information on the disputes and the mediation process can help stakeholders gain a better understanding of common issues faced by parties and the effectiveness of mediation in resolving these issues.

³ <https://www.accc.gov.au/business/industry-codes/horticulture-code-of-conduct/dispute-resolution-under-the-horticulture-code>, April 2024



4.5. Impact of the Hort Code and Emerging Trading Environment

The introduction of these regulatory measures has also presented challenges, such as the additional administrative burdens and the need for all market participants to adapt to new practices and compliance requirements. Despite these challenges, the evolving trading environment under the Hort Code promises a more balanced and equitable market. This is crucial for ensuring the long-term sustainability of trading relationships between growers and wholesalers, promoting a stable, fair, and transparent market landscape.

By emphasising mechanisms like price determination methods and grower statements, the Hort Code aims to foster a culture of fairness and transparency that benefits the entire horticulture sector. These developments underscore the necessity of ongoing education (as delivered by FMA and its state bodies), support, and adaptation to maximise the positive impacts of regulatory measures on growers, ensuring successful navigation of the evolving trading landscape.

5. Other

5.1. Wholesalers: A Vital Link in the Fresh Produce Supply Chain

Wholesalers in the fresh produce supply chain are indispensable architects of efficiency, serving as the backbone that seamlessly bridges the gap between growers and end consumers. Their multi-dimensional contributions are pivotal in streamlining the journey of produce from farm to fork, ensuring that the distribution is not only effective but also maintains the highest standards of quality. Here is an overview of the integral roles they play:

Market Access - Wholesalers serve as a vital link between growers and a diverse range of markets, including regional, national, and international markets. They enable growers to expand their reach beyond local markets, tapping into new opportunities and increasing their potential customer base.

Volume Handling - Wholesalers are equipped to handle large volumes of produce, providing growers with the ability to sell in bulk. This capacity for volume handling is particularly beneficial for growers who produce significant quantities of produce and need a reliable channel for distribution.

Logistical Support - Wholesalers often take on the responsibility of managing the logistics involved in the supply chain, including transportation, storage, and distribution of produce. This logistical support reduces the burden on growers, allowing them to focus on their core activities of cultivation and production.

Risk Management - By purchasing produce in advance or securing contracts with customers, wholesalers can absorb some of the market risks associated with fluctuations in demand and prices. This provides growers with a degree of financial stability and predictability in their operations.

Market Knowledge - Wholesalers possess valuable knowledge of market trends and demands, which they can share with growers. This insight can inform growers about which products are in demand, optimal harvest times, and effective pricing strategies, helping them to maximise their returns.



Financial Services - Some wholesalers offer financial services to growers, such as credit facilities or advance payments. These services can aid growers in managing their cash flow and financing their operations, ensuring that they have the necessary resources to continue production.

Aggregation - Wholesalers can aggregate produce from multiple growers to meet large orders from buyers. This aggregation benefits small-scale farmers who may not have the capacity to fulfill big orders on their own, providing them with access to larger markets and customers.

Quality Control - Wholesalers often oversee quality control processes, ensuring that the products meet the standards and specifications required by end buyers. This quality assurance is crucial for maintaining the reputation and reliability of the supply chain.

Marketing and Promotion - Wholesalers may undertake marketing and promotional activities to raise awareness and demand for the produce. These efforts can be especially valuable for individual growers who might lack the resources or expertise to market their produce effectively.

Networking - Wholesalers act as a hub for networking within the industry, connecting growers with buyers, suppliers, and other industry contacts. These connections can lead to new business opportunities and collaborations that benefit all parties involved.

Feedback Loop - Wholesalers serve as an intermediary between growers and end buyers, providing a channel for feedback on product quality, buyer preferences, and areas for improvement. This feedback loop is essential for continuous improvement and adaptation to market needs.

Wholesalers add significant value to the fresh produce supply chain by facilitating market access, providing logistical support, managing risks, offering financial services, and more. Their role is integral to the success and sustainability of the supply chain, ensuring that growers can efficiently and effectively bring their products to market.

5.2. Improving Price Transparency

In late 2020, the Australian Competition and Consumer Commission (ACCC) conducted an inquiry into bargaining power imbalances in supply chains for perishable agricultural goods (PAG) in Australia. The subsequent Perishable Agricultural Goods Inquiry Report⁴ recommended that the government and industries explore measures to foster price transparency to increase competition in those industries.

In response to this recommendation, the Australian Government committed funding to improve price and market transparency in PAG. FMA was subsequently awarded a grant for a project - *Creating FreshData – a verifiable market price reporting scheme that collects, processes, stores, manages, analyses, visualises and interprets (wholesale) market sales price and produce*

⁴ <https://www.accc.gov.au/about-us/publications/perishable-agricultural-goods-inquiry-report>



provenance. The project, due for completion June 2025, aims to provide growers the ability to gauge whether prices received are competitive market prices and to deliver price signals to interpret if there is an under or over supply of produce. It envisages FreshData will provide growers with information to calibrate their investments in future supply capacity. The insights from FreshData are not intended to determine the actual price received by a wholesaler rather a range achieved on any given day.

Access to comprehensive data on supermarket purchase prices, net of payment arrangement reductions such as rebates, discounts, and early payment arrangements, is crucial for understanding pricing dynamics. This information should be thoroughly addressed in reporting to enable growers and other suppliers to assess the competitiveness of the prices they receive within their supply chain. Failure to account for these pricing dynamics may lead to inflated prices, making comparisons unreliable. This transparency would foster fair competition within the direct supply chain.

FMA offers to extend the FreshData project (with appropriate funding) to show supermarket purchase prices paid to fruit and vegetable suppliers, net of payment arrangement reductions such as rebates, discounts, early payment arrangements and the like to be deidentified, aggregated and displayed with the aim to provide growers/suppliers the ability to gauge whether prices received from supermarkets are competitive prices within their supply chain.

NOTE: more information available on request.

5.3. Consequences of Supermarket Rejected Produce

Supermarkets are known to reject produce for various reasons, including surplus to requirements. The subjective assessment of produce often leads to the 'redirecting' of rejected produce onto the central market supply chain which can wreak havoc on multiple industry stakeholders. This practice disrupts the delicate balance between supply and demand, precipitating market inefficiencies and tumultuous price fluctuations. The inundation of rejected produce floods the market with excess goods, potentially creating a surplus that drives prices down. Such actions not only harm the profitability of growers who rely on the central market supply chain⁵ but also disrupt the equilibrium of the entire market. Furthermore, the deluge of rejected produce distorts market signals, misleading buyers and causing resource misallocation. This reckless behaviour intensifies supply-demand imbalances, fuelling market instability and economic inefficiency. Such practices must be vigorously opposed to safeguard the integrity and stability of the market.

5.4. Market Share – Independent Retail Sector

While the horticulture sector has grown in volume and value, the market share of independent fruit and vegetable stores (greengrocers) have been declining in the retail sector relevant to the large supermarkets.

The decline in market share of independent fruit and vegetable stores can be attributed to several factors. Firstly, major supermarkets have expanded their presence and convenience, offering a one-stop shopping experience for consumers.

⁵ <https://www.accc.gov.au/about-us/publications/perishable-agricultural-goods-inquiry-report>



Secondly, major supermarkets have significant buying power and can afford to be hyper competitive which can be challenging for independent stores to compete on price while maintaining profitability.

Additionally, major supermarkets invest heavily in marketing and advertising, which helps them attract customers and build brand loyalty. Independent stores often have limited resources for marketing and promotion, making it difficult for them to reach and retain customers.

Maintaining the sustainability of the independent retailer sector is paramount to ensuring its resilience and vitality, with the imperative of preventing any erosion of market share, and ideally, fostering its growth. This approach not only cultivates a competitive market environment that benefits consumers but also provides vital support and opportunities for growers/suppliers.

The "A Better Choice!"⁶ marketing and advertising program, launched by the Central Markets in 2017, serves as a strategic initiative aimed at bolstering the efforts of independent fruit and vegetable business owners throughout Australia, who are integral parts of the central market supply chain. This program not only serves as a conduit for enhancing consumer awareness but also fosters a collaborative platform wherein consumers actively contribute to the sustainability and prosperity of business owners, central market wholesalers and the growers who supply them. Despite operating within a modest budget, significantly smaller in comparison to the marketing expenditures of major supermarket chains, the program has demonstrated notable success, showcasing its efficacy in amplifying the visibility and competitiveness of Independent Retailers in the marketplace.

A substantial government investment has the power to revolutionise the market share of independent fruit and vegetable retailers, ensuring their competitiveness against major supermarkets. Through dedicated financial support, these retailers can thrive, contributing to market diversity, community prosperity, and sustainable supply chains. This investment opportunity is pivotal in catalysing enduring change and securing a vibrant future for Independent Retailers nationwide.

FMA is of the view that the Government needs to prioritise the establishment of a competitive fruit and vegetable sector, with a focus on maintaining or growing the market share of independent fruit and vegetable retailers which involves:

- Investment in Marketing and Advertising
- Influencing or Mandating Horticulture Research and Development
- Investment in Business Education
- Development of Employment Pathways

Overall, these initiatives are crucial for ensuring the long-term viability and competitiveness of independent fruit and vegetable retailers, contributing to a diverse and resilient marketplace that benefits both consumers and stakeholders across the supply chain.

⁶ <https://www.abetterchoice.com.au/>



5.5. FreshSpecs®

FreshSpecs® is a comprehensive produce specification system introduced by FMA in 2006. It was developed in response to the need for standardised produce specifications to support wholesalers with the introduction of the original Horticulture Code of Conduct. FreshSpecs® provides detailed guidelines covering general appearance criteria, major defects, minor defects, and consignment criteria for fresh produce. This system has been recognised by the government as the default produce specification in the 2017 Horticulture Code of Conduct, ensuring its widespread adoption and adherence within the industry.

In contrast, large supermarkets have their own individual specifications and retailer requirements, which vary from one chain to another.

As a not-for-profit organisation dedicated to the advancement of the fresh produce industry, FMA recognises the importance of continuous improvement and innovation in its operations. With this in mind, FMA is embarking on an ambitious project to review and expand its FreshSpecs® system over the 1-2 years. This initiative aims to integrate digital technologies into the FreshSpecs® framework, enhancing its accessibility, efficiency, and adaptability to the ever-changing market dynamics.

Understanding the financial constraints that come with its not-for-profit status, FMA plans to actively seek funding for this significant endeavour. The organisation will explore various funding avenues, including government grants, partnerships with technology firms, and support from industry stakeholders who stand to benefit from the improved FreshSpecs® system. By securing the necessary funding, FMA aims to ensure that this project not only comes to fruition but also achieves its goal of providing a state-of-the-art specification system that meets the industry's current and future needs.

The envisioned digital transformation of FreshSpecs® will offer a plethora of benefits to wholesalers, growers, and other stakeholders within the fresh produce supply chain. Features like an online specification database and mobile access would make the system more user-friendly and adaptable. Additionally, the integration of digital technologies is expected to facilitate better compliance with quality standards, enhance product traceability, and ultimately, support the delivery of fresher, higher-quality produce to consumers.

FMA's proactive approach to leveraging digital technologies for the FreshSpecs® review and expansion project demonstrates its commitment to innovation and its role in fostering a sustainable and prosperous fresh produce industry. By seeking funding and support for this project, FMA aims to create a collaborative platform that benefits all participants in the supply chain, from farm to fork.

6. Summation

FMA has provided an analysis of the challenges and dynamics within the fresh fruit and vegetable grocery sector, particularly emphasising the central market supply chain's role and the impact of the Horticulture Code of Conduct on trading relationships. The submission highlights the predatory pricing practices of major supermarkets, the importance of the "whole of crop" approach for sustainability and fairness, and the need for improved regulatory oversight to ensure a balanced and competitive market.



FMA's case study on avocado pricing illustrates the detrimental effects of predatory pricing on Independent Retailers, growers, and wholesalers urging for regulatory measures to protect market diversity and sustainability. The submission also advocates for greater price transparency, fair trading practices, and support for the independent retail sector to maintain its market share and contribute to a diverse and resilient marketplace.

Overall, FMA's submission calls for a re-evaluation of current practices and regulations to ensure a fair, competitive, and sustainable grocery sector that benefits consumers, growers, wholesalers, and independent retailers. By addressing the highlighted issues and implementing the suggested measures, the industry can move towards a more equitable and thriving future for all stakeholders involved.



FMA State Bodies



The Queensland Chamber of Fruit & Vegetable
Industries Co-operative Limited



NSW Chamber of Fresh Produce Limited



Fresh State Limited



Chamber of Fruit and Vegetable Industries in Western
Australia Inc.



South Australian Chamber of Fruit & Vegetable
Industries Inc.