

17th September 2020

Fruit Growers Victoria (FGV) ACCC Perishable agricultural goods inquiry Submission

Introduction

Thank you for the opportunity to submit our views on the above inquiry.

Fruit Growers Victoria Ltd (FGV) is a grower member-based organisation representing the interests of Victorian fruit growers, which includes 300 fruit growing, packing and exporting businesses across the state.

Production from our members encompasses 50% of Australia's apples, 70% of Australia's stone fruit and 90% of Australia's pears. Our industry has a gross value of production more than \$1 billion and is a cornerstone for business and employment in regional Victoria.

Fruit Growers Victoria would like to detail our submission to what we see as the main causes of below cost of production prices in some seasons and a way forward to avoid repeat poor price seasons.

The Tender process

Our larger fruit packers supply only 3 major retailers and most suppliers are sole vendors to one or two retailers and a very large portion of their business relies on the business between themselves and their supermarket.

Some supermarket retailers have a tender process on box pricing which pits one supplier against another on whether they get orders for produce or not. If suppliers are in oversupply of a perishable item that they cannot hold then they will continue to supply even though the price is not profitable to their own business.

Whilst this tender process appears to be a competitive process there are other dynamics that force suppliers to take prices that at many times are not able to even meet the basic cost of production:

1. The perishable nature of the product. This is particularly an issue for stone-fruit. It has limited shelf-life and so product must move through the system.
2. Supermarkets have all the information, and often communicate to suppliers that this is the current price that “everyone” is supplying at. Suppliers have no way of judging that information.
3. Fear of being given less orders as “punishment” for not supplying at a lower than production cost price. Suppliers are often in the unenviable position of knowing that if they don't follow the suggested price they may have to “sit out” and only are allowed in if they price discount. Suppliers are sometimes fearful that they will lose market share if they don't tender prices to the low levels that this process creates *‘a race to the bottom’*.
4. Use of the “rejection” process to manage supply. Often fruit that is sound and has been submitted and accepted on prior days will be arbitrarily rejected. All cost is borne by the supplier.

Corporate Policy and Supermarket competition

Corporate policy and profit margins can sometimes have devastating effects on the supply chain. In the fruit industry, growers cannot pass on extra costs of production to price compared to other commodities that supply supermarkets. Our costs are fixed, our wages are externally set and our business input costs are not negotiable. Often our industry is criticised for trying to use below award wages. Whilst this is against our legal requirements, often the cost pressure placed on the industry by arbitrary conditions imposed by retailers places huge pressure on growers to make ends meet. Often the price a grower receives for his product is below the cost of production. Retailers would be aware that what they are paying is not enough to fairly pay workers in the field, yet they will not recognize this by paying a minimum that an average grower could fairly reward his workers.

Retailers have become the gatekeepers for all fruit and vegetable products. Often at a whim some product lines are discontinued. Decades in some cases of investment in production is now squandered only for the product lines to be taken up in later years as a new retail manager has either a shortage or now likes the variety.

The policy within retailers of matching or bettering their opposition ticket prices forces prices down in a similar process to the tender process stated earlier. This can often be one specific growers' fruit then competing against his own fruit at a different retailer.

There are pressures on staff within large corporate organisations to increase profit margins and then gain market share from their competitors, with no thought to what impact the low prices will have on grower livelihoods.

Supply & Demand

FGV acknowledges that supply and demand can be the main driver of price and supermarkets can sometimes be unfairly blamed for low prices. In some seasons it is the market environment and supplier's willingness to supply that ultimately impacts pricing. Growers are in the supply and demand game. Usually this should produce an evening out of price where competition drives the best outcomes for consumers. In the fresh fruit and vegetable game dominant retailers are using the perishability of product to distort this dynamic and the outcomes are poor grower profitability coupled to a mismatch between the long term investment of a grower into product that sometimes take decades to "bear fruit" and the short term view of a retailer.

It is this situation that both industry, suppliers and retailers need to work together to prevent low prices from damaging the whole industry and sending growers into a terminally unprofitable position.

Suppliers and retailers commonly work to a plan for a produce season and need to communicate more honestly with industry and retailers so to ensure consistent and fair priced supply.

Improving relationships & Sustainability

All supermarket suppliers have a strong relationship with the retailers and see retailers as partners and their primary route to consumers. Over 70% of Australia's apples and pears are sold via the major retailers. It is therefore essential industry and supply chains work together. The discussion needs to be commercial with a view to growth and not a combative one.

Sustainability must drive the industry. Given publicity around the use of farm labor we must put growers in a position where that can meet legal obligation for fair pay and be resourced sufficiently to grow a quality item that consumers will enjoy.

Responsible Pricing

To maintain responsible sourcing, retailers need to maintain responsible pricing. The thought process within buyers and produce category managers needs to always consider the grower at farm gate and if the price that a supplier accepts may impact the grower that supplies a packer or marketer of his/her produce.

The way forward

- Growers would like the supermarket corporates to think more about community and the impacts of low prices to farmers trying to make a living.
- Growers would like to educate retailers that low points in price do not always drive more purchasing volume as consumers see cheap produce as defective.
- Industry and retailers can work collectively to be proactive in assisting growers in seasons of oversupply with increased promotion without dumping prices.
- Australian farmers need a low-price watchdog that monitors retail ticket prices and can tap retailers on the shoulder when below cost prices are advertised.

If there are any points that require clarification, please contact Michael Crisera on 0427239871 or growerservices@fgv.com.au .

Yours sincerely,



Mitchell McNab
Chairperson – Fruit Growers Victoria