

Public hearing – Adelaide

28 April 2008

Counsel assisting – Damien O’Donovan

Time: 10.00am – 5.00pm

Address: Stamford Plaza
150 North Terrace, Adelaide

Room: Hearing – Terrace Room 3 – Level 2

Witness	Submission	Summons
South Australian Farmers Federation Mr Wayne Cornish President	156	No
Adelaide Produce Markets Mr Angelo Demasi Chief Executive Officer Ms Wendy Helps Price and Produce Reporter	N/a	No
ABB Grain Mr Lyndon Asser Barley Marketing Manager	N/a	Summoned & compelled to appear by ACCC
<i>Lunch</i>		
Fruitorama and the South Australian Potato Company Mr Tony Raschella Director	N/a	Summoned & compelled to appear by ACCC
R Ceravolo & Co Mr Tony Ceravolo Chief Executive Officer	N/a	Summoned & compelled to appear by ACCC

AUSCRIPT AUSTRALASIA PTY LTD
ABN 72 110 028 825



Level 10, MLC Court, 15 Adelaide St BRISBANE QLD 4000
PO Box 13038 George St Post Shop BRISBANE QLD 4003
Tel:1300 308 420 Fax:(07) 3503-1199
Email: orders@auscript.com.au Website: www.auscript.com.au

TRANSCRIPT OF PROCEEDINGS

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

MR GRAEME SAMUEL, Chairman
DR STEPHEN KING, Commissioner
MR JOHN MARTIN, Commissioner

GROCERY PRICE INQUIRY HEARING

CONDUCTED AT: STAMFORD PLAZA HOTEL, ADELAIDE

DATE: 10.00 AM, MONDAY, 28 APRIL, 2008

THE CHAIRMAN: All right. Well, I think we'll get started, it being a point in time for starting. My name is Graham Samuel, I'm the chairman of the Australian Competition and Consumer Commission and the chair of this public inquiry into the competitiveness of retail prices to standard groceries. I welcome you all and declare this hearing open. I am joined by Commissioner John Martin, on my right and Commission Stephen King, on my left, who are the other two presiding members of the inquiry. This hearing and the inquiry is convened under Part VIIA of the Trade Practices Act, it's held pursuant to a request from the assistant treasurer and minister for competition policy and consumer affairs, Minister Chris Bowen, which was received by the ACCC on 22 January 2008.

Matters to be taken into consideration by the inquiry include, but are not restricted to the current structure of the grocery industry at the supply, wholesale and retail levels, including mergers and acquisitions by national retailers; the nature of competition of the supply, wholesale and retail levels of the grocery industry; the competitive position of small and independent retailers; the pricing practices of the national grocery retailers and the representation of grocery price to consumers, factors influencing the price with inputs along the supply chain for standard grocery items; any impediments to efficient pricing of inputs along the supply chain; and the effectiveness of the horticultural code of conduct and whether the inclusion of other major buyers, such as retailers would improve the effectiveness of the code.

Now, we've received so far over 180 public submissions to the inquiry as well as confidential submissions. We'll endeavour to take all these into account and thank industry participants for the contributions that have been made. We understand that the competitiveness of retail grocery prices is of significant concern to all Australians. The purpose of these hearings is to give the ACCC an opportunity to investigate in detail the issues raised as part of the inquiry with industry participants. The ACCC is organising hearings throughout Australia during April with several hearings occurring in Melbourne in May. I wish to emphasise that many witnesses at these hearings are not attending voluntarily and have been summonsed to appear under section 95S of the Trade Practices Act.

In particular I note that in general the ACCC has summonsed all supply companies, therefore no conclusions can be drawn regarding a company of willingness to participate in the inquiry from the fact that a company is appearing at the hearings. Some of the material covered in the hearing sessions will be confidential, because it is commercially sensitive and therefore parts of the hearings will not be open to the public. Questioning will start in public, but sections will move into a confidential phase when the questioning moves onto confidential material relating to that witness. The ACCC has to be able to investigate issues that are commercially sensitive to witnesses without damaging the witness's competitive position and commercial relationships.

We will be questioning organisations about their commercial relationships and about confidential documents that we've obtained through using our information gathering

powers. Now, that obviously can't occur in public. In particular where a witness has not made any submissions to the inquiry and has been summonsed by the ACCC to attend these hearings, the ACCC must be able to hear certain evidence in confidence. Transcripts of the public parts of the hearings are placed on the ACCC website. The
5 ACCC may disclose some aspects of the confidential components of the transcript a while after the hearing if it considers that some of the material should be in the public domain, but the ACCC will consult with the relevant witness before doing this.

10 While there are industry associations or representative organisations who are attending voluntarily it's more likely that most of the hearing sessions will be in public. In terms of procedural issues all witnesses will have received a document that outlines how we intend to approach these hearings, so I won't go through those procedural points in detail. I just wish to emphasise that although we're not taking
15 evidence under oath at this hearing, it is a serious offence to give false or misleading evidence to the ACCC. A transcript of the proceedings, apart from any proceedings that are held in private, will be made available on the ACCCs website. Now, as I said before, some witnesses will be asked to give evidence that if disclosed would damage their competitive positions or which may for other reasons be confidential.

20 If a witness believes that a particular question or a series of questions are likely to require him or her to disclose such confidential information, the witness should indicate an objection to answering the question on that basis. I will then consider whether the inquiry should take evidence in private from that witness. I note that
25 although the ACCC is not utilising external counsel at this hearing, witnesses will be questioned by the ACCCs internal lawyers, I'll introduce them, Mr Damien O'Donovan and assisted by Ms Catherine Freeman. Well, that concludes my preliminary remarks. I thank all the witnesses that are attending the hearings, particularly those that have been summonsed to attend.

30 We do realise that you are busy people and attending these hearings can be a significant imposition on you and your organisation. The first witnesses are representatives of the South Australian Farmers Federation and I hand over to Mr Damien O'Donovan.

35 MR O'DONOVAN: Could you state your name, the organisation you represent and the position you occupy within that organisation?

40 MR W. CORNISH: Wayne Cornish, President of the South Australian Farmers Federation.

MR D. CRABB: Policy Manager for the South Australian Farmers Federation.

45 MR O'DONOVAN: Okay. Now, you understand that it is an offence under the Criminal Code to give evidence to this inquiry that you know is false or misleading or omits any matter or thing without which the evidence is misleading?

MR CORNISH: Yes, we do.

MR O'DONOVAN: All right. Now, I understand you want to make a brief opening statement?

5

MR CORNISH: Well, thank you firstly for the opportunity. We did put a written submission and we support the National Farmers Federations submission which you will also have received. I guess by way of opening comment we're very concerned that this inquiry needs to have a broader outlook attached to it rather than perhaps just an interest in pushing prices down. Our concern is the sharing of the price at that retail level and in our case a share that our producer members are able to get on that retail price that's set. A lot of opportunity perhaps is given to individual growers, particularly horticultural growers to speak out about some of the disturbing things that they believe go on within the industry and the supply chain and the pricing mechanisms therein.

The reasons why growers won't speak out is that they are afraid of the repercussions of speaking out and they rely on the marketplace to work for them and therefore to ostracise themselves against that marketplace is in large part seen as not being in their best interest and so they come to our organisation and say, fix it. It's very difficult, however, to get individual anecdotal evidence to come forward under those circumstances because of the fear that surrounds it. Our concern is about the margin between farm gate and consumer level. We believe that they are too high and in most cases and particularly in fresh product areas, excessive.

25

We understand that the value-added component of a lot of grocery items has some components and indeed from our point of view perhaps even mystery in terms of the price that's ultimately asked for at retail level. However, there are quite a number of particularly fresh grocery items which have very minimal value added attached to them and we clearly understand the difference between what's received in terms of farm gate prices and the price which is requested at retail level. The price benchmarks are set by the largest players in the industry and obviously with the two majors controlling as much of the percentage of the marketplace as they do, it puts everyone under the same position in terms of price that's able to be received at retail level.

35

So again the criticism comes or the observation comes from many to our members, "If you don't like supermarkets, why deal with them?" Well, the reality is that regardless of whether you're dealing with a supermarket chain or not the marketplace or the retail cost of a particular line item has to be commensurate with what's available down the street. So the big players, those that have huge critical mass flowing through their operations actually set the benchmark for everyone else as well and so therefore to expect smaller retailers to be able to drag the industry up is a little fallacious because it simply can't occur in a competitive marketplace.

45

I guess the other thing which is of concern to us also is the level of imports which we've seen come into the country, where there is no evidence of a shortage in this

country and we would have to say that we are concerned about the competitiveness of those types of purchases from overseas, because do those growers through those supply chains actually have to incur all the compliance costs that growers here in Australia have to abide by? Those compliance costs in relation to food safety and other matters, food standards generally are significant and we would question whether those product lines have to actually incur the same type of compliance and compliance costs as the products that their members produce.

There seems to be also an occasional criticism by the supermarket industry against our people about our competitiveness and how we need to be better at what we do, we need to improve our efficiencies, and we need to play by world standards. We're quite happy to do that, indeed anybody may, in a marketplace which is fair, transparent and reasonable. We would turn the tables on that argument and say, particularly to the two majors who have had their history and origins in places overseas, if that's the argument that you would raise to the grower, we believe they should be interested in hearing what the countries from – the countries of origin that had them do it in relation to legislation and divestiture legislation.

It seems that they are able to operate here under particularly different guidelines and rules of trade and rules of size and competitiveness of what's happening overseas. Finally, just by way of comment, we would support the extension of the horticulture code of practice – the code of conduct, rather, into the supermarket areas as well as the other areas of trade. We would perhaps have some concerns as to whether it would actually be as effective as some might believe, but nevertheless it should be an equitable process and therefore have that code of conducted right across the board would be our position. But in – finally, I would just like to reiterate the comments that are made in both the written South Australia Farmer's Federation submissions and the National Farmer's Federation represents our view and a view which is actually pretty exhaustive and we put in those written submissions. Thank you.

MR O'DONOVAN: Now, you've indicated – just in that opening submission, that there have been complaints by growers to you. Could you give me an indication of how many, in what industries, and how often in the last 12 months you've had those sorts of complaints?

MR CORNISH: Well, they are twofold, we have the grocery – people who observe the pricing of value added product on supermarket shelves in particular, and the variation between the farm gate component of that particular article, and the retail price. We actually quote in of our submissions a 1300 per cent increase, and that relates to a particular breakfast food item, and that's the type of issue that comes forward from our members, that the value added component seems to be far – seems to far outstrip the – what we would believe to be a fair and proper process in the middle.

Now, we don't claim to understand all the intricacies of that, but we can certainly see that there is an enormous difference between the price of tonne a week, and the noise – the verbals we hear in relation to wheat going up a few dollars a tonne and what it

might do to the price of bread. The two arguments don't swim together, they are not commensurate, they don't bear terribly much relationship to the – the second issue that is repeatedly reported to us by our membership comes from those people that produce fresh fruit and vegetables and perhaps even meat, where the price variations
5 between what is achieved at farm gate level and the retail level that consumers are requested to pay is significant, and our people have some difficulty with that.

MR O'DONOVAN: Now, you seem to suggest that there was some specific complaints about the dealings between growers and supermarkets or growers and
10 wholesalers which were not being aired publicly, or action wasn't being taken on them because growers were concerned about what might happen in the marketplace. Now, that seems to be – so have there been complaints of that kind, and if so, how many do you think there have been in the last 12 months, and what were the nature of those complaints?

15 MR CORNISH: Look, I couldn't give you an exact number in the last 12 months, but they would run into the dozens. They are not formal complaints, they don't come to us in writing, they come to us verbally, they are perhaps anecdotal to some degree, but by and large, the nub of what's being said to us is the – the huge variation
20 between the product that they sold and what they see that same product selling for at retail level. There is a lack of appreciation from our – those members points of view to understand how the cost centres between them and the consumer can be so great that it would justify mark ups of the order that's seen.

25 MR O'DONOVAN: Right. So it's a complaint about pricing in the supply chain, not about specific behaviour by wholesalers or the major supermarkets?

MR CORNISH: It's largely about the variation between the pricing that they receive, and the pricing that the consumers are forced to pay, and their question
30 repeatedly is, how can the cost structures between the two, grower and consumer, be so great? The other issue that they raised with us repeatedly is that they believe that the risk factors involved in the production system is largely borne by the producer, the vagaries of whether – the vagaries in the product broke down, the vagaries of a whole range of things, which I'm sure you understand. All of those risks are taken
35 right through until it virtually is received into the kitchen of consumer.

MR O'DONOVAN: All right. Then in terms of how the price is set to a grower, you suggest in your opening submission that the price is set by the big players. Can you just explain how they do that when there's an operating wholesaler, and in many
40 cases, operational international markets?

MR CORNISH: Well, the way that the system works is that there's a lot of forward purchasing that occurs, where particular growers are not necessarily contracted, but they, in some cases, they are. There are lines of product which are forward
45 purchased, some days, perhaps weeks, even months ahead of delivery times. Where there are shortfalls in production by those growers and further supplies are required, there are occasions where the supermarket industry does purchase from the terminal

markets, and in South Australia that would be the Pooraka Markets. So the price setting mechanism is one between the grower and the supermarket, I don't become involved in those operations individually, obviously. But it is done on a very competitive basis, and done on long lines of supply and terms of trade which are
5 agreed to between the grower and the supermarket.

MR O'DONOVAN: In circumstances where there are alternative wholesale markets to set the price, would you agree with that?

10 MR CORNISH: There are alternative markets, yes, rather than the private treaty arrangements which exist between growers and supermarkets, if that's the question, yes, there is. If it's – if the question goes to the issue that I raised a moment ago about the benchmark being set, obviously if there are – if there is significant critical
15 mass of any particular product line in a marketplace which is selling at X, then there is a limit to the other people that are involved in the retail industry, whether they be small corner shops or whether they be medium or small sized supermarket activities, once that benchmark is established, within reason, that is the benchmark that the whole industry will have to pay, because obviously, unless there are very convenient
20 stores, you might be able to get away with it, but the supermarket industry, the small players in the supermarket industry where before, if they were going to be competitive, would be somewhere within the same price range.

MR O'DONOVAN: So, are you suggesting that it's the contracts with the major supermarkets that set the benchmark price and not the trading on the wholesale
25 market floor which sets the price>

MR CORNISH: I think they have a huge – yes, they have a huge influence and supply and demand characteristics that we used to see some years ago have to a fairly major degree been offset by the forward purchasing and planning arrangements that
30 the supermarket industry puts together.

MR O'DONOVAN: Now, our understanding of the forward purchasing arrangements is that price is actually set more or less on the day by reference to the wholesale markets. Do you have any reason to think that that's not how it's done?
35

MR CORNISH: Well, it may be done in some cases, it would depend on the product line and where there are major tonnages of product – potatoes, for example, which would trade in huge volumes across this country as opposed to radishes which would have a minimum tonnage, I suspect. I think the two would be traded
40 differently in terms of the price setting, the forward planning arrangements and if there are specials to be run, all of these things come into it but I imagine – well, I don't imagine, I know – that the pricing arrangements in relation to the potato industry, for instance, as opposed to a radish grower would be different.

45 MR O'DONOVAN: Sure. Is there any way – you've suggested that there is a way in which the major supermarkets can somehow set the price in a way somehow divorced from the wholesale markets. Now could you explain the mechanism of

how they can shift a price away from what the price would be in the wholesale market?

5 MR CORNISH: Well, it's all about volumes of sale and a producer that they would be interested in would be usually a large producer who is selling big volumes or growing big volumes of product; that the purchase planning the structure around that planning would have some longevity attached to it and there would be lead times and prices set well before the day of delivery in most cases. So I'm not sure whether that answers your question but it certainly – the fickle nature of day to day trading, it
10 appears they're not interested in that approach and I can understand that, but the vast volumes of tonnages that we're talking about here would require any contributor to that process to have forward planning arrangements and pricing mechanisms put in place simply for the publication of their pricing and the catalogues that they put out and so forth. They need to know days, if not weeks, in advance what those price
15 benchmarks will be.

So what you would see happen in Pooraka Market where it is absolutely – that's the terminal market in Adelaide, that's absolutely a day to day activity where supply and demand rules the roost on any day of trading but there is - the cap largely is set by
20 the supermarket industry because they have the price range in which they're operating and the rest of the world has to be within some proximity to that or they cut themselves out of the marketplace.

25 MR O'DONOVAN: Taken from the view of an independent retailer, how would they have any idea what the major supermarkets were paying for their product?

MR CORNISH: Well, I don't know. The only parallel that they could draw, I suspect, would be to take some price intelligence from the terminal markets and then look at what is the trading price on a supermarket shelf and work out the difference.
30 There wouldn't be any other way that you could actually determine individual contractual arrangements between grower and supermarket unless the grower was happy to divulge that information.

35 MR O'DONOVAN: Have you had specific complaints from members who do have direct arrangements with supermarkets about the price that they're getting or the terms that are being offered by the major supermarkets?

MR CORNISH: Yes. Again, I hasten to add, that these are the very people that I would like to be sitting behind this table giving the evidence this morning, those that
40 have direct relationships, know all about the trading world, but that they are reluctant to come forward. They joint organisations like AS and put the emphasis on us to provide the information to inquiries such as this one.

45 MR O'DONOVAN: All right. Now this inquiry is offering the ability for people to talk to it on a confidential basis. Could you explain why, if a producer was unhappy with the terms that they were getting from a major supermarket, why they wouldn't provide evidence on a confidential basis to the inquiry?

MR CORNISH: I suspect in large part it would be because those affected growers – and you may well get some come forward around the country. I’m unaware of who’s addressing you, but I suspect it would be somewhat a lack of knowledge on how the process works.

5

MR O’DONOVAN: All right. Now, if they’re unhappy with the terms that they are receiving from the major supermarkets – and you say that they are – there seems an obvious alternative which is to sell through the wholesale markets. Can you explain why they would not take that up as an obvious alternative to dealing with the major supermarkets?

10

MR CORNISH: Because the growing business or being a producer these days is distinctly different to the way that life was 20 years ago. People are specialist growers these days. They grow big lines of product; they have enormous tonnages of product and so therefore to be able to set your business up on such a basis that it is truly sustainable in production terms and you know exactly what’s going to be required three months in advance, there needs to be real structure involved in the way that you grow, sell and deliver. There are benefits in having those structural arrangements with supermarkets, there’s no doubt about that. We are in a world today which is distinctly different in trading terms to the world that we were in 20 years ago and so to be able to manage a big growing operation and to have certainty of sale is really important. The question about the margin or the difference in price between price received and price expected by the consumer is the question.

15

20

25

MR O’DONOVAN: All right. Well, just turning to that, the example that you’ve given in your submission is in relation to Weet-Bix, that there’s a very substantial difference between the farm gate price of wheat and the retail price of Weet-Bix. Now you use that to suggest that margins have been – there’s been a change in the proportion of margins over time but you only give a stat example that at present there’s a big difference between the farm gate price of wheat and Weet-Bix. Do you have any data about what that relationship was between farm gate price and the retail price of Weet-Bix say 20 years ago or 10 years ago or 5 years ago and that shows some movement or change in that price?

30

35

MR CORNISH: No. You can look at the detail within the NFF submission and I think that goes some way towards answering your question. The difference between what is able to be achieved within the terminal market, the Pooraka Market, for instance, those prices are freely available to everybody every day of the week. They are published daily – there’s a charge for the information – but you can receive that information from every terminal market in Australia. There are independent recording processes which give a very accurate analysis of the pricing that was received in those terminal markets. You only have to take the next step and wander down supermarket aisles and you can form your own conclusions.

40

45

MR O’DONOVAN: All right. That’s not a data exercise you’ve done?

MR CORNISH: I haven't got it with me. We've got reams of information back at the office which collates those price movements of, particularly, fruit and vegetables over many years.

5 MR O'DONOVAN: Right. Is there a comparison then with the retail prices?

MR CORNISH: There is a greater level of margin between those pricing areas received by the resellers in general terms now as compared to some years ago.

10 MR O'DONOVAN: Right. Okay. So, if we were to seek that underlying data for that conclusion, you'd be able to provide it?

MR CORNISH: Yes. Well, I'm sure all of industry can because, as I said, it's published on a daily basis and it has been for years. There are organisations like
15 Rural Press, for instance, that have – they publish reasonably regularly. I just can't recall how often but probably quarterly or something of that order; have flow charts for years and years and also have flow charts in relation to average reseller price arrangements as well.

20 MR O'DONOVAN: So when you say reseller price, you mean, the retail price?

MR CORNISH: Yes.

MR O'DONOVAN: Okay. So there is already data available that - - -
25

MR CORNISH: Yes.

MR O'DONOVAN: All right. Has the SAFF done an analysis of that data?

30 MR CORNISH: Well, there hasn't been a need to do the data on an ongoing basis because the data that's received by both the market reporting systems and others is just a reflection of what's happening at both marketplace levels and that data has been collated for years and it's – to do in-depth analysis on it would prove very little because the data speaks for itself.

35 MR O'DONOVAN: All right. But just to confirm, the data you say shows that there has been a widening gap between the margin and at the farm gate?

MR CORNISH: We believe so, yes.
40

MR O'DONOVAN: All right. Have you specifically looked at the data with that question?

MR CORNISH: Have we specifically looked at the data with that question in mind?
45 Well, I believe that that's why I'm sitting here this morning, and I don't say that in gest at all, it is a concern that the alliance that should be there between growers and consumers is somewhat fractured at the moment. I don't believe that the two

understand sufficient about the system to be able to put the amount of pressure on that system to break it down and to make it more transparent and to make it more rewarding for all parties because I believe the consumers of this country need to be as concerned as the growers are.

5

MR O'DONOVAN: Sure. But there is certainly none of that detailed data included in your submission. I'm just wondering if we were to seek it from you would you be able to provide it?

10 MR CORNISH: Yes, I believe we can.

MR O'DONOVAN: Okay, all right. Now, in relation to your submission, you also asked for a lifting of the competition test to apply to existing businesses, but there is no actual detail provided on that and I'm just wondering whether you had a specific proposal in mind?

15

MR CORNISH: Deane will take that question.

MR CRABB: At the moment, if a new business wants to come into the competition they've got to justify their case. What happens, where they're already an existing business within a market, they can sort of change their way of operation and take over more of the total market without having to face the Trade Practices Act and some of the requirements there so that is actually what we're talking about there, if you're already a current business that they should be able to – they should be assessed as much as new entries.

25

MR O'DONOVAN: So are you referring there to when there is a merger of two companies or an acquisition of an asset within a market?

30 MR CRABB: Yes, that's right.

MR O'DONOVAN: All right.

MR CRABB: Yes.

35

MR O'DONOVAN: Have you given any thought to, as a practical measure, how this could be done?

MR CRABB: Not really, no. I guess it is a difficult one because the business has sort of changed over time and I guess it's – at some stage, at some point in time, there needs to be an assessment of their market share and what's happened to change that market share.

40

MR O'DONOVAN: Right. There is any specific problem that you perceive exists now that would be addressed by this approach?

45

MR CRABB: Only the fact that, you know, the two supermarkets, the main two supermarkets, are taking a greater share and there were already existing businesses within those markets and they've just taken them from the other smaller supermarkets over time, because they can stay open longer, trading hours, and with their greater extent they can take over the market. So, you know, there was never an assessment once they were already an entrant in the business.

MR O'DONOVAN: Sure. Now, at least some of that market share growth is due to consumers preferring the offering that they have. Do you have a view on whether it would be appropriate to intervene in a process that has effectively occurred as a result of consumer choice?

MR CRABB: Well, the consumers are preferring them because they can keep their prices down compared with a small independent supermarket but if the big two can keep their prices down then obviously, a consumer's choice is to go to those so the price is lower.

MR O'DONOVAN: Sure. But you think despite that, there is a case for some kind of intervention?

MR CRABB: Some sort of assessment, I guess, more than an intervention because over time it changes and perhaps it would be worthwhile for an organisation like the ACCC to do it at some point in time, every 10 years, just to assess the situation. That in view of the situation, some assessment of new entrants wanting to come into the market or a - as you say, emerging.

MR O'DONOVAN: Okay. You've also suggested that there is a need for the unconscionable conduct rules to be expanded? Again, did you have a specific problem in mind and what did you think needed to change to address that specific problem?

MR CRABB: I haven't really, no.

MR O'DONOVAN: No, all right. You also indicated that the ACCC should have more resources, which is not necessarily something we disagree with, but if we were to get them, did you have some specific targets in mind where more action needs to be taken by the ACCC?

MR CORNISH: Well, we believe that it is an area of real importance and affects every family, every grower, and a lot of other people in the supply chain. It is a major issue. There have been inquiries previously which, frankly, have come to naught and we have great expectations that this might be different. So for the ACCC, in particular, to have an ongoing role might be something I would hope would come from this inquiry and the resources that you would need to monitor those activities would probably be greater than you presently have now.

MR O'DONOVAN: But which specific activity do you feel warrants further monitoring?

MR CORNISH: Well, it is hard to predict at this stage, not knowing what the
5 outcome of the inquiry would be. But if there were issues raised of such importance
where legislation were to be changed or there were to be greater levels of capacity
given to the ACCC to pursue issues of trading terms and those types of things, price
assessments and the like, then there is no one else available, that we would
understand, to be able to perform that function. Again, it would rest purely on the
10 outcome of this inquiry as to whether those things come about. Hopefully, they will,
and if they do, then I imagine that the ACCC will require more resources to be able
to carry out those functions.

MR O'DONOVAN: Right. But as you sit here, you can't identify any specific, I
15 suppose, enforcement priority that you think you should be addressed more closely?

MR CORNISH: Well, you questioned me fairly closely a moment ago about the
difference between anecdotal evidence coming from growers and what we are
supplying to you as information this morning, and the questioning went to why won't
20 these people come forward, and would they come forward behind closed doors? If
there were to be greater levels of transparency insisted upon and some levels of
certainty provided to growers so that they were prepared to bring their grievances
forward, then there would have to be an independent umpire, you would imagine, to
deal with those issues. If those issues were finally able to be arbitrated by somebody
25 with true independent, I would imagine that the industry would be very comfortable
with the ACCC performing role.

That is just one example, there would be others, but I think this independence of
approach in the future, if this inquiry does bring forward suggestions for variations,
30 for greater levels of transparency and supervision and perhaps even compliance, then
those things will need to be supervised by somebody and we imagine that the ACCC
would be well-placed to carry out that function.

MR O'DONOVAN: Then in relation to the horticulture code, firstly could you just
35 confirm that your members generally are supportive of the code?

MR CORNISH: Yes, we don't believe that it has actually changed the world but it
does try and assist on some level of professional performance which wasn't there
previously in all places. But it seemed a little strange to us that it didn't actually
40 include the purchases at the far greater level, the percentage of the critical mass that
is being traded in the marketplace every day. It exempted them from the process, the
argument being that these people already had – growers and supermarkets, in this
case, already had contracts or arrangements in place and therefore, the code of
conduct, it wouldn't be necessary for it to apply. We beg to differ with that and think
45 that there are standards that need to be observed across the whole of industry and
putting one segment of it at some compliance disadvantage as opposed to another
sector – section of it just seems inconsistent to us.

MR O'DONOVAN: But are there any specific elements of the horticulture code which you understand the major supermarkets don't presently comply with in their contracting practices?

5 MR CORNISH: The terms of payment are largely what the code of conduct is designed to affect and if people – and again it's a problem within the industry. It was a problem that came up during the discussion as to whether the code of conduct was necessary or not but in some cases the level of compliance and professionalism that
10 is carried out with trading arrangements where paperwork and the necessary invoicing and so forth that is required to be absolute about, in legal terms, about a transaction is sometimes not as good as it needs to be and I believe that probably the supermarket industry has that level of their business better covered off than perhaps some other trading arrangements between smaller operators are concerned.

15 So I guess that's a long winded way of saying that the code of conduct as we understand it was put in place to address the terms of trade and the trading arrangements and the way that people conduct themselves between more or less private treaty arrangements and the arrangements which were put in place between grower and supermarket were considered to be sufficient contractually that the code
20 of conduct shouldn't apply. Now as I said, that may well be the case in a lot of cases but perhaps not in all cases and therefore to have those supervisory expectations in place right across the whole of the industry just seems to be fair and just.

MR O'DONOVAN: Have you ever had a specific complaint about the contracting
25 practices of the major supermarkets where they haven't complied, offer to standard – complies with the code?

MR CORNISH: The complaint that we received, sir, is more about the price that was expected on the day of – when the trade or the purchase was made and the
30 delivery was made. The price that was quoted and the price that was used for the purposes of that consignment is sometimes different when you receive the cheque and there can be variations to the price which is carried out for a number of reasons; quality, time of delivery and all those types of things come into it so there can be some discounting on price which is unknown at the time of sale.

35 MR O'DONOVAN: That's in relation to dealings with the major supermarkets?

MR CORNISH: Yes, and it can be the case in relation to others as well but when the price is varied after the sale has been effectively conducted, seems to us to not be
40 the way that you would expect normal business to occur.

MR O'DONOVAN: Is this a common complaint or is this an isolated instance that you are thinking of?

45 MR CORNISH: It is much less now than it was a few years ago but nevertheless it still exists and does come forward to us.

MR O'DONOVAN: Right. So are you saying that you have had complaints from growers that supermarkets have unilaterally varied the terms, the price terms of the contract after delivery of goods?

5 MR CORNISH: Yes, in a word and particularly when you're dealing with fresh product. I can't answer in relation to other grocery lines but in relation to fresh product. You must bear in mind that the grower is particularly exposed. You're dealing with a product which can degrade very quickly unless it's utilised sole
10 consumed within hours in some cases but certainly days in most cases, then there is some at least discounting which would have to occur to that product, it can even be done and our interest is making sure that the grower through somebody else's practices doesn't have to bear any of the financial burden that would occur if poor stock rotation, if poor product handling, poor management generally at store level were to occur. Then we believe that the grower needs to be absolutely exempt from
15 any product discounting that would occur whether it be quality or price and we're not convinced entirely that that doesn't occur.

MR O'DONOVAN: Right. Later and on a confidential basis, would you be able to provide us with specific details within the last 12 months of instances where that has
20 occurred?

MR CORNISH: It would be anecdotal.

MR O'DONOVAN: Right. So could you provide any details of any instance where
25 that has – where we could confirm whether or not that has occurred?

MR CORNISH: I believe so, yes.

MR O'DONOVAN: All right. How many do you think you could?
30

MR CORNISH: I would have to do the research but - - -

MR O'DONOVAN: It would be less than 10, would it be more than a hundred?

35 MR CORNISH: Probably less?

MR O'DONOVAN: All right.

40 MR CORNISH: I guess the critical factor in relation to that last question is that when things come to us you're looking at I believe you're looking at the tip of the iceberg at the time. We would receive in terms of issues within the industry we would be looking at a very small fraction of what disturbances are actually occurring. Because if somebody comes to us to report such matters it's representative but it's by
45 no way an accurate reflection of the numbers of concerns that would be occurring.

MR O'DONOVAN: Now why do you think that?

MR CORNISH: Why? Because it's just the nature of the way that business is and if everybody were to come to us every time they had a commercial grievance we would need 10 times the staff we have. I think people come to us when they are particularly offended by some sort of action or activity. The lesser issues I think are annoying
5 but they dissipate fairly quickly because you have to do business the next day and you have to get on with life. It is – we've received the evidence and the inquiry from people who are really upset and have really had things done to them or been part of a process which they find completely intolerable.

10 MR O'DONOVAN: All right. Do you think that this inquiry offering an ability to make complaints about specific matters dealing with the supermarkets on a confidential basis to a well resourced inquiry, if it receives few – or do you think any conclusions could be drawn from the number of complaints that we get about how widespread practices are in a market?

15 MR CORNISH: I would be more confident about giving you an answer if I knew that the growers in this case were certain that their identity and the information that they would give you would be on a confidential basis and perhaps it's criticism of my own organisation. We haven't promoted this inquiry on that basis and asked
20 people to come forward on that basis. But had we and perhaps others promoted the fact that evidence could have been given on that basis a little more than we have I think you would have probably had more input.

MR O'DONOVAN: That's all my questions.

25 THE CHAIRMAN: Mr Cornish, perhaps I can try to express a little bit of our frustration. You see, we hear second and third hand about anecdotal evidence of various things occurring, which you can imagine that this inquiry, if it's going to be rigorous, is going to provide a report to government that can be substantiated by
30 evidence, particularly any report that might recommend policy changes or legislative changes, it needs to have that backed up with some substance, and if this inquiry reports to government that, well, anecdotally, you know, representative groups of growers think that certain things have happened or probably they have occurred or probably they might occur if they were to tell us about it, and we recommend to
35 government that there be changes to legislation based on that.

You well imagine government actually asks you what was the purpose of the inquiry and whether it, you know, had any integrity at all. So I want to take you back if I can to a few of the questions Mr O'Donovan's asked you to see if we can just fasten on
40 some issues, and if it's not possible for you to give some response today, then I perhaps invite you as the representative of a number of growers in this state to provide us some written responses, albeit maybe confidentiality in the very near future. The first question is a very specific one, and that is that you have suggested that the major retailers should be subject to the horticultural code.

45 The reason you've suggested that is because you think it is fair and just. That may well be the case, but in certain respects, the horticultural code is there to provide law

and regulation. Generally you provide law and regulation to apply to parties if you find that they're disobeying the law or not complying with it. Do you have specific incidences that you can provide us with of where the major retailers are not complying with the horticulture code if it were to apply to them, are there specific
5 incidences that you have of dealings that they have engaged in with growers, which if the horticulture code applied to them, would be in breach of the horticulture code?

10 MR CORNISH: Without going back and going through our data and information, I'd have to say no, but I'd need to check that.

THE CHAIRMAN: All right. Well, could I then ask you, as representative of the growers, to go back through your information and see if you can provide us with any specific incidences, because, again, if we are to look at that as an issue, as part of this inquiry, it would not be helpful to say to government that we believe that it is
15 appropriate that the retailers be subject to the horticulture code, but the South Australian Farmer's Federation were not able to provide any incidence of a hypothetical breach by any of the retailers and that code – if the code were to apply to them. So that would be the first invitation, for you to pursue that.

20 The second one is that you've made a number of recommendations as to what ought to occur in respect of the Trade Practices Act and amendments to it. Now, while we very much appreciate your suggestion that we should have some extra resources, I think that's a matter we can perhaps deal with ourselves, but I'm interested in what specifically you would like to see done with the Trade Practices Act and how it
25 would assist your grower members in the difficulties that they are currently having in the conduct of their business?

MR CORNISH:

30 MR CRABB: Well, we can't just at the moment, but we'll like take that on board when we try and collect the other data and give you an answer then.

THE CHAIRMAN: All right. Well, if we could get some very specific recommendations, that would be very helpful indeed, because to suggest, for
35 example, that it would be preferable for growers to receive higher prices for their produce, I think everyone would like to see – receive a higher price, so likewise consumers would like to pay less, so there's a conflict, for example, in that particular issue, but I think we want to know specifically, and very specifically, given the resources that the South Australian Farmer's Federation have, I'm not thinking so
40 much about your staff resources, but the resources you have in terms of your representation of growers in the state. Very specifically, what it is that you would like to see done if this inquiry were to make recommendations to government concerning amendments to the Trade Practices Act or other laws being in place.

45 MR CORNISH: By way of comment, not to reflect anything of an exactive nature, but the issues that we raised are, we accept, not backed by the telephone book data this morning, as I said to you, if that's offensive to you, I apologise.

THE CHAIRMAN: No, no, there's no offence at all, it's just – I'm sorry, I didn't mean to suggest in any way at all, it is just simply to use the resources you've got in terms of the database you would have of complaints received to enable us to substantiate any evidence that you're providing us this morning or subsequently.

5

MR CORNISH: I guess as your hearings go forward and the number of people, I would be surprised if – particular for McGrath and associated areas, some of the things that I said this morning aren't reinforced time and time again. The question will be the absolute nature of the evidence that we've put and be able to demonstrate that in absolute terms it's very difficult for the reasoning that I've given previously, but we will make every effort to determine as well as we can those issues, and I suspect, and it's impertinent of me perhaps, but I suspect some of the issues that we raise will probably require further investigation by more prudent, I suppose, and certainly professional areas than we can provide to these issues, and I would hope that some of these issues that we've raised with you give rise in your mind that some of the examination that needs to go forward in those areas would be undertaken perhaps by yourselves or by somebody that's directed by you to actually undertake that. So I believe that some of the information that we can provide, as opposed to what you would get first hand, it does need to come directly to you rather than through us, and firstly, have the impact, the desired impact, and we register the importance of these issues, and I'm not sure that we can do that.

THE CHAIRMAN: Yes, I appreciate though, that, given what Mr O'Donovan's already said to you, that information's not coming to us direct, and that may well be because your representative members are not informed as to the means of actually producing information to us, that it would very much assist if, for example, if you've got a database of information that says, look, grower A – and you need not put more than that – grower A dealt with supermarket chain B, and you might want to identify it, and had the following experience, and grower A can be contacted confidentially at the following address or the following contact details, that would assist us. But at this point of time, we don't even have grower A dealing with supermarket chain B, so it doesn't give us a very good starting point.

MR CORNISH: If you would use the total industry as an example, I would invite you to examine the processes that are used for purchasing that industry now, as compared with the process that was used five, 10 years ago. You would find it distinctly different, the supermarket industry takes the heat of itself by putting agents in between grower packer operators who usually sell directly to them and have arrangements with those supermarket chains, that has now changed, and the holding supply arrangement, so it's virtually carried out by two people, and that seems to us to be a

THE CHAIRMAN: Yes, I can't comment upon whether two people or 20 people would be better to carry out the arrangements, but can you give us some more information other than the fact that two people are conducting the arrangements rather than a series of agents? What impact does that have on growers?

45

MR CORNISH: Well, effectively it takes the – any sting out of the criticism that we might put against Coles or Woolworths in relation to their purchasing arrangements, and puts all of the emphasis on an agent, or two agents, one in Melbourne and one in Sydney who do the predominant – who are the predominant buyers and suppliers. So
5 it effectively breaks the nexus between the grower packer and the retail shelf and puts an agent in the centre who can act independently, presumably, of the – of both grower and reseller, and is prepared to take any criticism that comes and deflects that criticism from the supermarket industry.

10 THE CHAIRMAN: Can you give us, again, specific examples there of growers that are – that would be prepared to come to us and to describe incidences of, for example, breaches of the horticulture code in those sorts of dealings or breaches of the Trade Practices Act?

15 MR CORNISH: Well, there are people who would be complaining about the terms of trade and the time it takes to be paid for fresh product that's going into the system that I've just mentioned. Now, that can be an extraordinary length of time, but beyond the capacity of this inquiry, because it – that agent has been introduced into
20 the middle and so therefore probably Coles and Woolworths are paying that agent within a relatively shorter and brief time frame, whereas the grower on the other end is subjected to something entirely different.

THE CHAIRMAN: Now, when you say “probably”, this is not outside the terms of the inquiry, but when you say “probably” that is what is happening, do you have any
25 direct information that that is what is occurring at this - - -

MR CORNISH: I say “probably” because it doesn't happen in all cases but we are aware of where it has been the source of annoyance to people and we believe that the terms of trading and the trading terms that have required long periods of
30 non-payment which if it were a direct purchase from grower or grower to the supermarket chain, probably there would have been remedial action that could have been taken which would have been much more effective under those arrangements than letting the agents get involved in the senate.

35 THE CHAIRMAN: Yes. Now, look, you will forgive me for sort of pressing on this, Mr Cornish, but the use of the words “probably”, and “I suspect” are not really helpful to us because they don't give us information that we can rely upon in reviewing the transcript of this evidence to say, “Well, yes, this is happening or this is not happening.” Now, I just want to test you on a couple of aspects of what
40 you've just said. You say that “probably” there is a difference in terms of payment between the grower and the agent and the retailer and the agent. Do you have direct information on that?

MR CORNISH: That – I'll withdraw the word “probably” and use the word
45 “usually” because I've introduced the word “probably” because it's not fair, it was a proposition that it is the case in all – at all times, it is not. But there are occasions where these difficulties are encountered and it puts growers at some disadvantage.

THE CHAIRMAN: The growers are aware, are they, that the agent is being paid sooner by the retailer than they're being paid by the agent?

5 MR CORNISH: Yes, and it deconstructs the whole – to use the potato industry as the example, it puts a disrupter in the whole payment system because the packers are usually providing the funds to the grower. If the packer is having payment – not necessarily withheld but help up for considerable lengths of time it puts extra pressure on the whole system.

10 THE CHAIRMAN: How would they be aware of the payment terms between the agent, as you describe it, or the packer and the retailer?

15 MR CORNISH: They wouldn't but one would – one could understand that unless those – because of the enormous tonnage of the grower, unless there were reasonable payments being made, no individuals – it would have to be a gigantic financial operation to be able to afford less than satisfactory terms of payment between supermarket and agent because you're concentrating the financial activity back to one, one source.

20 THE CHAIRMAN: Well, we will obviously investigate those issues but again, you will understand our concern and hesitation when you're indicating that "usually" this is what is occurring but then when I ask you further, you actually don't have any information that suggests that there is a differential in the terms of payment between the retailer and the agent and the agent and the grower, and it is this sort of
25 specificity - - -

MR CORNISH: Well, in relation to that last issue I could name the individuals but I'm not prepared to sit here and do it.

30 THE CHAIRMAN: No. Well, we're happy to take that from you in confidence so if you could provide that information confidentially. That would be information that would indicate to us, albeit confidentially, that the growers concerned are receiving payment on certain terms and conditions and that they are aware that the agent is receiving payment on different terms and conditions.

35 MR CORNISH: Yes.

THE CHAIRMAN: Okay. We might get that information from you confidentially.

40 COMMISSIONER MARTIN: Just, Mr Cornish, in relation to the concentration on those two agents in the potato supply chain. Is that because they're the only ones with contracts with the major supermarkets?

45 MR CORNISH: No. Well, look, I think there are a variety of reasons but I suspect that it would be easy from the supermarket point of view to have one point of contact or a couple of points of contact in a massive retail where the tonnages and the varieties and the qualities and so forth would be expressed and the expectation would

be that those orders would turn up on the day or whenever they were required. So I expect there is some ease of operation and it's – a simply fact is there's such a concentration, and from the South Australian point of view such a concentration of that trading activity concentrated back to a couple of trading agents and the
5 company, none of which reside in South Australia. That's - - -

COMMISSIONER MARTIN: The other question I had in relation to your Weetbix processor example, do you have any reason to believe that those sort of margins are different with processors in other countries? Is this atypical to the Australian
10 production?

MR CORNISH: I can't answer that. We haven't done the research in – not to get overseas parallels

15 COMMISSIONER MARTIN: Okay.

COMMISSIONER KING: Actually, just one more question just to follow up on the potatoes issue that you raised again.

20 COMMISSIONER MARTIN: Yes.

COMMISSIONER KING: Mr Cornish, I mean, judging by what you just said, in your opinion were potato growers and potato packers better off when they used to deal directly with the supermarkets than they are now going through wholesalers?
25

MR CORNISH: Probably a question I would need to take on notice and ask because it really wasn't ever a case of a whole mass of individual potato growers dealing with the supermarkets. The huge tonnage of potatoes that were traded are packed – pre-packed in some form, they were either brushed or washed or put into convenient
30 packages of various types and sizes. That requires specialist machinery and specialist operations who usually become the first – if they're not growing in their own right, which most of them do, they would augment their own growing capacity by taking a product from independent growers. So I think that I wouldn't like you to have the idea that there is a tremendous amount of direct grower relationship in the
35 potato industry. Where the big relationships were was between these packing operations and individual supermarkets and they were of substantial size and big business took place through that activity. That now has changed, as I understand it, and those two agents are effectively securing all of the – virtually all of the needs of those two majors.
40

COMMISSIONER KING: I understand that but I guess my question was with regards to packers, because they used to deal directly with the supermarkets, and the growers, who when they went with the packers, independent supermarkets rather than growers to packers to wholesalers to supermarkets. As I understood what you
45 were saying, was that the previous system where growers to packers to supermarkets gave a better deal for both the packers and the growers than the current system. So that is all I was checking. Is it the case that the old system where you didn't have to

go through wholesalers, you dealt directly – at least the packer with the supermarket, was better for the growers than the packers?

5 MR CORNISH: It is not so much a question of convenience and the old system
used to have some performance factors which the new one doesn't. Like, the issue
that I was trying to strike in your mind was that the capacity for pricing arrangements
would be different now. If there are effectively two buyers the competition in that
marketplace is a lot less effective than the dozen, and so instead of – and there would
10 have been many more than a dozen, I suspect, across the nation. So effectively, the
capacity for these types of buying arrangements that have downward pressure on
pricing is extreme because of the – there's only a couple of people there that are
taking very, very significant tonnages of product from the Australian farm gate on a
daily basis. The balance of the percentage that's traded every day would go through
15 normal terminal markets and other outlets.

COMMISSIONER KING: Those two wholesalers you've been referring, they just
provide to Coles and to Woolworths?

20 MR CORNISH: I couldn't say for certain but they would – that would comprise
pretty much everything - - -

COMMISSIONER KING: Again, I'm just wondering, you're saying, well, there is
two wholesalers or there used to be the two - - -

25 MR CORNISH: No, they would be trading – I'm sure they would be trading
reasonable changes of product lines outside of those two areas because these people
have been in the industry for years and years and they would have some established
networks that they would still be servicing, I'm positive.

30 COMMISSIONER KING: Okay. Again, I mean, if you did have more information
about whether they're supplying the IGAs or the Metcashes or whoever, it would be
helpful.

35 MR CORNISH: Well, frankly, I don't think they were joined.

COMMISSIONER KING: Thank you.

40 THE CHAIRMAN: All right. Thanks, Mr Cornish. All right. Well, we welcome
the representatives of the Australian Product Markets. If you could just state for the
record your name and position?

MS W. HELPS: Wendy Helps. I'm Price and Produce Reporter for the Adelaide
Produce Markets.

45 MR A. DEMASI: Angelo Demasi. I'm the chief executive officer of the Adelaide
Product Markets Limited.

THE CHAIRMAN: Thank you. Mr O'Donovan?

MR O'DONOVAN: All right. Thank you for attending. I just want to confirm that you both understand that it's an offence under the Criminal Code to give evidence to
5 this inquiry that you know is false or misleading or omits any matter or thing without which the evidence is misleading. Do you both understand that?

MR DEMASI: Yes.

10 MS HELPS: Okay.

MR O'DONOVAN: Thank you. All right. Now, Mr Demasi, could I get you firstly to describe firstly your position in the markets and then give a brief
15 description of the markets themselves and how they operate?

MR DEMASI: I'm the chief executive officer of the Adelaide Produce Markets. The Adelaide Produce Markets is a public listed company. It was the first privatised market when we moved from the East End Market to Parrakie. The actual
20 shareholders are made up of growers, wholesalers and retailers. It's only industry participants that are allowed to own shares in our market and basically we have over 390 shareholders and basically we've located at Parrakie about 20 years ago. We are governed by a board of directors. The board of directors are three growers, three wholesalers, two retailers and two independents.

25 MR O'DONOVAN: Okay. How does the shareholding – does the shareholding change over time or is it fixed?

MR DEMASI: Yes, it does. Yes. Basically it's a tradeable share. It can be traded
30 between grower to wholesaler, wholesaler to grower or retailer. There's no fixed amount of shares that can be allotted to any individual sector, so depending on who buys and who sells.

MR O'DONOVAN: Okay. So would a new wholesaler entering the market be
35 entitled to an allocation or would they have to buy - - -

MR DEMASI: They would have to buy it from an existing wholesaler or retailer or grower.

40 MR O'DONOVAN: Okay. If a wholesaler retires from the business or a grower retires from the business are they required to sell their shares?

MR DEMASI: They've got 10 years to sell their shares.

45 MR O'DONOVAN: Right, okay. So over time it should reflect the makeup of the current market?

MR DEMASI: That's right.

MR O'DONOVAN: Okay, all right. Now in terms of just the physical layout of the markets, can you just describe the various areas that operate in the markets?

5 MR DEMASI: Well, the markets are basically made up of A to E shed which is the wholesaling area and then basically G shed which is a growers' pavilion for local growers to sell their produce. We have about 70-odd growers in there, local growers that sell their own produce to retailers or to wholesalers or anyone that wishes to buy it. We also have warehousing facilities which is predominantly logistic platforms for the likes of the Foodland, IGAs, independent greengrocers or also the Metcash type
10 of arrangement. We also - - -

MR O'DONOVAN: Just stopping you there. So is that where they consolidate their acquisitions for the day?

15 MR DEMASI: They consolidate their orders and receive orders and buy off the market floor or buy it from growers within Australia. They also, we also have a food service which is quite huge too which is a logistic platform where orders are consolidated for the restaurant industries, hotels like this and so forth. So basically we play a role as, I suppose, landlord as you could say, so administer the day to day
20 operation of the market and we do sometimes get involved with industry issues but basically only when it's required - so.

MR O'DONOVAN: Okay. Is there a retail component operating out of - at or near the markets?

25 MR DEMASI: Retail component in - - -

MR O'DONOVAN: As in just retail shops, just retail food - - -

30 MR DEMASI: Yes. Greengrocers come and buy. In the middle of our market is the logistic platforms for most independent retailers. Some of the larger independents have their own logistic warehouses within the market but pretty much 99 per cent of their produce is purchased through our market, through the independent sector.

35 MR O'DONOVAN: Okay. But do actual retails operate on site and do retail customers come to the markets?

40 MR DEMASI: No. The retail customers are actually just the greengrocers themselves. We don't have any consumers come to our market. It's basically wholesale only, mainly for safety issues. There's a lot of forklifts running around, so.

45 MR O'DONOVAN: Okay. Now in terms of the growers' floor and its operation, how would a grower get access to the floor?

MR DEMASI: Anyone just applies for a growers' stand. Basically they pay a yearly fee, it's on a year to year basis and we just, we ensure that they're actually growers within South Australia and do a farm visit and if they're appropriate we pretty much approve them. There hasn't been any that haven't been approved.
5 They're always pretty much always approved within the market.

MR O'DONOVAN: Okay. So they're effectively operating as their own wholesaler when they're operating on the growers' floor, is that - - -

10 MR DEMASI: Yes. You could say that, yes. They're – I mean, they'll sell their own produce. They might employ someone to sell their own produce or they would come in themselves and do it early in the morning and then go out to the farm and be a grower. So just on the basis, our wholesalers within our market about 60 per cent to 70 per cent are actually growers themselves. They pretty much have started off
15 it's like a breeding ground, the growers' shed. They start off there and then get to a larger component where they can't really facilitate business within the growers' pavilion and then they buy a wholesale facility and trade out of there.

MR O'DONOVAN: Okay. Is there a relationship between prices in the growers' pavilion and on the wholesale market?
20

MR DEMASI: It's the same. Wendy could probably fill you in on that but it's pretty much a market price that occurs between wholesalers and growers and it's – yes, so.
25

MR O'DONOVAN: Okay. Now then moving to the wholesale side of the business, how many wholesalers operate in the markets?

MR DEMASI: We have some 57 wholesalers and, yes, I said there's about 70 growers.
30

MR O'DONOVAN: Okay. What proportion of those wholesalers would also be growers themselves?

35 MR DEMASI: It's about 60, probably 65 per cent – yes.

MR O'DONOVAN: Okay. So about 40 of the 57 wholesalers would actually be growers themselves?

40 MR DEMASI: Yes.

MR O'DONOVAN: Okay. In terms of the lines that they offer, do all wholesalers offer all fruit and veg lines or is there specialisation?

45 MR DEMASI: Yes. It used to be when we were in the East End everybody kept to specialising in their own product. That's kind of distorted a little bit more, the wholesalers are diversifying but some of them have kept to their core lines especially

the grower/wholesalers they'll keep to their core lines because that's what they're really interested in doing in selling their own produce or neighbouring produce or obviously they source product from all around Australia, so.

5 MR O'DONOVAN: Right. But from a growers' point of view are there lots of wholesaler options for any given line? So - - -

MR DEMASI: Yes.

10 MR O'DONOVAN: So for apples, for example, how many wholesalers would sell apples?

MR DEMASI: Wendy might be able to answer that.

15 MS HELPS: Probably about seven.

MR O'DONOVAN: Okay. Are there any other lines where the wholesale market is more concentrated than that?

20 MR DEMASI: Probably tomatoes is probably the most concentrated – I mean, in the growers' pavilion just about everybody sells tomatoes because it is a locally grown product and in the wholesaling sector we would probably have again another 10 or something, wholesalers more that sell tomatoes. Yes, so that's probably the most common product sold within the market.

25 MR O'DONOVAN: Right. But in terms of market concentration is there anyone who has the monopoly in radishes or avocados or any line like that?

30 MR DEMASI: Probably the only one that would be, would be bananas. There would be about three to four because I mean it's very, very costly to ripen bananas so unless you've got the facilities and put the infrastructure in. They're basically national and multi-national companies that do it within our market, the likes of Kostas, who used to be Jakita and La Mana and a couple of other smaller ones, so.

35 MR O'DONOVAN: Okay. Now then the major supermarkets themselves, can you just describe how they operate in the market?

40 MR DEMASI: Yes. The supermarkets readily both Coles and Woolworths both have got about two to four buyers every morning in our market. They're obviously looking, talking to their own suppliers because the suppliers, their suppliers are in our market and also keep an eye on what prices are doing and any opportunities, spot buys. But tend to change from time to time in terms of doing spot buys and market specials, I suppose. You know, I suppose that at one stage they were looking at buying obviously direct but that's kind of always changing depending on the market price and so forth.

45

MR O'DONOVAN: Right. So would they buy a large proportion of the produce available in the Adelaide Markets?

5 MR DEMASI: Yes, it's hard to say because a lot of the produce that they buy it is contracted and we've got about 15 wholesaler growers that are basically contracted to supply the two chains. So either they buy it through the market or they're over the phone and direct from the farm so there's both of that happening all the time. A lot of the wholesalers and growers they tend to use our platform as a logistic platform and do the orders for the supermarkets there because the supermarkets are pretty, relatively close to our destination, be it North – Main North Road and now in Burra Park with Coles new distribution centre so we're quite relatively close so that's where they do their logistics.

15 MR O'DONOVAN: Right. But those direct arrangements are separate from when the major supermarkets' buyers actually enter a market and start buying the produce that's for sale?

MR DEMASI: Yes, that's right. But I think it's probably more like 20 per cent is I suppose bought on a market day to day operation but - - -

20 MR O'DONOVAN: Sorry. You think they might buy about 20 per cent of the produce that goes to the market?

MR DEMASI: Yes, they are only to buy through their preferred supplier. That's – obviously they need to have quality assurance and so forth. They just don't buy a product off the floor from any grower or wholesaler because of food standards and so forth that they've got, so.

30 MR O'DONOVAN: Right, okay. So they don't, in terms of making a substantial impact on price on any given day do you ever notice any effects from the major supermarkets operating in the market?

MR DEMASI: Perhaps Wendy could answer that.

35 MR O'DONOVAN: Okay, all right. Now then, Wendy, if I could just get you to describe the price monitoring. Firstly I understand that you prepare these price monitoring tables?

40 MS HELPS: That's correct, yes.

MR O'DONOVAN: Okay. There's daily reports prepared, weekly reports prepared and month reports prepared.

45 MS HELPS: That's correct, yes.

MR O'DONOVAN: All right. Can you just describe briefly how the daily report is prepared?

MS HELPS: Yes, certainly. It's a guide only. So I get to work at 6 o'clock in the morning. Usually all the transactions have been done. Most of the retailers have left the market. I do sometimes check up with the retailers just to make sure that we're sort of around the mark with certain products but I start and I walk the market floor and I speak to the wholesalers and I ask them to ascertain what they got for a certain product and so I'll ask them what they got for their bananas and I'll go through the list of what sizes because there's certain sizes. Cauliflowers, cabbages, and there's usually about – I check up on about 60 lines, 60 products every market day and the off market days I go through and check up on the exotic lines that don't tend to change as quickly as the stable lines.

MR O'DONOVAN: Okay. Is there a – do you assess the quality of what's happening or just provide a range of the prices for which they're changing hands?

MS HELPS: I usually ask them if they - say, for instance, broccoli. I'll say to them, "What did you get on your 8 kilogram of broccoli today". If I get a price range of say 16 to 18 well, then I can, okay, that's not a big price range. If I get something say 16 to 24 I start saying – it's the 16 sort of ones, well, they weren't good quality, they tell me. It was mixed quality. So that's how you build your price range up so it's either quality, it's usually not size because size being – has to go into another category.

MR O'DONOVAN: As in they're actually specifically given different listings in the report?

MS HELPS: If there's a large cauliflower sold at \$2 and something was sold at a dollar, then I would want to know what the difference was and it would be usually size so you would have to go in another line as a medium or a small.

MR O'DONOVAN: Sure, okay. This is reflected in the daily report - - -

MS HELPS: That's correct.

MR O'DONOVAN: - - - as low, high, best?

MS HELPS: Yes. I could have a price range and then the packaging size and the description of the actual product.

MR O'DONOVAN: Right, okay.

MS HELPS: In the monthly and weekly reports it averages it out so we have a low price, a high price, an average price and the best price. The best price in the daily report is less than 5 per cent so it's not indicative of the market but if somebody happened to get \$5 above the highest price in the price range then I need to put that in but it's not indicative of the market so it goes in the best column.

MR O'DONOVAN: Okay. How are you able to calculate the average price in the market?

5 MS HELPS: The program does that. The data program actually does that at the end of the week.

MR O'DONOVAN: Right.

10 MS HELPS: On a weekly - - -

MR O'DONOVAN: Okay. But it doesn't – you don't assess the volumes that have gone through on any given line?

15 MS HELPS: No. No.

MR O'DONOVAN: It's just each wholesaler's price?

20 MS HELPS: Yes. It's not every wholesaler. I can't physically get round to every wholesaler so I go to the – say, eight wholesalers of cauliflower which is probably the majority of cauliflower wholesalers. Banana growers, banana wholesalers I try to see the whole, you know, four of them and so it goes down. But most times I'll backtrack on the off days, off market days and see the other wholesalers and get a good cross-section.

25 MR O'DONOVAN: Right, okay. Then when these reports are prepared how are they made available to participants in the market?

30 MS HELPS: Well, they're available to anybody to buy. They go to – what's started here goes to Aus Market in Brisbane and Aus Market in Brisbane will actually do a national report. So they do a report from every market that supplies data so somebody can buy a national report to see what Brisbane market is doing, Melbourne market is doing, for those particular products. This report I generate, I have about between 50 and 60 clients and they buy this report in various form. Some people are only concerned about five products. They may be growers, I have a percentage of
35 growers, a percentage of wholesalers and I have growers from interstate and other wholesalers from interstate.

MR O'DONOVAN: Okay. Do the major supermarkets buy your reports?

40 MS HELPS: I think there's an element of Coles buy the report. I think it's the distribution centre that gets the report.

45 MR O'DONOVAN: Right, okay. So the facility is available for growers to actually monitor what's happening in the marketplace?

MS HELPS: Definitely. Definitely. It gives them an idea of where their product sits and I have numerous discussions with them if they are concerned about the price,

the price range that day they'll ring me and I can explain to them maybe why their products may have dropped in price or – it's supply and demand.

MR O'DONOVAN: Yes.

5

MS HELPS: It's all supply and demand.

MR O'DONOVAN: All right. Now, is all of the product in the market cleared every day?

10

MS HELPS: The majority of product is cleared every – they buy daily, so they wouldn't want to have a lot of product left over. They would put it in their cool rooms straight away and it would be sold within a day or two days.

15 MR O'DONOVAN: Okay. In terms of the daily – the cycle within a day, is there price volatility within a day?

MS HELPS: Not usually, no, no.

20 MR O'DONOVAN: Okay. So, for example, a crop like mandarins which are obviously plentiful at very different times of the year, and can be scarce at other times.

MS HELPS: That's right, yes.

25

MR O'DONOVAN: How does that price cycle come through?

30 MS HELPS: Well, when mandarins first came from – they start from Queensland about six weeks ago, there was very, very few in the market, so the price was very high. Within probably two weeks, the quantity of mandarins in the market was just about – well, it had doubled, tripled. Every – just about every second wholesaler had mandarins on the floor, so the product came way back in price.

35 MR O'DONOVAN: Okay. The prices – I mean, just simply respond on a daily basis?

MS HELPS: Supply, yes, and supply and demand is what it responds to.

40 MR O'DONOVAN: Right. You'll see the price movements progressively through the days of the week or?

MS HELPS: Yes, some products change, like I said, the staple lines I check on a – three days a week, because they do change swiftly from day to day.

45 MR O'DONOVAN: Right, but you won't see much of a price change within a day, is that - - -

MS HELPS: That's correct, you won't see much – well, you won't see any price range change, they start at, you know, \$16 and \$20, and that's where they stick.

5 MR O'DONOVAN: Right, okay. Even if there's a large delivery over the course of the morning of a product?

MS HELPS: No. Well, it would be before the market starts and once I collect the prices it's all done and dusted, so I'm collecting the price that they actually sold to retailers that morning. It's not the price that the growers will get back, and that's
10 what I really have to ascertain with growers when they're purchasing this report, that they understand it's the price that it was sold to retailers or wholesalers that day.

MR O'DONOVAN: Right. From the grower's point of view, the price that they will get back is this price minus the agent's fee, or does it vary?
15

MS HELPS: Well, it really does vary and as I have said to growers, they say to me often, when they're buying this report for the first time, what do you think I would be likely to get back, and I say, I have no idea, I don't enter into that, strictly the wholesale price, and you need to build a relationship with your wholesaler to work
20 that out.

MR O'DONOVAN: Right. But a grower should be able to work out the range, the average, the worst and the best prices on the day?

25 MS HELPS: Yes, and he's really got to know his product, if he knows his product and where it sits, and he's got a good relationship with the wholesaler, then he should be – there should be no surprises.

MR O'DONOVAN: Yes, okay. All right, now, I'm not sure who would be best to
30 answer this question, but is there a relationship between the prices that – the wholesale prices in the Adelaide markets and the other fruit and veg markets around the country?

MR DEMASI: Yes, I suppose it would be relatively – depending on – I mean, if
35 there was a disaster, for instance, like the banana disaster we had, I mean, we were selling wholesale for \$10 a kilo here, and it was pretty much around all of Australia, so if there's a glut or there's a problem with a product, it's relatively the same, but it all depends on – I mean, sometimes they say Sydney fetches a better price because of – obviously the population there, and if we have a glut here, and everything comes
40 here, then obviously our prices will be pressed here versus Sydney, so I think that would be about right.

MS HELPS: Yes, I think that's correct, yes.

45 MR O'DONOVAN: Can growers – are most products sufficiently robust that they can be shipped to other markets if prices are poor in Adelaide?

MR DEMASI: Yes, and that happens, yes, I mean it basically – growers – some good growers will actually just send a quantity here, to Sydney, Melbourne, they'll actually pick the market, they'll know where to send the market, where the price is higher, and so if too much is here, the wholesaler will then on sell it into other
5 markets in Sydney, so – or Melbourne.

MR O'DONOVAN: Right. So it's fair to say that there is, for the most part, a national market for fruit and veg?

10 MR DEMASI: Yes.

MR O'DONOVAN: Okay. Now, is there – do you have any understanding of the relationship between the prices that are available in the wholesale market and the prices that big buyers like the major supermarkets are paying in their direct dealings
15 with growers?

MR DEMASI: Not really, but I mean, I know sometimes we would get unstuck in terms of having a fixed price on something and, you know, looking at the incident again, you know, if you had a fixed agreement with growers to sell at \$2 a kilo and then you had no bananas, and, you know, obviously those relationships would have to – those proposed contracts would have to be broken, so the market does play a pivotal role in determining market price, and so to does the supermarket. It goes both ways. I mean, if the supermarkets are not taking product in, obviously – and there's a glut, it ends up in our market, the export market, for instance, at the
20 moment, exchange rates are high, the product relatively ends up in our markets all around Australia, so the price gets depressed, so yes, I think it's both ways, you know, if you've – obviously the supermarkets are playing a role where it's – they're not buying a certain product, then it ends up in our market like the export market that the price goes down, so it would play both ways.
25

30 MR O'DONOVAN: Right. So the growers that you are aware have a direct – well, are you aware that some of the growers or wholesalers operating within your market have a direct relationship with major supermarkets, is that known generally in the market?
35

MR DEMASI: Yes.

MR O'DONOVAN: Presumably – does the amount of product that they put into your market vary depending on the behaviour of the major supermarkets?
40

MR DEMASI: Being a national, I think I wouldn't be able to really give you a clear answer on that, but being a national competition, I think you would find that it all depends on where the play is in each state, so I don't see it playing, really, a pivotal role.
45

MS HELPS: No, no.

MR O'DONOVAN: Yes, all right. Now, it's been put to us as a possibility that because the major supermarkets have such a big share of the demand for fruit and veg, that if they choose not to enter a market, that they can artificially – for a period, that they can artificially depress prices in a particular product category? Have you
5 ever seen market behaviour that suggests that there are big buyers not buying, that produces artificially a glut?

MR DEMASI: I think – the only thing I've seen recently would be the latest
10 hydroponic tomato plantation by Timbercorp, which was a direct supplier to Woolworths. My opinion was that once that was built, the market – the tomato prices will be depressed, and that's what happened, so things that the supermarkets do with relationships with their buyer or with their suppliers can play a role in depressing the price. It might not be intentional, it might be that they've got a, you know, a good reason for entering into that relationship, but all of a sudden, you've
15 had all these tomatoes on the market, and there was already existing relationships or existing suppliers into the market, you've also got a glut of tomatoes, so that did depress the price for a while, I'm not sure whether it is at the moment, maybe Wendy
- - -

MS HELPS: Yes, the prices really varies lately with weather conditions, so I see
20 tomatoes – but they are very volatile in price changes, they can swiftly change, but it really does depend on weather factors as far as, you know, if it's really, really hot, the plants will get burnt, so it might delay them, so quantity is not there, or if we have really good weather conditions, there would have to – you know, there may be a
25 glut for a short time. But asking me whether there was a lot left over at the end of the day, the wholesalers that I speak to about cauliflowers in particular, if they can see that there's a lot on the market floor that day, then when the grower rings up to resupply, they will say, just hold off, don't send us so many. So it evens out, and they can sell them without having to store them in the cool room for a day.

30 MR O'DONOVAN: Apart from the major supermarkets, is there any other buyer that can dominate or has a substantial market share in terms of buying?

MR DEMASI: In our market, it's Metcash and IGA and they've got about just
35 under 30 per cent which is actually healthy for us because we've got not two majors, we've got three plus the greengrocers plus food service.

MR O'DONOVAN: Right. So does Metcash doing all of the buying for the IGA
40 supermarkets now in fruit and veg?

MR DEMASI: No. There's actually a few platforms where Metcash – because they're independents. The independents chose where they do their logistics, so if they chose that for Metcash, Metcash have an arrangement with some organisations in the market to do their logistics. They will go through there. Some view their own.
45 They'll come to markets. We've got about, probably, just under a dozen different platforms for those independents to purchase the product which basically makes the whole competition a lot easier because if we've got 10, 20 tomato growers, they've

got a choice where to go; they don't have to send to Woolworths, they don't have to send to Coles. You know, they don't only have to send to Metcash because Metcash has got, like I said, 10 platforms in our market to send to. So if they don't get, say, for instance, grapes they might get the Romeos, which is the two independent
5 supermarkets here in Adelaide.

MR O'DONOVAN: Right. If we were to ask for it, could you provide us with a breakdown of the throughput of the market? Is that something – information that's held centrally, as in where the destination of the – I suppose the market share of
10 buyers within the market?

MR DEMASI: We've actually – the actual percentage we get from the supermarkets themselves, so Metcash provided us what their percentage is in the state, so you'll probably have to get that from them and we basically collect
15 information here and there. There is the credit service that is run by the chamber that could probably provide you that information but we don't actually keep records ourselves, but we just gather intelligence from the likes of Metcash and the likes.

MR O'DONOVAN: Right. Okay. Now, because you collect the information on the wholesale prices of various products, do you ever make retail price comparisons, either informally or formally?
20

MS HELPS: No, I don't, no.

MR O'DONOVAN: Right. Okay. So there's no information – it's been put to this inquiry that retail margins are increasing as a proportion of the retail price and the growers are getting less. Do you have any information which would either confirm that or suggest that that's not the case?
25

MR DEMASI: I suppose really all you have to do is get the report of the day and see what they're selling for in the supermarkets and you could probably work it out but, I mean, you know, these prices are based on tonnage, a pallet of this or a carton of that or ten cartons of this where the supermarkets is a kilo or half a kilo of that. It quite easily could be worked out to see what the margin is from wholesale to retail,
30 based on these prices.
35

MS HELPS: If they were buying actually in the same size packaging, you would have to probably sight the packaging because there could be four different package lines for avocados; there could be four different sizes for bananas; there could be –
40 yes. So it's endless really as far as packaging lines. You would really have to sight what packaging it came in to work out – and then you've got quality difference.

MR O'DONOVAN: Right. Okay. None of which is visible or is some of that – presumably, the highest price in the market is the highest quality?
45

MS HELPS: Correct.

MR O'DONOVAN: Right. So that if we were to take that as a benchmark that would tell us at least what – if we were to compare that with retail margins, that would tell us at least what the best – the minimal margin, the smallest margin difference there is.

5

MS HELPS: If you sighted the packaging and compared it with the packaging on the products report, yes.

MR O'DONOVAN: Okay. How long have these reports been prepared for? What period of time?

10

MR DEMASI: You mean years or?

MR O'DONOVAN: Yes, years.

15

MR DEMASI: Your previous speaker, Farmers Federation used to do it and it was done, well, 20 years ago it started.

MS HELPS: Yes. It was in the old market as well.

20

MR DEMASI: Yes, in the old market and the Farmers Federation did it but then for some reason they were losing money and they had to get out of it and we came onboard and said well, we can't afford not to have it and the growers wanted it so we took it on. Yes, so, it's been going for many years.

25

MR O'DONOVAN: Okay. So there's information dating back 20 years that's readily available?

MS HELPS: Well, the data base will let you go back 10 years that I have got, the program that I have got. Previously I don't think there was – it wasn't a data – in data form.

30

MR O'DONOVAN: Right. Okay. So 10 years is readily available?

35

MS HELPS: Yes.

MR O'DONOVAN: All right. So if a grower or any other player in the market wished to demonstrate to us this proposition that margins for growers are declining as a proportion of retail price, the data is available out there. Okay. Now, in terms of at least the Adelaide market, do you have any sense of what proportion of fruit and veg that's grown here goes through the wholesale markets as opposed to being sold direct to the major supermarkets as opposed to being exported?

40

MR DEMASI: We've used about – I mean, 50 per cent was a figure bandied around but, you know, if you take into account those wholesaler or growers that are in our markets, have got that relationship and it, you know, may not hit our floor but it goes direct, it could be up to 65 per cent, 70 per cent – that's through our market. We

45

seem to have certainly between 50 and 65 per cent of the trade; the supermarkets have the balance in terms of direct buyers nationally. So I think with preferred suppliers that the supermarkets have entered into, I mean, their job is obviously to reduce the number of suppliers in the supply chain; that reduces the cost.

5

That's obviously a pretty – information is out there to do that and what happens is obviously you have a particular packer – and we'll talk about the potatoes – that may deal with other packers and other growers, but it all goes – channels through one packer. So you're reducing the supply chain and that's probably where the Farmers Federation was talking about. Yes, so it's pretty hard to tell what hits the floor because of those reasons, because the supply chain is reduced.

10

MR O'DONOVAN: Right. Your estimate would be that it's more than 50 per cent of produce sold in Australia would go through a market?

15

MR DEMASI: Yes. We would on how much – we look at the ABS figures that's been bandied around. Horticulture Australia has got figures and it's funny that those two figures don't line up either and it's hard to kind of tell. Anyway, then you look at what the independents and the information IGA provided and we just work back from there to work the figure out.

20

MR O'DONOVAN: Okay. Now just going back to the potato example given by the South Australian Farmers Federation, if there are just a couple of agents which dominate the potato market, are they still buying through the wholesale – buying on the floor of the wholesale market?

25

MR DEMASI: I think they do a bit of that but I think the potato industry is really dominated by packers really. You know, the terminology we were talking about last time as a wholesaler, it's actually the packer that's got the relationship with the supermarkets. That packer then has that relationship with other packers all around Australia and so they buy the product on behalf of the supermarkets through their own growing enterprises and their own packing enterprises and others. So that's pretty much where the supply chain goes, yes. So in our market, the major – I mean, in South Australia you've got Comet and Mondello are the big packers.

35

They have relationships with wholesalers in our market and supply to them and Zorellas is another one. They are actually in our market. Those guys, I think they have relationships- you know, certainly if you look at Woolworths they probably have relationships with one packer which is a national packer that's got a licence to sell product to Woolworths. So it's not the wholesaler that actually dominates that sector, it's the packers.

40

MR O'DONOVAN: Right. Is there ever a suggestion that that produces a market that's too shallow or that's open to manipulation by such big players?

45

MR DEMASI: Yes. Well, I mean, I suppose if you just look at the economics of it, I suppose if you've got – I mean, just looking at this state, potatoes, you've got three

major – three significant potato packers here. If, you know, you have a supermarket says, “We’re going to go and deal with packer A in Sydney” and you have to sell through there, what happens to those packers and perhaps they may be put into a disadvantage, and they’ve got some large operations here in South Australia, and
5 potato is quite a significant output. You know, just the decision made like that, that, you know, if you’ve got channels – because of reducing the supply chain, it could affect the overall supply chain.

10 But I’m not really au fait with the exact, I suppose, contracts with supermarkets and national packers and national wholesalers. But I know that, you know, you’ve got some – three large main players. They all supply into the chains, they supply into our market, they supply into the independents, but the virtue of the policies where they – supermarkets do reduce supply chain by going through one or two preferred suppliers does obviously, cause issues with the larger packers so - - -

15 MR O’DONOVAN: Sure. But it hasn’t distorted the wholesale potato market? If you’re a small grower can you still sell through the wholesale floor and be confident that you’re getting a market price based on supply and demand?

20 MR DEMASI: Well, you’ve got that ability to sell through the floor and I suppose with the drought, potatoes is a bit of a – the prices have actually gone up so the supermarkets have actually had to buy the product that’s available and if not, then it will go to - it will come to our market. So the grower will have an option if supermarkets don’t – they want to continue to have a fixed price, they can sell them
25 to our market, and I know that’s – you know, I was speaking to some of the potato packers in the last few months. They’ve received some good prices because of the drought and I suppose that’s – while our market exists in each capital city or each city of Australia, it tends to give an option to growers and packers to send to other places.

30 MR O’DONOVAN: Okay. Now, the Australian dollar has appreciated in value recently?

MR DEMASI: Mm.
35

MR O’DONOVAN: Does that have an impact? Or in the last few years, has that had an impact over time in product that would normally be exported being shifted into your market?

40 MR DEMASI: Yes, yes, it definitely does. Mainly – it does affect Sydney mainly because a lot of the growers tend to – because there’s large volumes you’re talking about, with avocados and mangoes, they - the growers tend to send to the other eastern seaboard because, you know, they can get rid of it a lot quicker because of our population here. But it certainly does affect the market price because, I mean,
45 you – supply and demand again, you bring in product that wasn’t there before and it goes into the market and, you know, that product might be A grade so it might fetch

a better price but it certainly brings down – way down the price of the product that is at a lower grade.

5 MR O'DONOVAN: Right, okay. So at least in respect of some food items we should see drops in wholesale pricing and consequently, drops in the retail price of some food items?

10 MR DEMASI: It's a hard question because, you know, again supply and demand, drought, and, you know, we – just depending on what happens, the balance of the drought and the balance of the export product entering into our market. It could out-balance each other, I mean, the export market might be a saviour to – or the failure of the export is a saviour, maybe, to our domestic market so, yes, but it's really on the day and on the month and - - -

15 MR O'DONOVAN: Okay. Is there any specific problem that you see arising from having a reasonably high level of concentration of market share with Coles and Woolworths in the operation of your market? Is there any complaints that are being brought to your attention or anything that we should know or understand for the purposes of this inquiry?

20 MR DEMASI: I think it's important that we keep them honest and, you know, the – we certainly strive on the independent supermarket sector and the greengrocer sector and the food service sector, and we still want Woolworths and Coles to participate in our market because they do buy through our market. I think if we didn't have the competition out there, and you will have a true duopoly, and it's important that, you know, we keep – and our allied business is always on ensuring the independents are there because, you know, the Thomas Drakes of the world that Woolworths have rolled out in Sydney is basically competing with the independent supermarkets.

30 Because they see that the independents are making ground in Australia, certainly in Adelaide and Sydney. What I fear is, I suppose, if the independents weren't there and the Metcashes and the independent supermarkets weren't there, I think we'll definitely see high prices. I – you know, it's – no doubt that while we've got competition, there's basically room for everybody to play, basically.

35 MR O'DONOVAN: Right. So as the market structure currently sits, you're satisfied that at the retail level in fruit and veg there are players enough to provide a competitive market?

40 MR DEMASI: Yes, yes. I mean, and I think it's also very important that we don't see our market as a dumping ground for the big two majors. When things get out of spec and, you know obviously they end up in our – some of them end up in our market, and world studies have shown in the UK that that was the demise of the independents and the demise of, I suppose, the greengrocers. The thing is that we'd probably want to ensure that our market keeps, you know, priority in terms of getting the better produce, and that is what our market is about in Adelaide. We tend to look

at the niche products and the better products so the greengrocers and the independent supermarkets have a better play in terms of the marketplace.

5 But we certainly don't like to see too much dumping on our floor because that does depress market prices too and then we become a secondary market, which we certainly don't want to be.

10 MR O'DONOVAN: Okay. Is there much evidence that – I suppose one of the other issues that has been put to us is that the major supermarkets or wholesalers, generally, having agreed a price for a specification then find themselves in a falling market and reject produce because of the falling market, not because it's not within specification, and then it's dumped into the wholesale market, depressing prices. Do you see much evidence of that behaviour occurring?

15 MR DEMASI: It is anecdotal but I think I see physical evidence of the actual – and because they're black boxes now so you can just walk around the market, and you'll be walking around tomorrow, you see it on the floor. I mean, so it is certainly being rejected. For what reason, I don't know. I mean, we're not there to actually know exactly why they've been rejected, but it's probably a question you'd have to
20 actually ask a wholesaler or a grower. But, yes, certainly, you see it on the floor and, you know, especially if it's out of spec or – I'm not sure that they knock it because the supplier will then get it cheaper somewhere else. Yes, that's something you'd probably need to ask the wholesalers or growers, I'd say.

25 MR O'DONOVAN: Sure. Have the wholesalers and growers made that sort of complaint to you?

MR DEMASI: I've heard that, I've heard it in the marketplace but I can't say it's
30 true or not, yes.

MR O'DONOVAN: Sure. Okay. That is all I've got.

COMMISSIONER MARTIN: Just one question. With the data that you collect, as I understand it, it is what the wholesaler is on-selling to the retailers.
35

MS HELPS: To the retailer, yes.

COMMISSIONER MARTIN: Is there are a collection – any collection of data on what the wholesalers pay to growers or is that just a - - -
40

MS HELPS: No, that would have to be individual wholesalers and between wholesalers and growers, agreement. As I say to growers that buy the report, "I don't need to enter any of that."

45 COMMISSIONER MARTIN: No, but effectively, therefore, a wholesaler who has a contract or a HPA, he knows what he is being paid so that therefore, with your data, he knows therefore what the wholesaler's margin is.

MS HELPS: He wouldn't be in for any big surprises if he actually knows where his product sits as far as quality goes.

COMMISSIONER MARTIN: Right.

5

MS HELPS: Sometimes there's a – you know, growers get a little excited if they think that they're going to get – but their product probably doesn't sit in the high range. But most growers understand, by visiting the markets, where their product sits.

10

COMMISSIONER MARTIN: Right. Okay, thanks.

THE CHAIRMAN: Thank you, thank you very much indeed.

15 MR DEMASI: Yes, thank you.

THE CHAIRMAN: Right. I will just take a break for a minute.

20 **ADJOURNED**

[11.57 am]

RESUMED

[12.01 pm]

25

THE CHAIRMAN: All right, we'll resume the hearing with the representative, ABB Grain. Mr O'Donovan?

30 MR O'DONOVAN: All right, could you state your name, the company you represent, and your position within the company.

MR ASSER: Lyndon Asser from ABB Grain Limited, my role in the company is market manager of barley.

35 MR O'DONOVAN: Of barley? Okay. All right, and you understand that it's an offence under the Criminal Code to give evidence at this inquiry that you know is false or misleading or omits any matter or thing about which the evidence is misleading?

40 MR ASSER: Yes.

MR O'DONOVAN: Okay. Now, could you just briefly describe what ABB is, what it does, what products it sells?

45 MR ASSER: ABB is a diversified Australian agricultural company. Its main sections include grain marketing, grain storage and handling, grains packing and

processing, the production of malt in barley into malt, and the marketing and trading and fertilising of wool and livestock products.

5 MR O'DONOVAN: Right. Apart from barley, does it deal in any other grains?

MR ASSER: Yes, it trades in pretty much all Australian produced crops, including wheat, barley, oats, pulses, peas and beans, canola, we're also involved in the importation of certain agricultural products as well, such as copra meal kernel, expeller, soya meal, those types of products.

10 MR O'DONOVAN: Okay. On the supply side, are those markets competitive, are you competing with other buyers to acquire those products?

MR ASSER: Yes, yes, it would be fair to say that on any given day there's potentially half a dozen other players within those markets competing for those same products.

MR O'DONOVAN: Right, and how do you enter that market, is it – are there specific agents, or is there a specific trading floor that you operate in?

20 MR ASSER: There's several levels. We have a network of agents that approach farmers direct. There's also a secondary or wholesale market that is developed that trades what we call paper, so you can buy and sell a parcel of grain, as a contract with other participants in the market. You can also use the ASX futures market to buy and sell grain, and there's also, obviously, the international futures markets as well, so there's various platforms through which to buy and sell.

MR O'DONOVAN: Okay. From a farmer's point of view, is it up to them at what point they set their price, or do they get – just price on the day, or are they able to hedge risk?

MR ASSER: There's again a range of products available to growers, and those products range from forward products, so, for example, today a grower can forward sell his wheat or barley crop that won't actually be harvested until say, November, December, and he has the option to take out forward contracts any time between now and harvest, at harvest there's a range of cash prices at silo, there's other options that they might have where they can hedge their – part of their crop, they can also warehouse their grain, so they don't have to sell it at harvest, they can elect to hold it until they feel they would like to market that grain, so various options.

40 MR O'DONOVAN: Okay. From ABB's point of view, could you give us a rough breakdown of how they acquire, if that's – yes, in terms of the mix of forward buyers and spot buyers and direct deals?

45 MR ASSER: I guess it's fair to say as a result of the back to back droughts we've had, growers are more reluctant to forward sell, so the forward selling of grain has declined and probably will stay relatively low. I guess in percentage terms, it is a

little bit of an estimate, but 30 per cent we would buy forward, with the majority then bought at harvest or close to harvest.

5 MR O'DONOVAN: Okay. All right, and then looking at it from the other side, in terms of who your customers are, is that something you can discuss publicly?

10 MR ASSER: Sure. If I stick to barley perhaps, that I know better. As far as malt and barley is concerned, we sell, obviously, to our own malt house, which is are Maltings, there are two other malts just within Australia that we would sell to. We also sell malt and barley – our principle export market is China, so we have a range of customers in China where we sell either in containers or in bulk cargoes. With feed barley, we sell feed barley to other competitors. Within the Australian market, we're selling to the intensive livestock industry, at predominantly the wholesale level, so into the stock feed manufacturing sector, which is the likes of Wrigley
15 agriproducts and Ingham's, and also into the smaller independent feed ingredient producers nationally.

20 MR O'DONOVAN: What would be the rough break up between domestic and export markets?

MR ASSER: I guess if we take the national crop, I think it's – it would be fair to say that with barley, 20 per cent is used domestically, and the rest is exported. That's probably similar to wheat as well. Canola I would believe is a higher proportion exported, and also with pulses. So the major grains, approximately 20 per cent, it
25 does vary obviously with total production. The domestic component is quite fixed, and therefore with higher production, you then have a higher proportion export.

MR O'DONOVAN: Okay. How is price set?

30 MR ASSER: The price is through a number of means, generally, though it would be fair to say that it's set according to international values, but because we are heavily export driven, then it's all about what is the export market, what are our competitors, such as other suppliers in Canada in Europe, what are they offering into the market, where is the world market, and obviously that's our outlet. The domestic market
35 generally just pays us more premium over that to retain those products within Australia for their use. We also use the futures market, Sacargo or Winnipeg futures markets to develop our own ideas about price, and we also run a number of supply agreements, not necessarily fixed price supply agreements, but they also lead to determination of price.

40

MR O'DONOVAN: In terms of the product that you produce, does it have any impact on the price of other domestic products, is there a specific barley product that, for instance, consumers buy that would ultimately – would have had its origin with
45 you?

MR ASSER: Not in the feed market, no, not in that sense. The feed market – the producing feed products for the intensive livestock industry, it's all about producing

the least cost ration, so they're looking all the time at the various attributes of the various products available to them, and they would value them according to their value into the feed chain, so it's all relative, one product against another, and that goes right back to imported products as well, so if, for example, feed barley became
5 uncompetitive against imported palm kernel, then feed barley prices would tend to fall. With malting barley being a much more specific use product, the alternatives are less, and obviously in a period of short supply, similar to what we've been through, values have risen there, such that we get to the point where we're looking at importing replacement products, so the market is pretty healthy in its price
10 relationship with the world market and alternatives, but it can be limited a little bit depending on the specific use of the product.

MR O'DONOVAN: So is it fair to say that there's no direct – you don't deal with any direct – you personally, at least don't deal with any product that's directly
15 consumed by consumers?

MR ASSER: No.

MR O'DONOVAN: But the price of – presumably the price of barley, for example,
20 does impact on the price of other things like chicken and red meat and those sorts of things.

MR ASSER: Correct, yes.

MR O'DONOVAN: All right. Can you just indicate briefly what's happened to the
25 market for barley in the last three or four years, whether there's – what changes have taken place in relation to price and what – I suppose what response a company like ABB has to those changes in market conditions?

MR ASSER: If we try and take a snapshot of the last four years, we probably didn't
30 see a great deal of change in the first two years. We would have seen relatively average pricing and that average pricing would have occurred over perhaps the last 15 years. Prior to that there would have been the odd spike produced through lower supply or other factors, but really not a great variance from long run average, I guess.
35 In the last two years, though, we've seen a very substantial change in the price of barley, which was caused by obviously production problems here, back to back, but also production problems in Europe. But one of the main influences has been a massive change in the subsidy available to barley in particularly Saudi Arabia and other Middle Eastern countries and also combined with an export ban in some
40 eastern European countries, the Ukraine, with a complete ban on the export of wheat, barley and corn and they've only just removed that.

So we had a situation where we had lower supply, coupled with a massive increase in the subsidies a country was willing to pay to obtain barley and also coupled with
45 other countries restricting exports. So it's difficult to say it was on the demand side or the supply side, I mean it was a little bit of both, but we have actually described it as the perfect storm for barley prices, where you not only had shrinking supply, but

you had increased demand that was prompted by these massive increases in subsidies. So barley prices have risen and probably doubled, I guess, in the last – over the last two years on average and I guess it's our view that some of those influences won't disappear quickly and so we're potentially in a higher price regime in the foreseeable future.

MR O'DONOVAN: Okay, and so how much per ton was it selling for and how much per ton is it selling for now.

10 MR ASSER: We looked at malt and barley. Malt and barley on average was selling for \$200 a ton and up until fairly recently it's been selling at \$400 a ton.

MR O'DONOVAN: Okay.

15 MR ASSER: That's per ton delivered to port.

MR O'DONOVAN: Right and that sounds very similar to what's happened in the wheat market as well.

20 MR ASSER: Yes, very similar. Barley did tend to lead wheat, but wheat has followed not necessarily with the influences associated with barley, there weren't the subsidy issues, there certainly were some export restrictions with wheat. Wheat has also had – has seen massive price increases as a result of investment funds coming into the futures markets. So we've seen money flowing out of equities or out of
25 property, looking for a home, looking for a return and substantial amounts of money have flowed into the commodity – soft commodity futures markets and I guess that's been one of the major influences over the wheat price hikes and the wheat volatility over the recent year or so.

30 MR O'DONOVAN: So is there close substitution between wheat and barley and corn and oats, all the other grains, or is it just coincidence?

MR ASSER: In a sophisticated market there will be, in Australia in a sophisticated feed ingredient market there will be, in other markets, for example, such as Saudi
35 Arabia they were very focused and have been very focused on barley. They are only now looking at trying to stimulate their buyers in their end use as to look at other alternatives such as corn and wheat and oats and whatever. In a sophisticated market, such as the US, yes, there's quite high levels of switching depending on, you know, the least cost ration scenario or even with the US grower as prices lift the
40 corn, they'll divert acres that they would have put into wheat into corn or vice versa.

MR O'DONOVAN: Okay.

MR ASSER: It depends on the sophistication of the market generally.

45 MR O'DONOVAN: Right and so what was the reason for the Saudi subsidy of barley?

MR ASSER: That is a difficult one to answer, I don't feel qualified to answer other than to say that they do like to keep the price – the bagged price of barley to their Bedouin tribesman and the Bedouins that feed their camel or sheep and goat herds at a very stable level and it aids, I suppose, keeping civil unrest and keeping the status quo in the countryside of Saudi Arabia, so as barley started to lift they wanted to make sure that the Bedouins were seeing the same bagged price and had to continually lift the subsidies to buy barley, available barley away from other destinations so that their countrymen wouldn't be affected.

10 MR O'DONOVAN: Okay, there's also quite a lot of talk in the press about the impact of bio fuels on grain prices. In your experience is that an impact, the subsidies being paid for bio fuels?

MR ASSER: Very much so, it's probably one factor that I failed to mention earlier. The government, particularly the US government mandated levels of ethanol inclusion in their fuel, has caused a massive swing out of wheat and into corn. It's caused a massive acreage of – available acreage going to corn production and, yes, it's certainly one of the – potentially the top three or four factors affecting world grain values at the moment.

20 MR O'DONOVAN: Okay. Now, in terms of your position, does your understanding of the wholesale markets give you any understanding of what impact that's likely to have downstream in the wholesale and retail markets for consumer products?

25 MR ASSER: Some, but perhaps limited.

MR O'DONOVAN: Right, are there any general comments you can make about the impact that these changes on the primary commodity markets are likely to have upstream for consumers?

MR ASSER: I do believe that the drought card is played too readily when producers or retailers are talking about their products and price increases. I don't know the specifics, but it certainly – there is some evidence that in a lot of products grain is only a small component of the finished product price. There is no doubt that the market has suffered huge increases in labour, fuel costs, freight costs. Freight costs have risen quite steadily. In the case of the beer manufacturers, we're certainly aware that they've faced increasing costs in, for example, glass and aluminium and freight and grain. So I'm not suggesting they play the drought card, but drought isn't generally the only reason for those increases.

MR O'DONOVAN: Okay, and in terms of the increase in your costs as an input to other forms of agriculture, like chicken growing and I suppose feed – is your product an input to feedlotting?

45 MR ASSER: Yes.

MR O'DONOVAN: For red meat?

MR ASSER: Yes.

5 MR O'DONOVAN: Has there been a consequent decline in the actual consumption of your product because feedlotter and chicken growers can't economically produce their product?

10 MR ASSER: Yes, definitely. Yes, we've seen quite a swing away from the demand for barley into feedlotting particularly. That is now starting to increase. What we've seen is quite a large and I guess competitively priced crop come onto the market. In fact barley produced last December at a very high number and as I said attempted to be bought away from the domestic consumption into the international market, lifted the price of the inputs for your general feedlotter, he is now able to at a
15 much more competitive price than barley, so we're starting to see some restocking and some general, I suppose, optimism now in the feedlotting sector. We have definitely seen quite a marked reduction in demand in the first six months of, you know, or the last six months.

20 MR O'DONOVAN: Right, so the supply of feedlot fed animals is likely to have declined possibly as a result of the increases in grain prices?

MR ASSER: Yes, I would think so, yes.

25 MR O'DONOVAN: Okay.

MR ASSER: I'm not qualified to say, but I would assume so given – we do monitor the livestock on feed numbers and they have declined, yes.

30 MR O'DONOVAN: Yes, okay and that in itself would be likely to put some pressure on the retail price of meat?

35 MR ASSER: Yes, and no, that's an interesting one. Again I'm not qualified to answer, but anecdotally there is some trade-off between grain fed and grass fed cattle and so if grain feeding becomes too costly cattle will – cattle through the cattle markets, the price on hoof will fall and that will make grass feeding more competitive. So it doesn't necessarily always lead to a flow through increase at the retail level. It may certainly for grain fed, but not necessarily for grass fed.

40 MR O'DONOVAN: Okay. All right, that's all I have.

THE CHAIRMAN: Thank you very much, we appreciate your assistance. We'll start at say 1.30. Break now for an hour and then start at 1.30.

45

ADJOURNED

[12.23 pm]

RESUMED

[1.31 pm]

5 THE CHAIRMAN: All right. We'll reopen the hearing and we're welcoming Mr Tony Rochella.

MR R. CERAVOLO: Ceravolo.

10 THE CHAIRMAN: It's switched around. I'm sorry. It's all right. It's switched it on me. Okay, so my apologies, sorry.

MR CERAVOLO: That's all right.

15 THE CHAIRMAN: Yes. Okay. I'll pass to you, Damien O'Donovan.

MR O'DONOVAN: Thank you. Could you just state for transcript, your full name, the company - - -

20 MR CERAVOLO: Tony Ceravolo.

MR O'DONOVAN: The company you work for?

MR CERAVOLO: Is R. Ceravolo and Co.

25 MR O'DONOVAN: Your position within that company?

MR CERAVOLO: Managing Director.

30 MR O'DONOVAN: Okay. Now you understand that it's an offence under the Criminal Code to give evidence at this inquiry that you know is false or misleading or omits any matter or thing without which the evidence is misleading? Do you understand that?

35 MR CERAVOLO: Yes.

MR O'DONOVAN: Okay. Were you summonsed here today?

MR CERAVOLO: Yes.

40 MR O'DONOVAN: Okay. Now one other matter I should point out is that if there's any question that I ask you where the answer discloses confidential information just indicate that to the chairman and he can close the hearing. We may keep it open and pursue that question later in a closed hearing.

45 MR CERAVOLO: Yes. I understand that.

MR O'DONOVAN: Okay, all right. Can you just state, just briefly describe what it is that the company, is it Ceravolo and Co?

MR CERAVOLO: Ceravolo, yes.

5

MR O'DONOVAN: Ceravolo and Co do?

MR CERAVOLO: We actually, we are growers in the Adelaide Hills, mainly fruit growers, apples, pears, cherries and nectarines. We also run a cold storage facility where we store our own fruit. We have our own packing shed so we pack from the facility as well. We've got a wholesale, we are actually wholesalers of the Adelaide Produce Markets and we do a little bit of profiting as well, as far as supplying some of the smaller independent grocers direct.

10

MR O'DONOVAN: Okay. In any of those operations are you supplying services to other growers?

15

MR CERAVOLO: Yes. In the wholesale business we do. We sell also vegetable lines, quite a few lines. We probably sell anything between 50 and 60 lines in the wholesale market.

20

MR O'DONOVAN: Okay, but in terms of your packing sheds and your cold storage, do any of - is any of that supplied to other growers?

MR CERAVOLO: Yes. We also pack a little bit of fruit for other growers.

25

MR O'DONOVAN: Okay.

MR CERAVOLO: We don't store it but we do pack it.

30

MR O'DONOVAN: Okay, and is that done a fee for service basis or as an agent or as a - - -

MR CERAVOLO: No, it's a fee.

35

MR O'DONOVAN: Okay, all right. Well, then going back to the products that you actually grow and perhaps we'll just take apples as a representative example.

MR CERAVOLO: Yes.

40

MR O'DONOVAN: Is apples reasonably representative of the - - -

MR CERAVOLO: Yes. Apples is probably 70 per cent of our business.

MR O'DONOVAN: Okay.

45

MR CERAVOLO: We grow a lot of apples.

MR O'DONOVAN: All right. So in terms of getting the apples to an ultimate market, firstly could you describe once they're grown how you get them off the property and sold into the market?

5 MR CERAVOLO: Okay. You want like start from picking?

MR O'DONOVAN: Yes.

10 MR CERAVOLO: Okay. They're picked into bulk bins. From bulk bins they're transported into the cold storage facility where they're either dipped or drenched just to stop any mould spreading in the bins if there is any or anything breaking down. From there they get put into CA bins, what we call Controlled Atmosphere, which is just reducing the oxygen in the room and the carbon dioxide, slowing down the ripening process. From there they might, sometimes we pack them straight off the
15 orchard otherwise we just store them and when we're ready we just open up the rooms and pack them accordingly to what the market wants. So more or less we have apples 12 months of the year.

20 MR O'DONOVAN: Okay, and you control how quickly or slowly the picked apple ends up in the marketplace?

MR CERAVOLO: Yes. Well, if you say, picked a thousand bins of Pink Ladies, you know you've got 30 weeks to sell those apples and you know you've got to get rid of more or less so many bins a week, 30 bins or whatever it is.

25 MR O'DONOVAN: Okay. Now at the point at which an apple is picked do you already have some idea of which market you're going to sell a percentage of those apples into?

30 MR CERAVOLO: Pretty well, yes.

MR O'DONOVAN: Okay. What markets are you looking to selling to?

35 MR CERAVOLO: Mainly into the Adelaide market but we also do Sydney, New South Wales, Sydney, New South Wales. We also do Brisbane, not much into Melbourne and we do a little bit overseas.

MR O'DONOVAN: Okay. Just starting with the overseas market?

40 MR CERAVOLO: India.

MR O'DONOVAN: India.

45 MR CERAVOLO: Yes.

MR O'DONOVAN: How do you arrange to sell your products to India?

MR CERAVOLO: We've got our own export business. I've got somebody looking after that for us.

5 MR O'DONOVAN: Okay. Is that a market you generated yourself?

MR CERAVOLO: Yes.

10 MR O'DONOVAN: Okay. Is apples generally a commodity that's internationally traded? Is there an international market for them with an international price?

MR CERAVOLO: I think it's a good commodity because it's a good keeping commodity as far as transport, like it takes 18 days on the boat to get them over there, so they've got to be pretty sound to be able to get over there in good condition.

15 MR O'DONOVAN: Okay. But are there a lot of growers who would sell internationally or are you unusual in having that export - - -

MR CERAVOLO: No. There is quite a few companies that do it.

20 MR O'DONOVAN: Okay. Do imported apples ever compete with Australian apples at the retail level?

MR CERAVOLO: Not so far, no apples are allowed to get imported into Australia yet.

25 MR O'DONOVAN: All right. Then going to the other capital city markets that you sell into, do you just sell them to wholesalers on the wholesale floor of the relevant city market?

30 MR CERAVOLO: Yes. We sell to wholesalers on the wholesale floor but we also do like Coles as a national supplier. We do nationally Coles as well. We're one of their core suppliers for apples so we might supply if Brisbane gets short of apples or something, we'll supply direct into the Coles there into their DC.

35 MR O'DONOVAN: Yes, okay. Now tell us about the arrangement or tell us whatever – firstly whatever elements you can tell us about publicly about the arrangement with Coles. Is it – firstly, do you have a long term written agreement with Coles?

40 MR CERAVOLO: Well, we've been with Coles for probably 40 years now. There's no written agreements, it's all verbal but there is a certain element, I suppose, of we are one of their core suppliers so they'll come to us first. If we can't supply what they want then they'll go elsewhere.

45 MR O'DONOVAN: Right, okay. So there's no written supply terms - - -

MR CERAVOLO: No, definitely not.

MR O'DONOVAN: - - - provided to you.

MR CERAVOLO: They will never do that I don't think.

5 MR O'DONOVAN: Right, okay. So then in terms of the timing of how price and quantity is worked out, how are those elements negotiated and agreed?

10 MR CERAVOLO: We do it on a weekly basis like pretty well every Tuesday we have a meeting and we work out, we probably work three weeks behind. We set our specials and we go from there.

MR O'DONOVAN: Okay, and it's at that point that they tell you the price they're prepared to pay and the - - -

15 MR CERAVOLO: Yes. They call it negotiating.

MR O'DONOVAN: Yes. Okay. In terms of the way in which market price is set, does it have a relationship to what you can get in the wholesale markets?

20 MR CERAVOLO: Definitely. It's a good guide.

MR O'DONOVAN: Right, okay. If they were to come to you offering you a price that you thought you could better at in the wholesale market would you redirect numbers or amount of produce to the wholesale market?
25

MR CERAVOLO: I mean, you would have to be pretty careful how you would redirect numbers because – I suppose you could probably say “You're just a bit light on” or something like that. You wouldn't go straight out and say to them, “Listen, I can get more somewhere else”.
30

MR O'DONOVAN: Right, okay.

MR CERAVOLO: That could be a bit detrimental to your business.

35 MR O'DONOVAN: Right, okay. Again this mightn't be a question necessarily you want to answer in public but in terms of negotiating with Coles when you go and set down a set price and a quantity, do you feel that you have power in that negotiation?

40 MR CERAVOLO: Within reason.

MR O'DONOVAN: Right. Do you believe the price that you will get from them will represent a fair market price based on the supply and demand conditions in the - - -

45 MR CERAVOLO: It has to be a fair price. I mean, the smart operators, if you don't get a fair price you just don't supply, simple as that. You're not there to lose money.

MR O'DONOVAN: Yes, okay. So then in terms of how you approach those negotiations in relation to your costs, do you have a certain view about what return given the cost of growing the product - - -

5 MR CERAVOLO: Yes.

MR O'DONOVAN: - - - what the return should be?

10 MR CERAVOLO: Yes. Definitely. I mean, this year has been a hard year. We've paid a lot of money for water. We're struggling to get size on apples. So for those apples that are that little bit bigger we have to demand a little bit more money for them just to cover a lot of our expenses.

15 MR O'DONOVAN: Sure.

MR CERAVOLO: Fuel is another huge expense of ours.

20 MR O'DONOVAN: Okay. So in terms of your ambitions as a business man to earn a margin above your costs - - -

MR CERAVOLO: Yes.

25 MR O'DONOVAN: In the operating market at present are you able to achieve a cost plus margin?

30 MR CERAVOLO: On some lines you can. Some lines it's very hard. If there's a big influx of a certain line and everyone – and all of us have got it together and all at once like as an example if the Pink Lady's this year because of the dry conditions the actual background of the apple is going a bit yellow and the colour is not quite there and you really have got to offload those apples because you can't store them or anything. So, you know, that's a line that you probably won't make anything out of. You sort of cut your losses and try and cover it.

35 MR O'DONOVAN: But in those circumstances it is the supply conditions that are preventing that rather than the fact that you're facing only a small numbers of buyers on the other side?

MR CERAVOLO: I'm not sure what you're asking there.

40 MR O'DONOVAN: Is it because you haven't been able to produce apples that meet - - -

MR CERAVOLO: Specifications?

45 MR O'DONOVAN: - - - specifications that you can't get it or is it because there are too many people producing apples of that quality?

MR CERAVOLO: I think it's more that we're not meeting their specifications, more than anything else.

5 MR O'DONOVAN: Okay. In those circumstances, will that product be rejected and disposed of through the wholesale market or - - -

10 MR CERAVOLO: Yes, some of it will, but you can vary specs as well a little bit with them, within reason, but it has to be – like, it has to go back to Melbourne and then come back to Adelaide to make sure that they've accepted it. Otherwise, what you do is you offer them, say, if they order - an apple that hasn't got enough colour, you'll put it in a pre-pack and you'll move it that way, it'll be just a discounted line.

15 MR O'DONOVAN: Okay. Again, that will be negotiated at one of your weekly meetings?

MR CERAVOLO: Yes, definitely. Yes, you'll plan ahead.

20 MR O'DONOVAN: Yes, okay. All right. So in terms of the delivery arrangements where produce is either accepted or rejected - - -

MR CERAVOLO: Yes.

25 MR O'DONOVAN: - - - could you tell us how it is delivered and when you know it has been accepted and when you're going to get paid the agreed price?

30 MR CERAVOLO: Yes. Well, we've – we're given a set of specifications from Coles. This is solely talking about the supermarkets because in the Adelaide Produce Markets we don't have – so a set of specifications, any way. A greengrocer will come in, he will look at the product and if he likes it, he'll buy it. Whereas the chain stores, you go to just one DC. As an example, say, Granny Smiths, they can only have one centimetre squared of russet on it. They can only have one slight marking on it. If they find more than, say – I think it's three or four applies in that whole box, they're only going to look at two boxes, and if they find two boxes out of that pallet, they'll reject the whole pallet, they won't even look at any more boxes, they will just reject the whole lot. So you've got to take it all back, repack it, and do whatever you can with it.

MR O'DONOVAN: Right. How quickly do they do that?

40 MR CERAVOLO: On the – if I take – my delivery time is, like – it's, say, 8 o'clock in the morning. By, say, 10 o'clock I'll know what's happened, if there is any problems.

45 MR O'DONOVAN: Okay.

MR CERAVOLO: They won't do it straight away because they've got so many pallets coming in. They have like a certain section where they unload everything in a

cool room and then one person's in there and he just slowly checks everything off, pallet-by-pallet,, and once it goes into the DC then it's accepted.

5 MR O'DONOVAN: Okay. How long then will you have to wait for payment?

MR CERAVOLO: Payment? Payment is normally around six weeks with the supermarkets.

10 MR O'DONOVAN: Right, okay, and that is - - -

MR CERAVOLO: Yes, that's pretty standard, for most of them.

15 MR O'DONOVAN: Right. Were you able to – have you – has that increased in the last four or five years in terms of the delay in payment or is that - - -

MR CERAVOLO: I think it was four weeks but it went back to six weeks in the last few years but that was, like, maybe in – three years ago it was four years and then maybe it's five and now it's six.

20 MR O'DONOVAN: Right.

MR CERAVOLO: That's about where it is now.

25 MR O'DONOVAN: Okay. Did they just notify you of that?

MR CERAVOLO: Yes.

MR O'DONOVAN: Right. So you weren't able to negotiate on an issue like that?

30 MR CERAVOLO: No, there was just a letter saying that - such-and-such payments.

MR O'DONOVAN: Right, okay. So then if product is not accepted then you pay for transport back to your - - -

35 MR CERAVOLO: Yes.

MR O'DONOVAN: Or do you direct it then into the wholesale market of the relevant capital city?

40 MR CERAVOLO: Well, normally what we do, because we're delivering again the next morning, we pretty well deliver every day there, to, say, to – to DC.

MR O'DONOVAN: Yes.

45 MR CERAVOLO: My boys will deliver, they'll unload, and then they'll load up, if there's – the ones from yesterday, if there's any problems. But if you stick within the specifications you're pretty well right, you don't – I might have maybe one

problem a week, if I'm lucky. You know, that's about it, you've got to pretty careful.

5 MR O'DONOVAN: Okay. Out of how many deliveries would one - - -

MR CERAVOLO: We deliver every day.

MR O'DONOVAN: Yes.

10 MR CERAVOLO: We top them up at lunchtime as well, if they need topping up.

MR O'DONOVAN: Right. So when you say you have "one problem a week", that is one in five.

15 MR CERAVOLO: Yes, one in six because it's Monday to Saturday.

MR O'DONOVAN: Right. Would that affect the whole consignment, the problem?

20 MR CERAVOLO: No, but if you have like a consistent line that you've got to – like, if you put in Granny Smiths today or a line of whatever you're putting in, if you have a problem today they will look at it and they won't say anything. But if you have recurring problem the next day then they'll say, you know, "Be careful" because then if you have a third problem – there are – they do threaten a little bit, they say, you know, "You'll get a holiday" or something. So you've got to be a bit
25 careful.

MR O'DONOVAN: Sure, okay. But when they say that, that means your quality is not up to standard, we're going to be looking at other suppliers.

30 MR CERAVOLO: Yes.

MR O'DONOVAN: When they say "a holiday?"

35 MR CERAVOLO: Yes, yes.

MR O'DONOVAN: Okay. Have you ever experienced a circumstance where the wholesale market was falling below the agreed price that you had with Coles - - -

40 MR CERAVOLO: No.

MR O'DONOVAN: - - - and felt that they rejected the consignment because it wasn't – because they could source it at a better price rather than - - -

45 MR CERAVOLO: I don't have that problem.

MR O'DONOVAN: Okay. So - - -

MR CERAVOLO: I have never had that problem, any way.

MR O'DONOVAN: Right. So your experience is if they reject it for quality reasons, there is – it has not met their specifications?

5

MR CERAVOLO: Yes, but we have a pretty good understanding with our people here.

MR O'DONOVAN: Okay. So in terms of your business, what percentage of the fruit on your property is disposed direct to a supermarket?

10

MR CERAVOLO: To supermarkets?

MR O'DONOVAN: Yes.

15

MR CERAVOLO: I would say between 30 and 40 per cent.

MR O'DONOVAN: Okay, all right. Then looking at the wholesale side of the business?

20

MR CERAVOLO: Yes.

MR O'DONOVAN: You actually operate a wholesale premises at the Adelaide Markets?

25

MR CERAVOLO: Yes, yes, Adelaide Produce Markets.

MR O'DONOVAN: Okay. How much of your produce would you sell through there?

30

MR CERAVOLO: Probably around 60 per cent.

MR O'DONOVAN: Okay. In relation to those products, how is price set?

MR CERAVOLO: I suppose it's really set overall. Like, if I know what I'm getting from a supermarket and then what I'm selling in the market, it pretty well averages out the same, I think, any way. Well, that's the way I do business. I don't go giving the supermarkets any favours over the greengrocers, you then – it's just a conflict after, you're just competing against your own product, you're silly to do that.

40

MR O'DONOVAN: Yes, okay. Are you able – how many other wholesaler operators are selling applies in the Adelaide Markets?

MR CERAVOLO: there would be probably another five or six, at least.

45

MR O'DONOVAN: Right.

MR CERAVOLO: That's wholesalers.

MR O'DONOVAN: Yes.

5 MR CERAVOLO: Yes.

MR O'DONOVAN: Okay. Is there – and the price – does the market work so that there's a particular price set on the day, having regard to how much supply there is in the market?

10

MR CERAVOLO: Yes, or as an example, yes, if – the Granny Smith applies again. They – we know we've got ample time to sell those and we know the growing conditions, what it's been like this year, and, you know, if I'm selling at \$25 a carton or whatever it might be here – at, it doesn't take long to get around the market to know what prices are doing. So, I mean, other growers don't want to be undercutting themselves so, you know, they're not really – once you've got a customer base, you've pretty well got a customer base. If you look after your customers, they'll always look after you.

15

20 MR O'DONOVAN: Okay.

MR CERAVOLO: So I find it not too difficult

MR O'DONOVAN: Right. So who are the customers who you service through the wholesale part of the business?

25

MR CERAVOLO: Well, they're all the small greengrocers.

MR O'DONOVAN: Okay. Any of them trading under IGA banner or - - -

30

MR CERAVOLO: No, they're independent again, like – they don't – there's some of them that do trade off the market floor but we also – like, a bit of our provedoring business, we do like the Romeo/Foodlands, people like that. They're sort of – I suppose they almost like get their deliveries direct. We do almost all their lines into their stores so we do that. That's a different business again.

35

MR O'DONOVAN: Okay. Does Metcash interact with your wholesaling business at all?

MR CERAVOLO: Actually, this year was the only time I've ever been to a Metcash where they've actually invited us to a meeting, it's the first time that they've invited us to a meeting and wanted to put us all under – oh, that I can't really speak about.

40

45 MR O'DONOVAN: Sure.

MR CERAVOLO: That's a hard question, that one.

MR O'DONOVAN: Okay, that's fine.

MR CERAVOLO: Yes.

5 MR O'DONOVAN: But they're not just a party that trades on the floor, on the wholesale market?

MR CERAVOLO: Not at all, no, no.

10 MR O'DONOVAN: No.

MR CERAVOLO: No, they do all their grocery side of things, I think, but the fruit and vegetables is all done independently by people in the market.

15 MR O'DONOVAN: Right, okay. To what extent does the price of apples in other cities, at other markets like the Flemington Markets, influence the price on the floor in Adelaide?

20 MR CERAVOLO: If they have a big fluxing of apples over there from, say, Battalo at a certain time of the year, if they've got a lot of hail-marked stuff, because they do tend to get a bit of hail mark and that up that way, or Orange. If they've got a big influx of applies, it'll drag our market down a bit.

25 MR O'DONOVAN: Right. If markets are short elsewhere, will you find that you're getting orders through the Adelaide Market, from national buyers?

MR CERAVOLO: For sure, for sure.

30 MR O'DONOVAN: Right. So generally speaking, do you think there is a close relationship between the wholesale price of apples in Adelaide and, say, the wholesale of apples in Brisbane?

35 MR CERAVOLO: Yes. Well, we get our – well, I look at all of them every day, each market, what's going on in each market.

MR O'DONOVAN: Right. Do you ever chose to direct supply to a market that looks short in another city?

40 MR CERAVOLO: Not if I've got plenty of orders here.

MR O'DONOVAN: Right.

45 MR CERAVOLO: It's not that I'd cut the people out here just to supply over there, you've got to keep everybody happy.

MR O'DONOVAN: Right, okay. In terms of the relationship between the wholesale prices that you are able to get and the retail prices that you see products selling for, have you noticed a change over time?

5 MR CERAVOLO: With some of the retailers, it is a bit disappointing. With some of the lines I've seen.

MR O'DONOVAN: In what respect?

10 MR CERAVOLO: I'll give you an example because this weekend I took particular notice of a lot of lines that were out there. We sell eggfruit on our stand as well and eggfruit was around \$4 a kilo. Probably top.

MR O'DONOVAN: Sorry, if I can just stop you there. What is eggfruit?

15

MR CERAVOLO: Eggplant.

MR O'DONOVAN: Oh, you mean eggplant?

20 MR CERAVOLO: Yes. It's a fruit. I saw that advertised at 10.99 at a retail end and I thought – I couldn't believe it.

MR O'DONOVAN: That was an independent retailer or a major supermarket?

25 MR CERAVOLO: That was, it was actually a Foodlands store.

MR O'DONOVAN: Okay, and what was it selling for in the wholesale market?

MR CERAVOLO: Off the actual market floor itself, probably \$4.

30

MR O'DONOVAN: A kilo?

MR CERAVOLO: Even if the people delivering were to make something out of it, it's still – there's certain lines that I don't understand how they price them.

35

MR O'DONOVAN: Right. Okay. When did you start in the business, the apple business?

MR CERAVOLO: Myself?

40

MR O'DONOVAN: Yes.

MR CERAVOLO: When I was probably about ten years old.

45 MR O'DONOVAN: Okay.

MR CERAVOLO: No, I left school about 15. 15 years old when I left school and I've been home ever since.

5 MR O'DONOVAN: Okay. So you've been observing the fruit and veg market 15 years?

MR CERAVOLO: Me?

10 MR O'DONOVAN: Yes. 20, 30?

MR CERAVOLO: Oh no. 25 years now.

15 MR O'DONOVAN: Okay, and in that time, just from your perception, from what you've seen, is it your view that the retail margins have started to creep up compared to how they were, say, 10 years ago?

20 MR CERAVOLO: I think so a little bit. From my own – but the trouble is, it's all right for me to say my own view but I don't know what expenses they've got as far as rent. I know what my expenses are but I don't understand what their expenses, how much they've got.

MR O'DONOVAN: Right.

25 MR CERAVOLO: That's the only thing. Like I wouldn't judge anybody unless I knew what their running costs were.

30 MR O'DONOVAN: Sure but in terms of just looking at the wholesale price and the mark up as a percentage of that wholesale price, your feeling is that that percentage has been increasing?

MR CERAVOLO: I think a little bit. I think they get a little bit carried away sometimes.

35 MR O'DONOVAN: Sure and has that been, is that a recent thing? Have you felt it's got worse in the last one or two years or do you feel it's been a steady trend in the last 10?

40 MR CERAVOLO: I'm not sure if they're trying to compensate for certain lines that they give away very cheap, so it's hard for me to judge that. I'd have to really be out there looking at all the prices on all their items.

45 MR O'DONOVAN: Okay. All right. Then in terms of the wholesale market itself, are you aware of the major supermarkets entering that wholesale market either to top up or to buy specials? Do they do that?

MR CERAVOLO: They used to do a lot of what they call spot buys. Not so much any more. They still do do that and they do enter the market just to see what's going on around the marketplace. I suppose it's a good judge for them, a good guide.

5 MR O'DONOVAN: All right. Do they do much actual buying, though, from yourself as a wholesaler, for example?

MR CERAVOLO: No, not really. Not really. Not off the market floor. Very minimal now. Very minimal.

10

MR O'DONOVAN: Okay. In terms of the amount of the volume of fruit and veg sold, do you have any sense of how much they would – fruit and veg that sold domestically – do you have any sense of how much the two supermarkets, Coles and Woolworths, would control in terms of the buying side?

15

MR CERAVOLO: In this state or in - - -

MR O'DONOVAN: Well, starting with South Australia.

20 MR CERAVOLO: I think South Australia is probably the only state out of all of Australia that probably is very strong as far as the independently – I would say that the supermarkets probably, I don't know, between 40 and 50 per cent I would say here, at least and the market and the independents would be the rest, which is pretty strong compared to some states.

25

MR O'DONOVAN: Okay, and nationally? Do you have a sense of - - -

MR CERAVOLO: Nationally I think they're getting stronger, the supermarkets.

30 MR O'DONOVAN: So it would be more than 50 per cent of fruit and veg?

MR CERAVOLO: I think so. Personally I do, yes.

35 MR O'DONOVAN: Okay. If we were to include exporters and alternative, would it be that high or is it only in products where there's no export market?

MR CERAVOLO: Export is a very – anybody that does export, you've got to be pretty good to make money out of export. Like it's just, it's a hard market. Like we don't have no subsidies from our government whatsoever. It costs us something like
40 \$7 or \$8 a box to get – land apples into India. You carry all the insurance, everything. Like at the end of the day we're really virtually working for maybe 50 cents a box for apples but we're trying to offload a few out of our markets so that our market doesn't just crash.

45 MR O'DONOVAN: Okay. So it's a way of sort of controlling the volume?

MR CERAVOLO: Stabilising the market a little bit.

MR O'DONOVAN: Yes. Okay. Now do you sell any product to Woolworths?

MR CERAVOLO: No. I don't deal with that supermarket at all.

5 MR O'DONOVAN: Right.

MR CERAVOLO: And that's only Coles and the Foodlands and the independent Adelaide Produce Market and IGAs.

10 MR O'DONOVAN: Is there a reason that you haven't come to deal with Woolworths?

MR CERAVOLO: I suppose we've started with Coles so many years ago and we've been always loyal with them and I think they've tried to be as loyal as they
15 can back with us.

MR O'DONOVAN: Right. So as a grower, do you see any specific problem that we should be looking at as a result of Coles and Woolworths having such a large proportion of the retail trade in fruit and veg?
20

MR CERAVOLO: Well, I wouldn't like to see them getting too much stronger, that's for sure.

MR O'DONOVAN: Okay, and why is that? Is there a specific problem that you've had?
25

MR CERAVOLO: Well, once you're, say, committed with 80 per cent of your produce to a certain customer and that customer says, "I can only pay \$25 for Pink Ladies this week," well, then that's it. You don't really have much of a choice, do you? Where are you going to sell all this product? So I think in the future we'll get pretty tough.
30

MR O'DONOVAN: Sure and at present, when Coles indicates to you that they want to give you a price that you're not happy with, what are the alternatives?
35

MR CERAVOLO: Well, they're not strong – they're not quite that strong yet where they can sort of bully us around.

MR O'DONOVAN: Right. Okay. So you feel that in the current market conditions, you've got realistic alternatives?
40

MR CERAVOLO: We've got a little bit of a say, that's for sure. At the moment. At the moment.

45 MR O'DONOVAN: Sure.

MR CERAVOLO: If it ever gets to that stage, we'll sell up, that's it.

MR O'DONOVAN: Okay, and in terms of if you were to withhold supply to Coles, are there plenty of other suppliers who will come in at a particular price?

5 MR CERAVOLO: Yes. We do get a lot of competition but Victoria is our biggest competitors here, being such a close market and they do offer special buys which are just, you know, apples that are just a little bit out of spec, so they'll bury the specs and they'll put them in, could be anything up to eight, \$10 a box cheaper but it is a cheaper line and it does reflect on their sales after so you know, it's a good thing for the first few days but then over all in the couple of weeks, people don't go back.
10 They're not repeat buyers because that line was really an inferior line. It wasn't really what people were expecting.

MR O'DONOVAN: Is there any point at which your relationship with Coles gets renegotiated, or is it really just expected that you will sell a proportion of your crop
15 to them and then you'll agree a price and volume at a particular point each week?

MR CERAVOLO: No, normally they come over once a year from Melbourne, and they just discuss how things are going, and how we can do business better together. That's pretty well it, once a year and then we mainly talk to our – if there's any
20 problems, we've got their numbers where we can just email them or whatever, and they'll come back to us and sort it out.

MR O'DONOVAN: Does that effect your planting decisions or your water purchasing decisions, those kinds of decisions?
25

MR CERAVOLO: Before Coles was taken over a few years ago, there was a bit of a – they had a forum where people were asked – well, Coles were actually telling us, like, as an example, Sundowner apples are going to be an apple that's going to be advertised a lot in the next few years, so they'd like to see us planting a bit more of
30 that, and certain varieties. So that's the road – or the path we headed down to cater for what they wanted. Plus our marketplace was changing as well, so we knew that already, pretty well.

MR O'DONOVAN: Right. So they do sometimes give you a guide of what their purchasing behaviour is going to be?
35

MR CERAVOLO: Yes, sometimes.

MR O'DONOVAN: Does that help you with investment decisions?
40

MR CERAVOLO: Definitely.

MR O'DONOVAN: Okay. Given a choice between selling 100 per cent onto the wholesale market and having this relationship with Coles, what would your
45 preference be?

MR CERAVOLO: You need both, that's the problem, to be stable. It needs both, I think.

5 MR O'DONOVAN: Now, it's been suggested to us that because the supermarkets are so big, that if they withhold demand for a short period, for a particular product, then they can artificially create an oversupply of that product? Have you ever seen behaviour where you think that they're holding off buying or underbuying?

10 MR CERAVOLO: Yes, I think the only disappointing thing that I can see in the market, being in there everyday myself, is that if one of the chain groups have, say, got broccoli on special, all of a sudden, broccoli is so short within the market, and yet they could be out at \$1.99 a kilo, and people on the market floor can't even buy them for that sort of price. So that's where these green grocers would actually virtually not making any money, they will sell just to match them, but they have tightened up
15 the whole market, because they are pretty well cleaning up everything.

MR O'DONOVAN: Right.

20 MR CERAVOLO: So, yes, these are instances where things like that happen.

MR O'DONOVAN: What they have done is effectively arrange a whole lot of direct orders with broccoli producers?

25 MR CERAVOLO: That's tied them up.

MR O'DONOVAN: Yes. Knowing that there's a special coming in two weeks time?

30 MR CERAVOLO: They work themselves three weeks ahead so they can tighten the market up like that.

MR O'DONOVAN: Okay. So the net result is that consumers shopping at Coles and Woollies can get it for \$1.99, but it's selling at wholesale level at much higher?

35 MR CERAVOLO: It can be up to 2.50, and some of those greengrocers will lose that 40 cents, 50 cents, just to match them.

40 MR O'DONOVAN: Right, okay. But this presumably is not deliberate market manipulation from the supermarket, or perhaps I'll ask it a different way.

MR CERAVOLO: I can't answer that one.

45 MR O'DONOVAN: No. But it's – there seem to be legitimate reasons why they would want to tie up those direct contracts at fixed prices to deliver a special to customers.

MR CERAVOLO: Yes. They pretty well work, from what I can understand – like, I mean, I’ve been dealing them for a long time, they – on a year to year, if you look, they pretty well certain lines certain weeks that they know is in – and there are times when they do make mistakes, where broccoli is not quite as plentiful as what they
5 thought, so they try and grab everything they can just to cover their orders, and that will create, you know, it’s all about supply and demand, so it will create a price skyrocket within the market, because there’s less going into the market.

MR O’DONOVAN: Sure. Will they also be entering the wholesale market to top
10 up supply?

MR CERAVOLO: Yes, they’ll try and buy whatever they can off the market floor.

MR O’DONOVAN: Right. So in some circumstances, they will be suffering the
15 effects of the shortage of say, broccoli?

MR CERAVOLO: Yes, they do as well, from time to time.

MR O’DONOVAN: Okay. But have there been any other examples where you
20 think that their substantial presence in the market has had an impact on the market?

MR CERAVOLO: Not so much in our market, I don’t think.

MR O’DONOVAN: All right. Have you ever seen any – I suppose, deliberate non
25 buying with the effect that there’s a – produces some oversupply or ongoing oversupply in the market?

MR CERAVOLO: I’ve never had that from our buyers.

MR O’DONOVAN: Okay. Now, the – presumably you’re aware of the horticulture
30 code?

MR CERAVOLO: Yes.

MR O’DONOVAN: Okay. As a wholesaler, you have to abide by that in relation to
35 your – the growers who sell to you?

MR CERAVOLO: Yes.

MR O’DONOVAN: Okay. Are there elements of that code that don’t apply to the
40 major supermarkets, or the major supermarkets don’t abide by which you think they should have to abide by, or which it would be an improvement to your business if they did apply to the supermarkets?

MR CERAVOLO: Well, I think they pretty well abide by that, it’s pretty easy to
45 abide by that rule, because if their negotiating a price at the farm gate, virtually that’s what it’s saying, more or less, the negotiated price at the farm gate, and as long as

that product was within specifications – they’ve really got it pretty easy, I think the people in the wholesale market are the ones that have got it hard, whereas the supermarkets will only buy that certain line, they want specifications, that’s what they want. So everything else, which is just under that specification, will come back
5 into the market, a lot of that product will, and then it will be up to the market to try and work out what is actually worth that, what it is actually worth, like if Coles demand Pink Lady’s to be 70 per cent colour and more, which they do, then what happens to the apples that are 50 to 70 per cent coloured, which are still very good apples, they will come into the market but people won’t pay as much money because
10 Coles apples are a little bit better looking, so this is worth a little bit less. So as far as the pricing, it’s – it’s very difficult to determine prices until you know what you’ve got. That’s the only thing I find difficult, is that a lot of growers, what they perceive as being very good, I call average. So that’s where it falls down a little bit, I think.

15 MR O’DONOVAN: Okay. But would the horticulture code applying to Coles or Woolworths change that?

MR CERAVOLO: I don’t think it will effect them that much, no.

20 MR O’DONOVAN: Okay. Now, you indicated that you don’t have a written contract with them.

MR CERAVOLO: No.

25 MR O’DONOVAN: Presumably – well, if the horticulture code applied to them, they would have to have a written contract with you.

MR CERAVOLO: Yes.

30 MR O’DONOVAN: Would that make any difference to you?

MR CERAVOLO: It wouldn’t make any difference, because we negotiate the prices before the product leaves.

35 MR O’DONOVAN: Okay. Do you think it would make any difference to their rejection practices in terms of timing?

MR CERAVOLO: No, because they have got a set of specifications, and as long as you deliver within that specification, you won’t have any problems. That’s what
40 they come back with.

MR O’DONOVAN: Sure. They have timely notification of rejection?

MR CERAVOLO: Yes.
45

MR O'DONOVAN: Yes. Okay. So do you see any need for the supermarkets to be – do you see any advantages to you if the horticulture code applied to a supermarket, to the major supermarkets, as a grower?

5 MR CERAVOLO: I don't think it would really make any difference. Like, I don't think really things have changed all that much since the horticulture code of conduct has come in, to be honest. Because I look at it this way, with good growers, before the product even came to market, with my better growers, which are very good
10 growers, we will always negotiate a price before anything comes down, like, they just will not – any growers that just sell consignment, they've got to be silly. You've got to work some sort of agreement out before the product leaves. I mean, otherwise you're just sending stuff blindfolded, there's no control at all. I mean, any good wholesaler can sell anything, I mean, if it's set down on consignment, and it's just – please sell, well, anybody can be a good salesman like that. So there's got to be
15 some control.

MR O'DONOVAN: Yes, all right. So in terms of the horticulture – in terms of the way in which you sell with your good growers – so you agree a price before it leaves?

20

MR CERAVOLO: Yes, pretty well. We pretty well – they ask me, like, what am I expecting to get for it, and I'll say, broccoli today is \$16, and if I got 15 today, we talk every morning with our growers, well, say today we got 15, and then we work off that.

25

MR O'DONOVAN: Do you take it on a cost plus basis as an agent or do you take property in the goods, or do you take it on a merchant basis?

30 MR CERAVOLO: No, we'll negotiate the price like, say on the Monday, and we'll pretty well say – say broccoli is \$14, he'll say yes, he'll invoice it in at \$14, and we just pay off of that.

MR O'DONOVAN: Okay, with an agent's percentage?

35 MR CERAVOLO: No, we just make like, I'll set it for \$15, make a dollar, \$1.50, whatever it might be.

MR O'DONOVAN: Okay. In terms of – how many lines do you sell through your wholesaler?

40

MR CERAVOLO: I'm not sure. Could be probably anything up to 400.

MR O'DONOVAN: Up to 400, that's different - - -

45 MR CERAVOLO: That's over the season, like stone fruit. We sell all sorts of things.

MR O'DONOVAN: Okay. Is it all done on that basis?

MR CERAVOLO: Yes.

5 MR O'DONOVAN: Do all wholesalers in the market sell on that basis?

MR CERAVOLO: I'm not really sure to be honest, as far as that. That's the way I do my business and I find it's good for the growers and it's good for the mark-up. I probably think a little bit different than some wholesalers in the mark-up. I'm there
10 to try and get people to eat as much fruit and vegetable as they possibly can so I try and be as fair as I can to the retailer so that they can hopefully go out at the right price so people will buy more fruit and vegetables.

MR O'DONOVAN: Right. When you agree these prices with the grower that's
15 done based on the market reports from the previous day?

MR CERAVOLO: Yes. They'll know what Sydney is doing; they will know what Brisbane is doing so, you know, if you try and – I suppose if you try and do anything silly with them and go down \$4 under the mark or whatever it might be, they'll just
20 say they haven't got them or – you know, "You're way out. I can't supply you." I mean, there's got to be a bit of common sense.

MR O'DONOVAN: Sure. In terms of rejections, do you – if it arrives and you're
25 not happy with it, do you renegotiate at that point or do you just send it back to them?

MR CERAVOLO: I mean, if the product is not what they told me, yes, definitely.

MR O'DONOVAN: Does that happen?
30

MR CERAVOLO: I normally email them. I'll take some photos, I'll email them, we'll negotiate and normally I don't have any problems.

MR O'DONOVAN: Sure. Yes. So it's not a common problem that things are
35 arriving in unsaleable states?

MR CERAVOLO: No. You've got certain people that you know what – you expect a certain job out of it. I mean, when things are hard, like, when it's really hot or something and, you know, the lettuce could be little bit burnt on the leaves or
40 something, I mean, it's just things that you know.

MR O'DONOVAN: Now, in terms of the things that have impacted on your cost calculations, when you decide what it is – what your target price is going to be for apples that you want to sell.
45

MR CERAVOLO: Yes.

MR O'DONOVAN: What has been – have there been external factors that have pushed up the price – pushed up your costs which are now reflected in the wholesale price that you're prepared to agree to sell?

5 MR CERAVOLO: I suppose it would be outgoings, like fuel. Fuel is just really – the farmers are really paying a lot for fuel even with a little bit that we get back from the government. Water has been probably one of the biggest factors and it's like – it's pretty unstable with the water at the moment. No licences have been really allocated. I mean, we've got licences but nothing has really been set in concrete yet.
10 The government has sort of been – they told us 18 months ago that they were going to do something about it and now they've postponed it another year before any of the licences are actually going to be issued and how much water allocation they're going to give us. So that's probably one of our biggest headaches at the moment. Rates have gone up quite a bit. Chemicals – everything has just jumped up; it's gone up
15 quite a bit.

MR O'DONOVAN: Is there a bit impact in the cost of labour?

MR CERAVOLO: Labour is huge, especially for us because apples is labour-intensive. All apples are picked by hand, no machines, no mechanical harvesting.
20

MR O'DONOVAN: Right. So has there been a change in – is there a standard rate for fruit pickers during season?

25 MR CERAVOLO: Yes.

MR O'DONOVAN: Is that – could you say off the top of your head what the changes have been?

30 MR CERAVOLO: It's gone, like, say, maybe four years ago you were paying people 12 - say \$13 an hour and to nowadays you're paying them probably about \$18/\$19 an hour.

MR O'DONOVAN: Okay. How many kilos of apples could a picker pick in an
35 hour roughly?

MR CERAVOLO: If he can pick three bins of 360 kilos at least a day, he should at least be able to pick that or he's not paying his day.

40 MR O'DONOVAN: Right. What's a day, 12-hour day?

MR CERAVOLO: Eight.

MR O'DONOVAN: Eight-hour day?
45

MR CERAVOLO: Yes.

MR O'DONOVAN: Okay. Now in terms of the actual negotiating behaviour of the supermarkets or, I suppose, Coles, in particular, have you seen any change over time? So, say, 10 years ago, did they behave differently to how they behave now when their market share was perhaps a little less?

5

MR CERAVOLO: As far as behaving as buyers or something or - - -

MR O'DONOVAN: As buyers, yes.

10 MR CERAVOLO: I think they've changed the way they do business a lot as far as in what we call buyer – there used to be buyers here once. The people that used to purchase the stuff here used to be buyers, or I used to classify them as buyers. Now they're more like orderers. Like, they just – they get told from Melbourne what to do and that's what they have to do; they cannot go off the tracks at all. Like, they used
15 to be able to buy wherever they wanted, if there was a spot buy or a special buy or something, they could do something with it, they would do it, but now they've got to stick within those guidelines; they can't go outside those guidelines. So I think they've actually been restricted a little bit, the buyers.

20 MR O'DONOVAN: Okay. That's all I have.

COMMISSIONER KING: Yes. Just a couple of questions. Now you mentioned when you were dealing with Coles that you would negotiate prices before I think the fruit leaves your property.

25

MR CERAVOLO: Yes.

COMMISSIONER KING: Have you ever had a situation where you sent off the fruit, it's been on spec but the price that you then got paid for it wasn't what you expected, wasn't what you understood you agreed?

30

MR CERAVOLO: No. Whatever was on that docket – we normally deliver with an invoice and whatever is on that invoice, that's what they pay. If there's any change to that, we've actually got to both sign off on it.

35

COMMISSIONER KING: Okay. So the only time you'd get sort of a normal – an unusual price would be – well, is there ever a situation where your fruit is not on spec and they say, "Look, we'll take a carton but we'll need to then negotiate the cost"?

40

MR CERAVOLO: No, never.

COMMISSIONER KING: So if it's not on spec, it's just really - - -

45 MR CERAVOLO: No, that's one thing that they – they used to be able to do that many years ago but now they've got a rule that if it doesn't meet the specs, it's got to

go back no matter what. You can always bring it back down again, like the following day or the week provided you've negotiated something - - -

COMMISSIONER KING: Yes.

5

MR CERAVOLO: - - - but it has to go back home and come back down again.

COMMISSIONER KING: Any idea why they've changed it to that situation?

10 MR CERAVOLO: No. No. I just think it's controlled from Melbourne. They like to be in control of what's happening. Well, Coles' head office is Melbourne.

COMMISSIONER KING: That's right. In – what's the nickname of the head office – Battlestar Gallatica, I think - - -

15

MR CERAVOLO: Yes, something like that.

MR.....: It goes with the job.

20 COMMISSIONER KING: Now you said when Coles, when it goes to DC, Coles – gets a pallet of fruit, they look through a couple of boxes. Now you said if there were two boxes that aren't on spec then the whole pallet will get rejected?

MR CERAVOLO: The whole pallet is rejected.

25

COMMISSIONER KING: Do you know – I mean, is two boxes all they ever check or, I mean, do they check all the boxes in the pallet and then if two aren't on spec, they'll reject the whole pallet or - - -

30 MR CERAVOLO: That's right.

COMMISSIONER KING: So they actually go through every box in the pallet?

35 MR CERAVOLO: No. They'll just say – they'll unstack the pallet a little bit and they might dig down to the third layer and then they'll take one box out. Then they'll go around to the other side of the pallet, might take one off the top.

COMMISSIONER KING: Yes.

40 MR CERAVOLO: That's the only two boxes they'll look at.

COMMISSIONER KING: Okay. So it's sort of like they take a sample from the pallet?

45 MR CERAVOLO: Exactly. Like, if you've got 400 boxes of apples of one variety, they'll take – out of 400 of one variety, they'll probably take four boxes out.

COMMISSIONER KING: Yes.

MR CERAVOLO: Then they'll have a look at it. Probably, yes, one in every hundred, something like that.

5

COMMISSIONER KING: Yes.

MR CERAVOLO: They'll judge it from there.

10 COMMISSIONER KING: Okay. Now, a couple of times just in the evidence you've given us today you've suggested that customers are pretty sensitive to a specification. So you said - well, if it's not quite the right colour on the pink lady apples, if there's not enough redness in there as opposed to green, that sort of surprises me. I mean, I guess I buy fruit and vegies and I've never noticed - - -

15

MR CERAVOLO: That's as far as greengrocers. Don't get me wrong. When there's apple grower, whether the pink lady has got 50 per cent colour or 80 per cent colour, it still is the same. It's the perception that some of these retailers, they just demand that it's got to look really good. If it looks good it sells.

20

COMMISSIONER KING: Okay.

MR CERAVOLO: Okay. The apple has got to say "Buy me".

25 COMMISSIONER KING: Yes.

MR CERAVOLO: More or less they're telling us.

30 COMMISSIONER KING: Okay. So it's actually coming back from the greengrocers and presumably that's reflecting their customers but you wouldn't have any direct information - - -

MR CERAVOLO: Yes. Well, that's what they're telling us.

35 COMMISSIONER KING: Yes.

40 MR CERAVOLO: Personally, myself, I don't think that is always the case, that I don't really think a pink should be 80 or 70 to 100 per cent colour. You know, anything between 50 and 70 per cent is quite fine; it still eats the same. It's got the same sugar in it.

45 COMMISSIONER KING: Okay, but the greengrocers sort of say to you - well, you know, they don't quite pass it all the time.

MR CERAVOLO: Yes.

COMMISSIONER KING: One of the other things that you said that was interesting, you said you export to stabilise the market. By that presumably you meant the Adelaide wholesale market?

5 MR CERAVOLO: Yes.

COMMISSIONER KING: Yes. That tends to suggest – is there a bit of a lack of volume in the Adelaide Markets? I mean, if you as one grower is able to sort of – as one wholesaler is able to move that market - - -

10

MR CERAVOLO: We don't - - -

COMMISSIONER KING: - - - is there a bit of a problem with the volume or - - -

15 MR CERAVOLO: No, because you won't – you don't sell that – for a start, they only buy one variety of apple in here because they're – they don't buy a very expensive apple, it's a Red Delicious apple, that's they're favourite apple which here is a dying apple, like, people are not really interested in Red Delicious. So it's good to offload that somewhere else because we still grow it, it's an easy apple to grow, it gets colour easy, it's a simple apple to grow.

20

COMMISSIONER KING: Yes.

MR CERAVOLO: But the people here tend to go more towards Galas, Pink Ladies and certain varieties.

25

COMMISSIONER KING: Okay. More generally though, is there an issue that the volume of fruit and vegetables moving through the Adelaide Market is perhaps – well, have you noticed whether the bulk of it over, say, the last 10 years, is that volume going through the wholesale markets decreasing or is it increasing, or is it about the same?

30

MR CERAVOLO: If anything, I think it's increased a little bit, yes, which is a good thing.

35

COMMISSIONER KING: Yes. Why do you think it's a good thing?

MR CERAVOLO: Because I think – I mean, Coles have increased as well, everybody's increased a little bit.

40

COMMISSIONER KING: Yes.

MR CERAVOLO: So it's pretty well stayed stable. Like, the market is still pretty vibrant. Coles is doing – well, I think they're doing pretty well. Woolworths, I think, is doing exceptionally well at the moment.

45

COMMISSIONER KING: Yes.

COMMISSIONER MARTIN: With the growers that supply you, what sort of agreement do you have with them?

5 MR CERAVOLO: We've got an open-book policy where they'll come in. We're very close in with our growers, they'll come in and they know what I'm selling for.

10 COMMISSIONER MARTIN: Yes, but when you trade with them, when they supply and you sell in the wholesale market, like, do you have an agreement with them?

MR CERAVOLO: Yes, yes.

COMMISSIONER MARTIN: Yes.

15 MR CERAVOLO: Yes.

COMMISSIONER MARTIN: Yes, and is it agreements?

20 MR CERAVOLO: They understand, like – if, say, it costs 'x' amount of dollars to pack that bin of apples, which we deduct from them, and they know that we work on a certain percentage in the wholesale market, if, say, Pink Ladies is 25, we return around 23 or something.

25 COMMISSIONER MARTIN: But do you operate as an agent or do you buy the fruit off them?

MR CERAVOLO: No, I pretty well buy the fruit. Like, if we're getting \$25, I'll return them back 23.

30 COMMISSIONER MARTIN: Yes.

MR CERAVOLO: They know more or less what we do.

35 COMMISSIONER MARTIN: Why don't you deal with Woolworths?

40 MR CERAVOLO: Because we've been with Coles for so long, we've just – we're always under agreement. Like, probably from many years ago when dad was doing them, I think he sort of negotiated with them that they were happy with us doing them, providing we didn't do Woolworths so we've always – it's a bit of a verbal agreement more than anything. We've stuck with them and they always stuck with us.

COMMISSIONER MARTIN: With Coles.

45 MR CERAVOLO: At the moment, yes.

THE CHAIRMAN: Mr Ceravolo, you've actually got me a bit puzzled because we've heard evidence this morning from the South Australian Farmers Federation that – and it was anecdotal – but that a number of the growers are having difficulty in dealing with Coles and Woolworths, that they would prefer Coles and Woolworths to be subject to the Horticultural Code of Conduct. That there are difficulties in terms of the prices and the terms and conditions of payment. That the terms and conditions of payment vary and more recently, have involved agents and the agents are being paid quickly, that is, in short term by Coles and Woolworths but that the growers are being paid over a long period of time and having to bear the terms of payment and yet you're giving evidence that seems to contradict that in terms of your relationship with Coles. Now you may want to go into private session but let me ask you simply a general question. Do you ever go home at night and say, "Those so-and-sos, they've screwed me today?"

15 MR CERAVOLO: No.

THE CHAIRMAN: Do you want to give anything in private about that at all? I'm trying to find out because, you know, we've got the Farmers Federation that are saying to us that there's a real problem.

20 MR CERAVOLO: Yes. But I can't believe that Coles pay growers slower than wholesalers. I find that very – I mean, their terms, that is a term that they did give to us in writing, where they pay all their people – and everyone I've spoken to, they pay within that certain time. So I wouldn't know any different unless they've told you. I mean, if that's what they've told you, I don't know, that's for sure.

THE CHAIRMAN: Do you ever feel – you've talked about the share of your produce that's purchased by Coles is between 30 to 40 per cent. I think it's not just Coles. I think it was Coles and - - -

30 MR CERAVOLO: And the Foodlands.

THE CHAIRMAN: And the Foodlands, yes. 30 to 40 per cent. If one of them started to become very difficult and started to put you in a position where you said hey, look, I'm being screwed, I don't like this - - -

MR CERAVOLO: Yes.

40 THE CHAIRMAN: - - - would you be in a position where you could turn around and say to them, "Well, look, I'm just not going to supply you any more?"

MR CERAVOLO: Yes. I suppose we're lucky in that way, that we're probably – our fruit we can pretty well determine where it goes. Yes. Our business is very spread out so we're a bit luckier than some people. That's why I get back to, if you're solely supplying one person and they know that you're only supplying them, then they've pretty well got you over a barrel, haven't they and I think that's probably what some of these growers are saying.

THE CHAIRMAN: Well, now, you've talked of, I think, a number of wholesalers that are involved in the same sort of produce as you are and I guess you know a fair number of growers in the marketplace. Without naming them, are the experience of some of your colleagues similar to yours or have they differed significantly from yours in terms of their dealings with, you know, the Foodlands and the IGAs and the Coles and the Woolworths?

MR CERAVOLO: Oh look, some people do – are not happy, definitely but I haven't been put in that situation.

THE CHAIRMAN: Could you identify to us privately, that is, in confidential hearing, those that are unhappy?

MR CERAVOLO: It would have to be confidential.

THE CHAIRMAN: Yes. Well, perhaps what I might ask you to do; we either go into confidential hearing or else I might ask you if you wouldn't mind to perhaps give us that information in writing?

MR CERAVOLO: Yes, that's fine, I can do that.

THE CHAIRMAN: If you could do that for us, that would be very helpful.

MR CERAVOLO: Yes. Not a problem.

THE CHAIRMAN: Would that suit you, Mr O'Donovan?

MR O'DONOVAN: Yes.

THE CHAIRMAN: Rather than going into, taking everyone out of the room. I think that would be very useful if we could get that.

MR CERAVOLO: Yes.

COMMISSIONER KING: Are you able to say in public session the sort of reasons why they're unhappy?

MR CERAVOLO: Oh, like they're saying – like some of them think that they are getting screwed. I'm not sure of the way that they negotiate with people either. That could be another problem in itself, so I – it's not really – it wouldn't be for me to say why they think because I don't – I'm not in their business, I don't know their business so I don't know what they do.

THE CHAIRMAN: Thank you. Thank you and thank you for your time. You've been very helpful. Thanks.

ADJOURNED

[2.27 pm]

RESUMED

[2.33 pm]

5

THE CHAIRMAN: All right. Okay, Mr Tony Raschella, perhaps you could just for the record, state your name and the organisation, the role in the organisation and then Mr O'Donovan will take over.

10

MR T. RASCHELLA: I'm Tony Raschella, I'm Director of Fruitorama and we're potato growers and wholesalers and packers.

15

MR O'DONOVAN: Okay, and does that have a relationship with the South Australian Potato Company.

MR RASCHELLA: Yes, I'm a Director of South Australian Potato Company.

20

MR O'DONOVAN: So is Fruitorama just a trading name?

MR RASCHELLA: Yes, yes, Fruitorama is a wholesaler in the wholesale produce market.

25

MR O'DONOVAN: And the South Australian Potato Company?

MR RASCHELLA: South Australian Potato Company we wash and pack potatoes.

MR O'DONOVAN: Okay, all right, now, have you been summonsed here today?

30

MR RASCHELLA: Yes.

35

MR O'DONOVAN: Okay, and I just want to confirm that you understand that it's an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or omits any matter or thing without which the evidence is misleading.

MR RASCHELLA: Yes, I understand.

40

MR O'DONOVAN: Okay, good. All right, now, in – what I'd like to do first is try and understand the potato – how the potato market operates in South Australia.

MR RASCHELLA: Yes.

45

MR O'DONOVAN: So firstly, if you can tell us what role in supply of potatoes to consumers does the South Australian Potato Company hold?

MR RASCHELLA: Yes, what in South Australia or in Australia?

MR O'DONOVAN: Well, starting with South Australia and then - - -

MR RASCHELLA: What we grow or what we pack or?

5 MR O'DONOVAN: Starting with – well, let's start with the packing operation.

MR RASCHELLA: Yes, what how many we do? What – how many tons or?

MR O'DONOVAN: Okay, I'll be more specific, all right.

10 MR RASCHELLA: Yes.

MR O'DONOVAN: In terms of where you get your potatoes from, firstly do you buy them direct from the growers?

15 MR RASCHELLA: No, we grow them in Pinnaroo.

MR O'DONOVAN: Yes.

20 MR RASCHELLA: And they're at Peebinga.

MR O'DONOVAN: Okay, and that's 100 per cent of all your potatoes?

MR RASCHELLA: No, no, that's about 50 per cent.

25 MR O'DONOVAN: Okay, and where do you get the other 50 per cent from?

MR RASCHELLA: Just from other growers in the district, in the area.

30 MR O'DONOVAN: Okay.

MR RASCHELLA: Yes.

MR O'DONOVAN: Do they work on contract to you or do you buy just some of their crop?

35 MR RASCHELLA: Yes, we just buy some of them.

MR O'DONOVAN: Okay, and do you deal with them direct or do you buy through the wholesale market?

40 MR RASCHELLA: No, we deal with them direct.

MR O'DONOVAN: Okay, and is there – without obviously telling me anything about the price, when you sit down to talk to them about buying from them - - -

45 MR RASCHELLA: Yes.

MR O'DONOVAN: - - - do they look at the wholesale price, the reports on what the wholesale price in the market is?

5 MR RASCHELLA: Yes, yes, they do, yes.

MR O'DONOVAN: So there's a relationship between what's happening in the wholesale market?

10 MR RASCHELLA: Yes, there is, yes. Well, they know the prices, they know the price of washed potatoes, right and we go on the price market.

MR O'DONOVAN: Yes, okay. Now, have you always grown potatoes?

15 MR RASCHELLA: No, we started growing potatoes in 1988.

MR O'DONOVAN: Right.

MR RASCHELLA: Yes.

20 MR O'DONOVAN: At that – were you already a packer of potatoes?

MR RASCHELLA: No, we were a wholesaler first in the wholesale produce market.

25 MR O'DONOVAN: Yes.

MR RASCHELLA: Then we went into packing and then into growing.

30 MR O'DONOVAN: Okay, now, why did you – what attracted you to growing your own potatoes, why did you see that as a good business decision to make?

MR RASCHELLA: Well, the reason why is because we wanted to get bigger, that's one way and we thought that everybody would be going direct, they'd be going outside the market, so we thought we'll start growing and packing ourselves.

35

MR O'DONOVAN: Okay, rather than having to buy on the wholesale - - -

MR RASCHELLA: Buy and sell, yes.

40 MR O'DONOVAN: Yes, okay and if you had a choice would you like to expand the amount of growing you do or are you happy with that mix of 50/50?

MR RASCHELLA: No, we're happy with that at the moment.

45 MR O'DONOVAN: Right, okay.

MR RASCHELLA: Yes.

MR O'DONOVAN: So then in terms of what happens to the potatoes once – so you own the potatoes once they're delivered to the packing - - -

MR RASCHELLA: Yes, to the packing shed, yes.

5

MR O'DONOVAN: Okay.

MR RASCHELLA: Yes.

10 MR O'DONOVAN: Then how much processing occurs?

MR RASCHELLA: Yes, then we start washing. What, how many we do or how many - - -

15 MR O'DONOVAN: No, no, just what – physically what happens to the potatoes.

MR RASCHELLA: Well, we put them through a rumbler, because they come in dirty and then they go through a machine, getting washed and we grade – we grade the premium and we grade the specials and the number 2s, yes.

20

MR O'DONOVAN: Right, okay and then – are they then – in terms of packaging, what's the variety of packaging that you do there?

MR RASCHELLA: In the packaging, we put them in 15 kilos, in 20 kilos, in 5
25 kilos, that's what we do.

MR O'DONOVAN: Okay, right and those – the plastic bags full of potatoes in – a 2 kilo bag of potatoes at a supermarket, do you do any of that?

30 MR RASCHELLA: Yes, we do, yes.

MR O'DONOVAN: Okay, and is that done at the packing - - -

MR RASCHELLA: Yes, all done from the packing shed.

35

MR O'DONOVAN: Right, okay.

MR RASCHELLA: Yes.

40 MR O'DONOVAN: Now, then at that point do you already know where you're going to sell the product?

MR RASCHELLA: Yes, 90 per cent we do, yes.

45 MR O'DONOVAN: Okay, and when is that determined? Are there long-term contracts with fixed prices? So what's the - - -

MR RASCHELLA: Yes, day to day basis.

MR O'DONOVAN: Day to day?

5 MR RASCHELLA: Yes.

MR O'DONOVAN: Okay, and again your – and are they retail customers that you're dealing with?

10 MR RASCHELLA: Yes, we deal with the supermarkets, the retail outlet, yes, and we deal with agents in other markets too.

MR O'DONOVAN: Right and those agents, are they buying for someone or are they going to sell them?

15

MR RASCHELLA: Yes, they're buying for the retail outlet in Melbourne or in Sydney or in Brisbane.

MR O'DONOVAN: Okay, so is any of that product being sold on the market floor, through Flemington or - - -

20

MR RASCHELLA: Yes, yes.

MR O'DONOVAN: Right.

25

MR RASCHELLA: Through the Flemington markets and the Footscray market and the Brisbane market.

MR O'DONOVAN: Right, okay, so even after – so after you've processed it, at least a proportion of your produce - - -

30

MR RASCHELLA: Yes, it goes to each state every day.

MR O'DONOVAN: Right and is that – does that all – the product all originate in South Australia?

35

MR RASCHELLA: Yes, all South Australian.

MR O'DONOVAN: Okay, and then it's distributed nationwide effectively?

40

MR RASCHELLA: Exactly, yes.

MR O'DONOVAN: Okay, and within the wholesale market are there – are there other competitors as big as you in the potato market?

45

MR RASCHELLA: Yes, there's another four.

- MR O'DONOVAN: Right and where do they – are they state based or?
- MR RASCHELLA: Yes, they're state based, yes.
- 5 MR O'DONOVAN: Which states do they operate in?
- MR RASCHELLA: What, my competitors?
- MR O'DONOVAN: Yes.
- 10 MR RASCHELLA: They're all – they're in Virginia, they're all scatted around Virginia, in Pinnaroo and in Mannum.
- MR O'DONOVAN: In South Australia?
- 15 MR RASCHELLA: All in South Australia.
- MR O'DONOVAN: Right, okay. Are there major potato packers in Victoria and New South Wales and Queensland?
- 20 MR RASCHELLA: Yes, there is for – that's for a brushed potato.
- MR O'DONOVAN: Right.
- 25 MR RASCHELLA: I'm only washed potatoes.
- MR O'DONOVAN: Right, okay. So your – all of your main competitors are based in South Australia?
- 30 MR RASCHELLA: All of them, yes.
- MR O'DONOVAN: Okay, and is that because South Australia's a particular good growing region?
- 35 MR RASCHELLA: Yes, for washed potatoes South Australia is the state for washed potatoes.
- MR O'DONOVAN: Right, okay.
- 40 MR RASCHELLA: Yes, all because of the soil.
- MR O'DONOVAN: Right, okay and in WA, are they shipped to Western Australia as well?
- 45 MR RASCHELLA: No, they don't possess a potato board in Western Australia.

MR O'DONOVAN: Right, okay and do those consolidators that you compete with here, do they also have arrangements with the major supermarkets?

MR RASCHELLA: Yes.

5

MR O'DONOVAN: Okay, and would they have, as far as you're aware, do they also buy on the floor of the wholesale markets?

MR RASCHELLA: No.

10

MR O'DONOVAN: No, they have direct dealings with growers?

MR RASCHELLA: Direct dealings, yes.

15

MR O'DONOVAN: Okay, and so if you're a grower of potatoes that ultimately end up washed, you've got a choice do you of dealing direct with one of the four major consolidators or selling through the wholesale market?

MR RASCHELLA: Yes, we sell some direct and we sell some to the wholesale markets.

20

MR O'DONOVAN: Right, okay.

MR RASCHELLA: It's about 50/50.

25

MR O'DONOVAN: Yes, all right. Now, then I'm going to ask you some questions about the arrangements that you have with the major supermarkets. Are you happy to talk about whether or not you have an arrangement with Coles?

30

MR RASCHELLA: No, no arrangement.

MR O'DONOVAN: Do you have an arrangement with Woolworths?

MR RASCHELLA: No.

35

MR O'DONOVAN: So do you supply them with potatoes?

MR RASCHELLA: Yes, I do, yes.

40

MR O'DONOVAN: Right, okay and - - -

MR RASCHELLA: When you say arrangement, what do you mean by arrangement?

45

MR O'DONOVAN: Just an agreement that you will - - -

MR RASCHELLA: Just day to day.

MR O'DONOVAN: Yes, all right, so you've got an agreement with Coles that you will supply them?

MR RASCHELLA: Yes.

5 MR O'DONOVAN: How is that arrangement communicated? Do they ring you and place an order?

MR RASCHELLA: Yes, they ring us up, place an order or we ring – we'll ring

10 them up.

MR O'DONOVAN: Okay.

MR RASCHELLA: Yes.

15 MR O'DONOVAN: Then, they'll give you an amount – a volume that they need?

MR RASCHELLA: A volume, yes.

20 MR O'DONOVAN: Okay, and then – and ask for a price?

MR RASCHELLA: Exactly, yes.

MR O'DONOVAN: Okay, and presumably they can ring one of the three other

25 washed potato packagers?

MR RASCHELLA: Yes, yes.

MR O'DONOVAN: Then you either get the order or not?

30 MR RASCHELLA: Yes, we get an order every day, yes.

MR O'DONOVAN: Right, okay, does the size of the order - - -

35 MR RASCHELLA: We're regular suppliers to them.

MR O'DONOVAN: Right, okay and is the size of the order – if you give them a particular price do they say, oh look, we'll only take X at that price? Is that - - -

40 MR RASCHELLA: No.

MR O'DONOVAN: No, you just tell them the price – they tell you the volume?

MR RASCHELLA: We just give them a price, yes.

45 MR O'DONOVAN: And you give them the price?

MR RASCHELLA: Yes.

MR O'DONOVAN: Right, okay and so from the outside that sounds like you're in quite a good negotiating position with them?

5

MR RASCHELLA: Yes.

MR O'DONOVAN: Okay, so you're able to give them – look at your costs and look at what's a fair margin and then tell them what the price is?

10

MR RASCHELLA: Exactly, yes.

MR O'DONOVAN: Okay, now – and from their point of view they can look at what's happening in the wholesale market as an alternative source of supply, can they?

15

MR RASCHELLA: Yes, exactly right, yes.

MR O'DONOVAN: Do they ever – to your knowledge do you know if they enter the wholesale market and buy washed potatoes?

20

MR RASCHELLA: They'll buy a share in the market, they'll buy a little bit in the market. They'll buy a little bit direct off the growers. They'll buy a little bit everywhere.

25

MR O'DONOVAN: Okay.

MR RASCHELLA: Yes, just in case they run short.

MR O'DONOVAN: Yes, all right, and from a particular grower's perspective - - -

30

MR RASCHELLA: Yes.

MR O'DONOVAN: - - - do they – is it really the wholesale market that sets what return a grower is going to get?

35

MR RASCHELLA: Exactly right, yes, the wholesale market does, yes.

MR O'DONOVAN: Right, okay, so - - -

40

MR RASCHELLA: Well, actually it's in the – yes, the wholesale market, but New South Wales will be the most really, because of the population, more demand in Sydney, yes.

MR O'DONOVAN: Right, okay and the price is similar, like - - -

45

MR RASCHELLA: Yes, similar, yes, just the freight difference, that's all.

MR O'DONOVAN: Right, okay. So there's really an East Coast market for potatoes?

5 MR RASCHELLA: Exactly right, yes.

MR O'DONOVAN: Okay, all right. Now, in terms of product rejection, do you have specific arrangements?

10 MR RASCHELLA: Yes, they've got specifications.

MR O'DONOVAN: Yes.

MR RASCHELLA: We've got to meet those specifications every day.

15 MR O'DONOVAN: Okay, and when will they tell you if it hasn't met?

MR RASCHELLA: The next morning when they receive them.

MR O'DONOVAN: Okay, and will they send them straight back?

20

MR RASCHELLA: Yes.

MR O'DONOVAN: Okay, and that's the arrangement?

25 MR RASCHELLA: Yes, that's the arrangement or we'll make a choice where we want them to send them, if they want to send them back or sell them to another wholesaler in the markets, it depends where it is.

30 MR O'DONOVAN: Right, okay and in terms of the reasons for rejection is it being out of spec the only - - -

MR RASCHELLA: That's right, it doesn't meet the spec.

35 MR O'DONOVAN: Is that the only reason they ever give?

MR RASCHELLA: That's the only reason, yes.

40 MR O'DONOVAN: Okay, and do you believe that they're honest in the way they return them?

MR RASCHELLA: Yes, because you see washed potatoes they can change colour in four hours, it depends on the weather.

45 MR O'DONOVAN: Right, okay, but you don't think that they manipulate the market or think they can get a better price somewhere else - - -

MR RASCHELLA: No, no.

MR O'DONOVAN: - - - and reject it for that reason?

MR RASCHELLA: No, they wouldn't order any.

5 MR O'DONOVAN: Right, okay, so – and you've never been given another reason for why they don't want your produce?

MR RASCHELLA: It's just quality.

10 MR O'DONOVAN: Just quality?

MR RASCHELLA: Yes.

15 MR O'DONOVAN: Okay, and so in terms of the – how easy or difficult they are to deal with, how would you describe them?

MR RASCHELLA: Very good.

20 MR O'DONOVAN: Very good?

MR RASCHELLA: Yes.

25 MR O'DONOVAN: Okay. All right and in terms of payment, the – do they tell you how long it is before you'll get paid once the goods are accepted?

MR RASCHELLA: No, not really, no. Paying terms have always been the same for years since I've been in the business.

30 MR O'DONOVAN: Right. So they haven't got any worse in the last – time?

MR RASCHELLA: No, no.

MR O'DONOVAN: Have you had any reason to ask for improved terms?

35 MR RASCHELLA: No, no.

MR O'DONOVAN: No, but they haven't – certainly haven't changed in the last three or four years?

40 MR RASCHELLA: They haven't changed, no, no.

MR O'DONOVAN: No, the timeframe, like the number of days before you get paid, that hasn't increased has it?

45 MR RASCHELLA: No it hasn't.

MR O'DONOVAN: No, okay. Now, do you export any product?

MR RASCHELLA: Yes, at certain times of the year we do, but very little.

MR O'DONOVAN: Right.

5 MR RASCHELLA: Very little.

MR O'DONOVAN: Okay, and where would product that exported go?

MR RASCHELLA: Italy mainly.

10 MR O'DONOVAN: Okay.

MR RASCHELLA: Yes.

15 MR O'DONOVAN: And what - - -

MR RASCHELLA: It's just a one-off thing, it could be every three years, depends. It depends if they're very short.

20 MR O'DONOVAN: Right.

MR RASCHELLA: So it's just a one-off thing.

MR O'DONOVAN: So do you keep an eye on pricing in – overseas?

25 MR RASCHELLA: Yes, we do, yes.

MR O'DONOVAN: Okay, and if there is a market opportunity you - - -

30 MR RASCHELLA: Yes, we go for it.

MR O'DONOVAN: Right, okay and will that have an effect on domestic pricing if there's – or is there not enough traded?

35 MR RASCHELLA: There's not enough. Not enough, no.

MR O'DONOVAN: Okay, so how is it that you can take advantage of that market opportunity?

40 MR RASCHELLA: It depends on their weather. That's all it is, all depends on their weather and it depends if they're very – if there's an oversupply here in South Australia we'll just try and make a market for it overseas.

MR O'DONOVAN: Okay.

45 MR RASCHELLA: Just to get our money back, that's all really.

MR O'DONOVAN: Right, okay. Does it reduce – so it can reduce an oversupply problem here?

MR RASCHELLA: Exactly right, yes. When we've got an oversupply we do.

5

MR O'DONOVAN: Right, okay. Now, has the market concentration at the retail level, where the Coles and Woolies have expanded their market share in the last 10 years, has that made it more difficult for you to do business as a consolidator and packer of potatoes?

10

MR RASCHELLA: No, not really, because we're in the market too. I've got a wholesale in the market too, so I've got a share – a little bit of everything, that's why. Several other small retailers do, so it hasn't affected us.

15 MR O'DONOVAN: Okay, has there been a difference in the margins that can be earned at the growing level, the wholesale level and the retail level?

MR RASCHELLA: No, not really.

20 MR O'DONOVAN: No, so in terms of – say in the last 10 years you don't feel that the relative profitability of growing potatoes is less than the packing of potatoes, which is less than retailing?

MR RASCHELLA: No, it hasn't, the only thing is in the last three or four years it's just petrol and droughts, that's the only thing that's killed us.

25

MR O'DONOVAN: Okay, and what have been the effects of those?

MR RASCHELLA: In what way?

30

MR O'DONOVAN: That's the question I'm asking, so in what way has – what's been the impact of drought on – in terms of your – either cost of production or amount you could produce?

35 MR RASCHELLA: Yes, the cost of production it is, it's cost us more to pack a ton of potatoes.

MR O'DONOVAN: Is that just a direct effect from paying more for water?

40 MR RASCHELLA: Exactly right, yes.

MR O'DONOVAN: Okay.

45 MR RASCHELLA: Yes, and freight. Freight has cost us more, because we used to pay \$100 a ton to go to Melbourne, it's costing us \$250 a ton.

MR O'DONOVAN: Okay, and when did that sort of price shift start to - - -

MR RASCHELLA: In the last three or four years.

MR O'DONOVAN: Okay, and in terms of labour has there been much of a difference in the labour component of packing potatoes?

5 MR RASCHELLA: Yes, there has, yes.

MR O'DONOVAN: Okay.

10 MR RASCHELLA: Yes.

MR O'DONOVAN: What sort of difference are we looking at?

MR RASCHELLA: In what, the staff – it's mainly the staff, paying more for staff.

15 MR O'DONOVAN: Yes, and percentage terms, is it up 50 per cent per hour the rates, or?

MR RASCHELLA: Well, we were paying \$12-\$14, now we're paying 18 to 20.

20 MR O'DONOVAN: Okay. Okay, so just looking at the retail price of a potato and relative to the wholesale price of a potato, do you think that the difference has changed much in the last 10 years? Is the wholesaler - - -

25 MR RASCHELLA: I don't think it has, I think the cost to pack a potato has cost more.

MR O'DONOVAN: Yes, so the wholesale price will have gone up?

30 MR RASCHELLA: Yes, it has gone up because of the drought and that. It costs us more to produce the potatoes now.

MR O'DONOVAN: Yes.

35 MR RASCHELLA: Because of the drought and because of the diesel.

MR O'DONOVAN: Yes, and you don't see that the retailers instead of putting 50 per cent on top of the wholesale price are now putting 100 per cent on top of the wholesale price?

40 MR RASCHELLA: No, I don't see that, no.

MR O'DONOVAN: No, okay. Now, the – you're aware of the horticulture code of conduct?

45 MR RASCHELLA: Yes.

MR O'DONOVAN: Okay, firstly with the supermarkets do you have written agreements with the supermarkets?

MR RASCHELLA: No.

5 MR O'DONOVAN: No. So again it's just price agreed on the day?

MR RASCHELLA: Yes, it's price and quality.

10 MR O'DONOVAN: Okay, and do they issue a written invoice to you?

MR RASCHELLA: Yes.

MR O'DONOVAN: Okay, now you act – when you buy direct from growers has the horticulture code of conduct affected how you buy from the grower?

15 MR RASCHELLA: No.

MR O'DONOVAN: So on what basis do you buy? Just an agreed price delivered to your - - -

20 MR RASCHELLA: Yes, an agreed price with us and that's due to quality too.

MR O'DONOVAN: Okay, and so at the point of delivery you either accept or reject?

25 MR RASCHELLA: Exactly right, yes.

MR O'DONOVAN: Okay, and if you accept it then the price is fixed at that?

30 MR RASCHELLA: The price is fixed, yes.

MR O'DONOVAN: Okay.

35 MR RASCHELLA: We fax it to them on the day. We wash them and then fax it to them the prices.

MR O'DONOVAN: Right, okay and prior to delivery is a price agreed?

40 MR RASCHELLA: Yes, it is, yes.

MR O'DONOVAN: Okay, and do you have a written agreement with the growers you deal with?

45 MR RASCHELLA: No.

MR O'DONOVAN: No, so it's the same as the arrangement you have with Coles and Woolworths?

MR RASCHELLA: Exactly right.

5

MR O'DONOVAN: Okay. From your point of view would there be any benefits to your business if you were able to agree – able to insist on a written agreement with Coles and Woolworths?

10 MR RASCHELLA: No.

MR O'DONOVAN: No, okay. Have you thought about whether the – if the horticulture code did apply to your dealings with Coles and Woolworths, whether there would be any benefits to your business?

15

MR RASCHELLA: No.

MR O'DONOVAN: No, as in you haven't thought about it or you don't think there would be?

20

MR RASCHELLA: I don't think there would be.

MR O'DONOVAN: Right, okay. Now, it was – early today one of the South Australian Farmers Federation indicated that there were now – I think they suggested that there were only two purchasing agents in the market, which did a lot of the purchasing for the retailers. Now, do you know who they would be speaking about?

25

MR RASCHELLA: No, I don't actually.

30 MR O'DONOVAN: Okay, so in terms of who – who would do the bulk of purchasing from growers in the South Australian market?

MR RASCHELLA: It's spread out. You're talking retailers or wholesalers?

35 MR O'DONOVAN: Well, both, in terms of who deals direct with growers? Who would be the top three or four buyers in that market?

MR RASCHELLA: Buyers? Come in the market and buying?

40 MR O'DONOVAN: Yes. Sorry, not just on the wholesale market, but including direct arrangements with the growers? Who would be the biggest – the four biggest customers for potatoes grown in South Australia?

MR RASCHELLA: The four biggest customers in South Australia?

45

MR O'DONOVAN: Yes, just for packing.

MR RASCHELLA: It would be Woolworths and Coles.

MR O'DONOVAN: Right, okay, but do they actually buy direct from a grower or do they only deal with the packers - - -

5 MR RASCHELLA: They buy direct from a packing shed.

MR O'DONOVAN: Right, so it's the packers - - -

10 MR RASCHELLA: The packers, yes.

MR O'DONOVAN: - - - that buy direct from the growers.

MR RASCHELLA: Exactly.

15 MR O'DONOVAN: Okay, and how many – and are there just the four big ones or are there others?

MR RASCHELLA: Well, there are big ones and then there are the retailers too, which are pretty big.

20 MR O'DONOVAN: So Coles and Woolworths would also deal direct – have some dealings with growers or none?

25 MR RASCHELLA: Yes, they do, they do business with growers.

MR O'DONOVAN: Direct?

MR RASCHELLA: Direct, yes.

30 MR O'DONOVAN: Okay, and would those growers then do their own packing?

MR RASCHELLA: Yes.

35 MR O'DONOVAN: Okay, so is there anyone who doesn't do packing that Coles and Woolworths would deal with?

MR RASCHELLA: I'm not sure, I can't answer that.

40 MR O'DONOVAN: Right, okay and with your growers are they – have you had growers swap to other packers in the time that - - -

MR RASCHELLA: Yes, we have, yes.

45 MR O'DONOVAN: Okay, how often does that happen, that you would lose a grower to another packer or take another grower off a packer?

MR RASCHELLA: Probably every week.

MR O'DONOVAN: Okay.

5 MR RASCHELLA: Yes.

MR O'DONOVAN: So from the grower's point of view do they ring up and ask for a price?

10 MR RASCHELLA: Yes, they do, but sometimes we've got too many so they go elsewhere.

MR O'DONOVAN: Okay.

15 MR RASCHELLA: That's right.

MR O'DONOVAN: Right and so what determine whether a grower will swap between a particular packer and another?

20 MR RASCHELLA: Well, like I said before, if we've got too many they'll just go elsewhere today, if we've got a little bit less they'll come to us today.

MR O'DONOVAN: Okay.

25 MR RASCHELLA: Yes.

MR O'DONOVAN: And do prices - - -

MR RASCHELLA: It depends on how busy you are in the day.

30 MR O'DONOVAN: Sure and do prices vary on the day?

MR RASCHELLA: Yes, they could vary, yes or due to quality.

35 MR O'DONOVAN: But not due to – like if you were short will you offer a grower more to fill a hole?

MR RASCHELLA: Yes, it all depends, yes, we do. If we know a grower's got quality on that day we do offer a bit more.

40 MR O'DONOVAN: Right, okay. Now, has – it's been suggested to us that Coles and Woolworths, because they buy so much of a particular product that they can stop buying for a while and then the price drops and then they start buying after that?

45 MR RASCHELLA: I've never heard of that.

MR O'DONOVAN: Right and it's never happened to – in potatoes in your experience?

5 MR RASCHELLA: Never happened to me, no, not to us.

MR O'DONOVAN: Right, okay and once you've packed the potatoes for delivery - - -

10 MR RASCHELLA: Yes.

MR O'DONOVAN: - - - do you then – who else do you offer the product to, apart from major supermarkets?

15 MR RASCHELLA: Well, we've got 50 per cent of the supermarkets and 50 per cent of the retailers, you know, like just the retail outlet. You see we supply we state every day, the wholesalers and every market. So it's a bit of both.

MR O'DONOVAN: Right, okay, so you've got lots of alternatives to send it to Coles or Woolworths?

20 MR RASCHELLA: Yes, we've got a lot, yes.

MR O'DONOVAN: Now, I understand you've also introduced, I think it's called Fruita Pack.

25 MR RASCHELLA: Yes.

MR O'DONOVAN: Is that a business name?

30 MR RASCHELLA: Yes.

MR O'DONOVAN: Okay, and what business does it conduct?

35 MR RASCHELLA: Pumpkin. We cut pumpkin.

MR O'DONOVAN: Okay.

MR RASCHELLA: Yes, cut and wrap.

40 MR O'DONOVAN: Right and that's for retail – so wrapped ready for retail sale?

MR RASCHELLA: Yes, yes, mainly for Woolworths.

45 MR O'DONOVAN: Right, okay and was that an initiative of your company or you asked - - -

MR RASCHELLA: No, it's ours, ours, we introduced it.

MR O'DONOVAN: Okay, and how did you become aware that there was an opportunity to start a business like that?

5 MR RASCHELLA: We've been working on this for the last 15 years, more for safety reasons for the supermarkets.

MR O'DONOVAN: Food safety?

10 MR RASCHELLA: Yes, well, yes, with knives, because at the back of the supermarkets young kids cut the pumpkin themselves that work there, more for safety reasons.

15 MR O'DONOVAN: Okay, so effectively something that the supermarkets used to do at each store - - -

MR RASCHELLA: That's right.

MR O'DONOVAN: - - - you now do.

20 MR RASCHELLA: We do now.

MR O'DONOVAN: Centrally for them?

25 MR RASCHELLA: Yes.

MR O'DONOVAN: So the pumpkin is – and are they pumpkins that you've grown?

30 MR RASCHELLA: No, we don't, we buy off other growers.

MR O'DONOVAN: Okay, and again is that relationship growing direct?

MR RASCHELLA: Yes.

35 MR O'DONOVAN: Okay, and again a price agreed on the day?

MR RASCHELLA: Exactly right, yes.

40 MR O'DONOVAN: Okay, and in terms of your – do you have a guaranteed arrangement with the supermarket for that part of the business?

MR RASCHELLA: Yes.

45 MR O'DONOVAN: Okay, and is the price guaranteed or is the price again determined on the day?

MR RASCHELLA: Yes, we give them a price daily.

MR O'DONOVAN: Right and then they'll tell you volumes that they want packed?

MR RASCHELLA: Exactly right, yes.

5 MR O'DONOVAN: Okay, and so the service that you offer is you'll cut the pumpkin, seal it - - -

MR RASCHELLA: Wrap it, yes, seal it.

10 MR O'DONOVAN: - - - and barcode it for them?

MR RASCHELLA: Yes, barcode it, yes.

MR O'DONOVAN: Right, okay and they provide you with the information that
15 you want?

MR RASCHELLA: Exactly right, yes.

MR O'DONOVAN: Okay, and did you approach them with the offer to provide
20 that service?

MR RASCHELLA: Yes, we did, yes. They did and we did.

MR O'DONOVAN: Right.

25 MR RASCHELLA: Yes, we heard about it, so we went and offered it to them.

MR O'DONOVAN: Right, okay and again has that proven to be a good business
30 for you?

MR RASCHELLA: A very good business, yes.

MR O'DONOVAN: Okay, all right. I think that's all I've got.

35 COMMISSIONER KING: Just a couple of questions. Firstly, you mentioned when you're short you send out growers elsewhere and vice versa. Do you actually ring around the growers if you're short and try and - - -

MR RASCHELLA: Yes, we do, yes.

40 COMMISSIONER KING: Yes, okay. Is there a big of a negotiation deal that goes on with the growers or do you simply say, look, I'm a bit short today, this is my price, are you interested? What's the typical sort of conversation?

45 MR RASCHELLA: Well, if the quality is good the price is there. If the quality is no good the price drops.

COMMISSIONER KING: Okay, but you just basically say to growers, look this is the price for this quality, or?

MR RASCHELLA: Exactly, yes.

5

COMMISSIONER KING: Okay.

MR RASCHELLA: Well, they know the market price anyway.

10 COMMISSIONER KING: Okay.

MR RASCHELLA: Yes.

15 COMMISSIONER KING: So do you tend to match the market price to try and get the growers or do you add a little bit on just to try and entice a few growers across?

MR RASCHELLA: No, it's just market price.

20 COMMISSIONER KING: Market price, okay and just one thing, more through curiosity than anything else, do you actually pay any attention to the price of potatoes in Western Australia seeing as there's no potato board over there?

MR RASCHELLA: No, we don't. We did, but we don't any more.

25 COMMISSIONER KING: I was just wondering if they were cheaper in Western Australia or more expensive.

MR RASCHELLA: Yes, I'm not sure there.

30 COMMISSIONER KING: Not sure, right.

COMMISSIONER MARTIN: Just one question, on the potatoes, it struck me when you were talking, you wouldn't know the quality until you had done the washing.

35 MR RASCHELLA: Exactly, yes.

COMMISSIONER MARTIN: Yes, so that – and then that's when you can determine the top grade or the - - -

40 MR RASCHELLA: Exactly, yes.

45 THE CHAIRMAN: I'm going to put a similar question to you that I put to the previous witness who was all in public hearing so it doesn't matter, but we had evidence given by the South Australian Farmers Federation this morning that suggested that there was probably, based on their anecdotal evidence, a large number of growers that were dissatisfied with their dealings with the major supermarket chains and included in that potentially were those outside Coles and Woolworths, but

Foodland and the like, you seem to be giving contrary evidence that you're quite happy with your relationship.

5 MR RASCHELLA: Yes, very happy.

THE CHAIRMAN: Yes, and you don't want to give us any evidence in private that might - - -

10 MR RASCHELLA: No, you need to speak to them.

THE CHAIRMAN: I've got to ask you.

MR RASCHELLA: Yes. No, certainly answer, no, you need to speak to them.

15 THE CHAIRMAN: The nature of the relationship hasn't changed over recent times or over the past several years?

MR RASCHELLA: We've got a long relationship with them.

20 THE CHAIRMAN: Okay, and you haven't gone home at night and said to yourself, oh gee, they've screwed me over today, I wish I could do something else, or?

MR RASCHELLA: Oh no, no, it's just that the only thing is, is we just make sure we've got the quality, because if we haven't got the quality we can, you know, that
25 can make it harder for us, so.

THE CHAIRMAN: Okay, thank you very much.

MR RASCHELLA: No worries.

30 THE CHAIRMAN: Thank you for coming in.

MR RASCHELLA: Thank you.

35 MR O'DONOVAN: Is that everything you wanted?

MATTER ADJOURNED at 3.02 pm INDEFINITELY