

Public hearing –Darwin
21 April 2008

Time: 9.00am – 12 noon

Address: The Holiday Inn Esplanade Darwin
The Esplanade, Darwin

Room: Conference room: Ball Room 1 (first floor)

Witness	Submission	Summons
Australian Mango Industry Association Ltd Mr Peter Delis Chairman	n/a	No
Northern Territory Dept of Health and Community Services Ms Jenny Cleary Assistant Secretary, Health Services Ms Carrie Turner Nutrition Project Officer	34	No

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TRANSCRIPT OF PROCEEDINGS

AUSTRALIAN COMPETITION

AND CONSUMER COMMISSION

DR STEPHEN KING, Commissioner
MR JOHN MARTIN, Commissioner

GROCERY PRICE INQUIRY HEARING

CONDUCTED AT: HOLIDAY INN ESPLANADE, DARWIN

DATE: 9.00 AM, MONDAY, 21 APRIL, 2008

MR MARTIN: Good morning, Mr Delis. My name is John Martin. I'm a
5 commissioner with the Australian competition and consumer commission, one of the
presiding members of the public inquiry into the competitiveness of retail prices for
standard groceries and I'm joined by commissioner Steven King who is one of the
other two presiding members of the inquiry.
Mr Delis, I won't go through – you've received information on the background of the
10 inquiry.

MR DELIS: Yes, I have.

MR MARTIN: The inquiry is being conducted pursuant to part 7A of the Trade
15 Practices Act following a request from the minister for competition, policy and
consumer affairs on 22 January 2008. We so far have received 150 submissions to
the inquiry as well as confidential submissions, and from your point of view in
coming in today, some of the material that is covered in the hearing sessions can be
confidential and commercially sensitive and, therefore, parts of the hearings are
20 sometimes not open to the public and we're happy to respect that if we go into areas
where there may be sensitivities, but I think you haven't been required to come here
had terms of you haven't been summonsed?

MR DELIS: Louise, I think, Hird spoke to me about it and she said that everybody
25 was being summonsed.

MR HENRY: All direct suppliers were summonsed.

MR MARTIN: Yes. Have you made a submission?

MR DELIS: No, we haven't.

MR MARTIN: In terms of the main thing I need to mention in terms of procedural
issues, I just have to note that it is an offence under the Criminal Code to give
35 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 Delis, you're from the Australian Mango Industry Association, and maybe we
could start by you just for the record stating your name and your role with the
40 organisation.

MR DELIS: My name's Peter Delis and I'm the Chairman of the Australian Mango
Industry Association and have been since September of last year.

MR MARTIN: In terms of - perhaps we can start by you giving us some of an
45 indication of how the industry, how the supply chain works, how the mango growing
industry, particularly in the Northern Territory, works in the supply chain and
particularly both to the wholesale markets and direct to retail.

MR DELIS: Yeah, I'm the Chairman of the national body, so I could probably speak a little bit about other growing regions other than just the Territory.

5 Mangos, unlike most commodities, inherently have major issues with post-harvest
problems, and combining that with the distance associated from the market, it's been
– it's a difficult product to manage well through the supply chain, so the normal
procedure is it's harvested, it can take anywhere from three to seven days to make its
way to the central markets. We have heard stories of longer than that, but I'm not
10 sure that it's attributable to anything other than people not being informed correctly
about when their product's been leaving.

The majority of the product is sold into the central – through the Central Market
system. I'm not sure what else I can really tell you. I'm not sure what information
15 you're after.

MR MARTIN: In terms of volumes and the history of or how the market's changed
over the last five to ten years there's been significant growth? I see 8 or 10 per cent
growth figures.

20 MR DELIS: Yeah, the market's been growing steadily. They talk about a figure of
about 7 or 8 per cent per annum. I'm not sure where that's going to finish up
because historically when you get to a certain threshold, the market will only
consume so much per month, and then after that you usually see people exit the
industry, the market can't take that extra product.

25 MR MARTIN: Has there been a change over time in terms of who you sell – who
growers sell their mangos to, or has there been a growing influence of the chains in
terms of direct contracts or direct arrangements?

30 MR DELIS: I mean I think you hear people talk about having choice, but the reality
is when, you know, a major part of the market is occupied by two people, you've got
to question the rationale behind choice. Certainly there's been a change that, you
know, in my time there have been attempts by the chains to purchase directly from
producers and some have succeeded and some haven't succeeded, but there are still
35 people that I'm aware of that deal directly with the chains as well.

MR MARTIN: So you don't, as the association, you don't have sort of an idea of the
proportions of who deals direct with the chain?

40 MR DELIS: Not in mangos, but I wouldn't have thought it would be all that high.
Most of it does go through some wholesaler. Because of the nature of the product,
most of its problems are latent problems and don't necessarily manifest until after it's
been traditionally ripened, so usually there's an expectation that somebody in the
Central Markets manages the product and effectively regrades from the specs that are
45 required by the chains and by the consumers. So the direct selling is for our
commodity is probably less likely into the future.

MR MARTIN: So in terms of, you said, you mentioned there's sort of greater influence, but we don't know the sort of proportions of what is dealt directly with the chains, but this influence by the chains on the system, can you describe how that, you feel that works?

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MR DELIS: I can cite one example that specifically relates to me, several years ago there was a concerted effort by the chains to direct purchase in the Northern Territory product.

10 MR MARTIN: So how did that play out? Let's understand, an effort by them to direct purchase. What did they do? Did they approach individual growers?

MR DELIS: There was a bit of confusion. There were people that were running around up in the Northern Territory professing to be agents acting on behalf of Coles, in this one instance that I can recall, and when some time was spent identifying if that was the case, we were later told that they weren't, in fact, agents acting for Coles.

20 There were, I'm told, people that in fact were part of the organisation that came to the Territory. It impacted on our business that year, potentially quite significantly, because we had been doing business for a number of years with the same transport company and we received a phone call informing us that we probably need to reconsider or look at alternative transportation options because they had been told that they were experiencing pressure to access the trucks that Coles or Woolworths use to bring produce to the territory and wanted to backload it, which is we'd been using traditionally. So we found ourselves in a difficult position having to effectively find new transport in a market that's already fairly saturated in terms of supply into the transport industry for the territory.

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30 MR MARTIN: But are you suggesting there that this was an artificial manipulation of the supply chain or that there was a saturation of the backloading?

MR DELIS: Traditionally backloading out of the Territory is quite congested, so what I'm suggesting is that it's a difficult product – getting backloading out of the Territory is quite difficult and we had relationships with people for a number of years and we found those relationships were being challenged because of the fact is that we only send produce to the market for four weeks or six weeks of the year. Retailers utilise these trucks 12 months of the year, so it comes down to simple economics. They're going to choose between who you're going to do business with. Unfortunately we were the weak link in the chain.

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40 MR MARTIN: So what happened? In terms of transportation and –

MR DELIS: We were quite lucky. The chains were weren't successful in securing nearly as much product as they thought they were going to achieve, so we were able to get trucks from the same supplier that year.

45

MR MARTIN: In terms of in the supply chain and how packaging and quality specifications are applied to the industry, do you want to comment on that, these areas where there has been commentary about the influence of the –

5 MR DELIS: The national organisation was quite proactive. When we heard that the chains intended to introduce their own packaging requirements, and I think they referred to it as a “one-touch packaging”. The rationale for that was –

MR MARTIN: Sorry, what was that?

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MR DELIS: It’s referred to as “one-touch packaging”. I think it was, you know, the idea and the notion was about through to the supply chain from the grower, directly to point of sale. We formed a committee to try and actively engage the chains in that process to make sure that at least any outcome wouldn’t be to the detriment of the industry. Policy was drafted by the industry organisation about what we wanted to do and what our expectations were, some of the broad overarching expectations. We sent the correspondence to the chains, and in the end I think we have products, we have now, where the industry had one standard product, and that’s an eight per layer mango carton, we now have an eight per layer, a six per layer and a 12 per layer carton and we actually have the different chains having different products that aren’t compatible with each other, and more so there isn’t a capacity to interchange that particular product between the chains as well.

MR MARTIN: So what’s the implication, then, some growers need to – or is it the packing sheds have got to –

MR DELIS: My understanding, I haven’t actually had personal experience with the returnable plastic crates in particular, but my understanding is it’s quite an impost because you’re having to have a fairly substantial area set aside for storage of these things well in advance of the season because of the nature of the product, and in terms of logistics, it’s a bit of a nightmare whereas because of the nature of mangos where you can’t always pack it, send it to a market and expect that the outturn would be as it was when it went into the box, because of the nature of the product, you effectively have to send product to the market speculatively on what the market price will be. You have to determine who it is that you want to service out of those two chains and hope that your product’s going to meet the specs. If it’s not, then it needs to be repacked in the markets so that you can then put it back through that supply chain, that channel.

MR MARTIN: So two things: you’ve mentioned correspondence with the chains in relation to some of these issues. What’s been the reaction of the chains? How’s that played out?

MR DELIS: Look, again, I was hoping – we’re looking for correspondence. The association chain secretariat around that time chain, and I’m only going from memory, but I do remember one response from one of the chains was that they were looking to what they were going to be doing in terms of the one-touch packaging and

they were still under that review process and they would let us know what the outcome was.

The other chain, I don't recall what the answer was.

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MR MARTIN: And on the wholesale markets you talked about it being speculative as to what's going to happen. How do you and the members approach the wholesale markets? Do you have a relationship with one wholesaler or several wholesalers? How do you sort of optimize your interests in this?

10

MR DELIS: Everybody has a different philosophy of how they want to do business. Some people will only service one person in the wholesale markets, in each of the wholesale markets, whilst others feel that they need to have at least two, and the rationale behind that is that they have a mechanism for comparative pricing to see what the performance is like.

15

But if I could just go back to the packaging for a second, one of the things that's been highlighted to me is as a consequence of the returnable plastic crates, their physical bulk in terms of weight represents another 140 kilos in packaging, which means that there's 140 kg less product that can be put onto each pallet to meet that expectation which means an additional freight component back to the grower.

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MR MARTIN: What's that compared to an alternative style of packaging?

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MR DELIS: Well, my understanding is the cardboard to the plastic returnable crate, the plastic returnable crate is an additional 140 kg on top of the cardboard weight. So about 15 per cent reduction in product per tonne or per metric – per pallet, I should say, of produce that goes to the market.

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MR MARTIN: What's been the – if there are issues, how has it played out between people interested up the supply chain in these type of issues and how the retailers or others have responded in terms of this is – they put arguments back to you that this is a quality control issue, or –

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MR DELIS: Not to the industry organisation. We've certainly heard people talk about introducing a better product, quality product, that's the argument that's been put to us. We're not entirely convinced that that's necessarily the best way of achieving that outcome, but unfortunately we weren't in a position to be able to dictate to anybody about what we felt would be required. We did indicate in our correspondence that there was a willingness by the industry organisation to work collaboratively with both the major retailers, not only in the form of trial work, but also in terms of developing a product that made sure that we maintained the quality expectations. I think from memory that correspondence talked about – went down to specifics. In the traditional a per layer carton there was a chimney effectively in the centre of the pallet which a lot of would, had been done which allowed for ventilation, adequate ventilation. In the new packaging it's actually a solid block, so some questions were raised about the effects that would have on the quality. Now I

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understand that a lot of things now have been resolved. It took some time to get to that.

5 MR MARTIN: At the market end, if there's problems with the product or spoilage, I mean how does that play out with who gets to wear it?

10 MR DELIS: Yeah, well there's two answers to that. I am aware of one particular producer, not in mangos, in a different commodity, that has said to me when there's a knock-out by the independent – sorry, by the chains –

MR MARTIN: Sorry, a what?

15 MR DELIS: When there's a knock-out of the produce not meeting the quality specifications by the chains.

MR MARTIN: Can you explain exactly what that is?

20 MR DELIS: The chains have identified what their expectation is in terms of the quality standards that they're looking for, so they have QA people at their distribution centres that assess that on arrival, and if it doesn't meet the specifications then it's rejected which is referred to as a knock-out.

25 One particular producer informed me that it's actually cheaper for him to – because it's in the plastic returnable crates, it's cheaper for him to ship it back to Queensland from Melbourne, repack it in his own facility and then ship it back down again as it is to deal with it the market because there is no system for dealing with it in the market.

30 The other comment that he made was he has trialled one-touch packaging directly into the markets and found that the market was quite unforgiving in that it was perceived as a product that had been knocked out by the chains, and in this particular instance it was the product that was the same spec, the same grade, but he was doing it as a trial and he was struggling to achieve the pricing that he was looking for.

35 MR MARTIN: In terms of different – we've sort of spoken generically about the chains. Obviously there's Metcash and Aldi as well. I mean what are the different influences of the different retailers in terms of this? Do they all tend to, say, be charging the same prices or do you not monitor retail prices, and certainly do they give you the same return if you've got to deal with them?
40

MR DELIS: The only data that the national body's been able to achieve is we have daily pricing from the central markets that we pay for and collect for mangos, and last year we managed to correlate that data against what Woolworths calls their scan data, which is their pricing scan data, and we're in the process of doing that over the
45 last three years to see what the comparative difference is in terms of wholesale to retail sale price and whether there's been a gap, whether it's been increasing proportionally, and the industry association do that with a view towards establishing

whether the funds that we're contributing to, research and development, are actually being delivered back to the people that are paying for those levies, or whether it's –

5 MR MARTIN: So you have this data over three years, do you?

MR DELIS: For one market, yeah, we're happy to make it available for you too.

MR MARTIN: We will follow-up on that.

10 DR KING: Just on – the whole crop is, in an average year, is what, about 80,000 tonnes, is that the ballpark figure, have I got that right?

MR DELIS: Look, I don't know the tonnage off the top of my head, but it's somewhere – it fluctuates between six and a half and eight and a half million trays.
15 There's approximately 7 kg per tray in the old packaging system.

DR KING: Can you give us – I know you don't have exact per cents, but can you give us a bit of a feel for how much would go – do you have any feel of how much of that as a percentage would go through the major supermarket chains, Coles, Woolies,
20 or would you be guessing?

MR DELIS: I'd be guessing. I could certainly comment from my own business. I would have thought it would have been – and again it's difficult because under the current trading arrangements I don't actually have access to who is buying my
25 product, but I also – I'm well aware of what product the chains tend to chase. There is no interest towards the B grade product development, so in a typical pack-out year half my product meets that specification, so you could say it would be less than 50 per cent, and they tend to look for premium sizes – well, premium sizes certainly in the smaller sizes referred to as premium sizes, and that varies from year to year
30 depending on what kind of a season it is, but I would have thought they would have been somewhere between 30 and 50 per cent of the market.

DR KING: Is it mainly one particular sort, do they tend to go for the Kensington Pride mangos, or –
35

MR DELIS: No, that's not the case at all. They do buy other varieties. We've seen – I've certainly seen Calipos, Kensington Pride, Keats, R 2E2s and this time of the year they're coming into the Mexican varieties. They do have a – they do have
40 problem always identifying the correct product on the shelf. We see that, but when you've got five different varieties, it probably becomes a bit of a challenge, but we've seen it on occasion.

DR KING: So when the fruit's picked, it goes – other knowing they taste good, I know very little about how mangos are processed and so on, but they're picked,
45 what, in a green state and then they're conditioned by the wholesalers, is that how they're done, or by the packer, how does that actually work?

MR DELIS: Yeah, ideally we would want the fruit conditioned, and by “conditioned” we mean ripened, a bit similar to bananas and tomatoes, as they’re ripened. The industry commissioned research some time ago, but despite that research supporting that should be the industry practice, we haven’t seen anywhere
5 near the uptake in the markets that we’d like to see, but it is improving, predominantly that occurs in the markets. There are some growers that condition on the farm, and then dispatch. I would suspect that would be those that have enough confidence in their systems to be able to do that, and also particularly in their transportation systems. As once you trigger that ripening, you’ve really got a
10 window that you need to work towards in terms of getting to the markets with a saleable life.

DR KING: I’m just having a quick check down this. There’s very few that – one of the things that’s come out in a number of other fruit and vegetable areas has been
15 difference or the lack of transparency where your fruit goes, and I think you mentioned that it’s a bit hard to tell if the fruit goes to the major supermarket chains, you’re working on the specs, so you’re saying okay, well if the fruit meets the specifications of supermarket chains, you’re sort of assuming it goes there; is that
20 right?

MR DELIS: What happens is you, if you’re a large enough operator I think it’s more the case you may get a phone call being asked to – whether you can meet a particular order that the chains put in and that’s really the only indication that you have that
25 your product may be going to a chain.

DR KING: But it would be from the wholesaler?

MR DELIS: Yes. So to say that there’s a lack of transparency would be probably one of the classic understatements.
30

DR KING: When fruit gets knocked out, so the wholesaler, presumably, rings the grower and be said “Look, your fruit wasn’t up to spec. What do you want me to do with it? “, something along those lines, would that be sort of a correct summary of that sort of conversation?
35

MR DELIS: No, I wouldn’t make that assumption. I think you may have heard of the notion of price averaging. I think price averaging is fairly common in the central markets. What you tend to see is wholesalers, and I use the term “wholesalers” specifically because we’re not sure whether they’re merchants or agents in that
40 trading arrangement, tend to mask those real market signals back to the grower. For whatever the reason, whether they fear them or consequences in not believing their product’s up to spec, they tend to deal with that price averaging and I can certainly tell you from my own experience, my own supply chain, I’ve been to the central markets unannounced, seen my own product being sold at \$2 per tray, which is well
45 below the cost of getting it there yet alone everything else that’s in the supply, and none of my price returns indicated any sales at that price level.

So when we identified that to my wholesaler in this instance, he was a little bit nervous and we sort of said to him “Well, you know, that’s really the information that we’re chasing”. If there’s product - and what it was, was he had had regard our fruit to meet an order, a specification, because of the latent problems we talked
5 about, and what didn’t qualify was put into that box. Some of that stuff was actually could have been pulled out at the time of packing and the conversation I had to him “Well, that’s the information that we’re really thirsty for” because if there’s product that we could have removed and not sent it and paid to send it down and pay to put it into a box and pay for a carton, that’s money that we could have saved at our end.
10 So we spend some time massaging that thought through so that they understand that there wouldn’t be repercussions if we were getting those market signals back, but there certainly seems to be concern from the wholesale market about giving back these true signals indicators.

15 MR MARTIN: Just on this, what is the actual nature of the relationship? Do you have a – are they acting as merchants with you, or are they agents, or what are they?

MR DELIS: John, I sold my business last year, so I can only comment on the past, and I was unfortunate enough to be in a position to utilise the mandatory code that
20 was put in place. But in the past, I’ve had all my wholesalers act as merchants, bar one, and I had an enormous amount of level of accountability with that one particular agent, I think I was just using 10 pages worth of fax sale prices on a daily basis, and comments that were made to me is he said he should have done it years ago, giving me that accountability.

25 Had I have – I can tell you that when the mandatory code was introduced, we received some faxes from our wholesalers indicating that they were only prepared to act as merchants. I rang up – I only rang one of the wholesalers who gets the majority of our product and said to, you know, asked him if that was his position, his
30 final position. Sorry, let me just go back a step. Our operations manager rang him up, the wholesaler, and asked him, “So are you suggesting that if we don’t do business on a merchant basis you don’t the business?” It was indicated to him that was the case.

35 He informed me, I made the phone call and asked him if that was his final position, and he said – he asked me what I meant by that, and I said, well, if he was making a decision about he wanted to do business, then I would be making a decision about how I wanted to do business, and he may not like the outcome, that my expectation is
40 that an agency arrangement would be in place. I think our business, we’re probably more fortunate, is that we are – we were a large business operating some 30,000 trees and he indicated that he was prepared to renegotiate his position with us specifically.

A conversation I had with another one of our wholesalers who had traditionally acted as a merchant indicated to me that he would only do business with me on an agency
45 – and me only on an agency basis exclusively, and that I wasn’t to inform anybody else of our arrangement. So again I think there’s a – I think the type of relationship

that you can easily extract from the central market is probably a function of how large or how important your business is to that individual.

5 MR MARTIN: Are you suggesting that maybe there's an understanding among wholesalers that they'll not act as agents unless forced to?

10 MR DELIS: I wouldn't know of any understanding, but if I was to put myself in their position, and if you look at the way that business has been done traditionally for the last 100 years, I wouldn't want to change either, you never own – I mean – and John, you'd be well aware when we did all the work with the code, there was a heavy reliance on the Sales of Goods Act which dated back to 1928, and we had paperwork presented to us through when we were doing the co development process where the wholesale - the national wholesale chamber indicated to us that they did business on the basis that they never owned the product, and only took possession of the product
15 shortly before they were onto – going onto it for somebody, and that they would pay a fair and reasonable price retrospectively after the sale, and quoted the Sales of Goods Act.

20 I don't know of anybody that would want to do business on those terms, and certainly I've had conversations with wholesalers and they were adamant that that's how they want to do business and put it to them. You know, if they had asked, if they had sold their house and they said yes, and I said, well, you know, why is there expectation that the agent should give you true accountability on the scale price of your house, why don't you do business in the same terms. Because that's really the
25 sum – I think, the dollars that we're talking about, some people are doing hundreds and thousands and millions of dollars worth of business with no level of accountability, and, you know, they were quite quick to point out there's no way in the world they would do business that way.

30 MR MARTIN: You say that your – are you out of the industry now, or just - - -

MR DELIS: I still have some mangoes, but I've only down to about 600 trees, whereas before I was - - -

35 MR MARTIN: What's the view, is there a view – or what's your experience in terms of the arrangements that you and fellow members have now in terms of the wholesale market, are there no agency arrangements or some of them have agency arrangements?

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MR DELIS: I am aware of – none of our members - I am unaware of anybody that has an agency arrangement.

45 MR MARTIN: But they all have horticulture agreements, merchant agreements, do they?

MR DELIS: I couldn't comment on that as to whether they do or don't. What I can tell you is that I had on two occasions last year have people make contact with me personally asking for advice because they had been approach by their merchant asking them to sign a backdated agreement, and I asked – they asked me what to do.
5 I told them it seemed quite clear to me that “You needed to make contact with the ACCC” because that they were proposing was illegal, and that if they were to assign themselves, that they would also be engaging in an illegal act.

10 Unfortunately growers are their own worst enemy despite the fact that they knew what was being said of them and what the implications were and that they could actually make an issue of it, the comment was “I still want to do business with these people”.

15 MR MARTIN: Just moving on to the retail level, you said you had figures that sort of showed the margins or what's happened at retail against your wholesale data, what's been the experience, though, with the cost of mangos at retail? Has it been going up faster than CPI, or is it – a lot behind this inquiry is related to the growth of prices, particularly fresh product.

20 MR DELIS: I couldn't comment off the top of my head. I can say that I see a large variation between what growers – between commodities, between industries, between what growers are paid and what the retail price is. So if you look at heavy produce against mangos, I think you'll find there's a bigger disparity between those two prices, the actual wholesale and the retail price, so you've got to question
25 particularly around the staples I think you'll find, as in potatoes, onions, staple foods.

MR MARTIN: What about what the growers get vis-à-vis how their costs have moved?

30 MR DELIS: That's a little bit easier. Costs have continuously gone up. From my own perspective, I'm not sure that our net returns have gone up in proportion to our costs because we're in a market system, so we really have no control over what our returns are going to be, and I think you'll be well aware of a recent issue that you've been dealing with, Amcor and Visiboard. In our own experience we watched costs
35 go up, from memory, 8 per cent per annum for three years consecutively, so almost, I think compound interest almost got 27/28 per cent in our packaging costs. I certainly didn't see that related back to what I was achieving.

40 MR MARTIN: What are the big costs elements? Fertiliser, fuel?

MR DELIS: I think the major cost is labour. That's certainly the big cost ticket item in our business.

45 MR MARTIN: What about export. Is much of the Northern Territory crop exported?

MR DELIS: Again, my understanding is that mangos is probably one of few commodities that exports are growing, albeit very slowly, as opposed to other products.

5 MR MARTIN: So roughly what proportion, do you know?

MR DELIS: Look, I think you're talking single figure percentages, depending where you get your information from, anywhere from 5 to 7 per cent.

10 MR MARTIN: And how do the prices to growers go vis-à-vis the –

MR DELIS: Yeah, export's a bit different. If an exporter wants to purchase a product to send overseas, it has to be an agreed price, so there's absolute parity in that instance. It's a true merchant transaction and the only variation on that is when
15 there might be a quality problem the exporter comes back and talks to the grower and tries to work through that issue if there has been one identified.

DR KING: Just on that last point for a second, you've said the industry's growing at about 7 or 8 per cent in terms of supply per year. Are you able to give us a bit of a
20 feel, presumably if the growers' returns haven't been going up at the same rate as costs, is the actual just – more trees and more fruit coming on to the market, is that have a big driving effect on that or is it something else that's doing it? I think you mentioned right at the beginning you said it sounded to me like plastic hog cycle, where more people plant trees and then the market supply's going up fast, eventually
25 you hit a cap and people end up feeling pretty pressed. Are we sort of getting to that stage now?

MR DELIS: I think if you look back through history you'll find that it always goes in cycles, boom and bust cycles. Horticulture, in my view, is a particularly bad one
30 in that depending on the commodity, of course, if you're doing annual cropping, it's quite easy to get into that and all you need is a bit of land and a bit of dirt, so farmers are notoriously good at that, seeing who makes a buck and then we all jump on board and impact on that particular sector. But if you're dealing with tree crops, well that boom and bust cycle takes a bit longer to come around. Certainly from the mango
35 perspective, there's been a number of new players that have entered and they're yet to be play out into the industry fully. There are two MIS investment schemes, Managing Investment Schemes, that have come into the industry. One particular one has planted or will have planted enough trees to probably, if the figures that I'm
40 being quoted in terms of the yield and productivity comes to fruition, would have the capacity to almost double the entire Australian production. So unless that's exported, I think there's some tough times ahead.

DR KING: So I mean, we're not at the peak and about to head down? Would you say has the mango industry sort of passed the crest? You know, the good time when
45 everyone is talking, saying "Hey mangos – you're growing gold on those trees" sort of thing. We've sort of gone down from that, but we're not quite at the bottom yet. Managed investments need to come on line, or is that going to sort of likely create

the bottom for the farmers. I guess I want to get a feel, you know, are we seeing a future over the next five/ten years of a fair bit of angst for mango farmers?

5 MR DELIS: Look, I think if you look at one particular major production growing region, that's the Burdekin in Queensland, my understanding is there was enough trees planted there quite a number of years ago to produce – and on industry average of ten trays per tree or somewhere in that order, that they should have really produced ten million trays. The industry's never produced 10 million trays, so we achieved that peak some time ago, it's just that people have exited the industry and that target's never been achieved. In the Northern Territory, for example, there is 10 somewhere in the order of – the last census that the industry organisation did was between, I think, 800,000 and a million trees in the ground. Industry average production ranges from three trays per tree to ten trays per tree a year, but if you take the middle ground, and say five trays per tree, the Territory's capable of producing 5 15 million trays on its own in terms of what trees are in the ground. The maximum that the industry's done up here from – somewhere in the order of 2.8 million trays. I think that everybody understands that the market can only consume – the figure that I have always worked is, certainly in my own business, was somewhere in the order of approximately 2 million trays per month is what the market is good for, and in excess 20 of that you tend to get returns but like well below cost production.

DR KING: So growers have been leaving the industry. Does that literally mean that they're chopping down the mango trees on one farms while they're planting them on another? I mean, leaving the industry, if you're just passing the farm on to someone 25 else who is also growing mangos.

MR DELIS: There's a bit of both, but I know this last year I think and this has been apparently the case in Queensland in some areas for a lot longer than in recent times, where real estate agents – people are exiting the industry and wanting to sell their 30 property and real estate agents are advising the owners that they would get more for their money if they bulldozed their trees first.

DR KING: And obviously – I'm not sure whether it's obvious or not – but John mentioned how, you know, exports which I think you said were about 5 to 7 per cent 35 of the crop at the moment, is that a possibility for sort of taking up some of this slack in the industry or not?

MR DELIS: I think so, and I think my view is it's more likely than it has been in the past solely because there are some corporate players coming in, and the MIS is an 40 example of that, and corporate players tend to look at the business as a business, so they tend to be prepared to develop new markets because they take that longer term view in what they're doing, so I would like to think that there's a potential to grow that over time.

45 DR KING: Just stepping back to the wholesale markets, you mentioned that a couple of growers your industry association had pointed out the legal ramifications if they actually signed some of these backdated contracts, has there been any interest – or

has there been any history or any indications of black balling, or threats of black balling that you're aware of, of any growers that don't play the game, that don't sign backdated contracts, perhaps even talk to the ACCC? Anything like that?

5 MR DELIS: No. I can't comment.

DR KING: You mentioned that very few of the Northern Territory growers go direct to the major supermarket chains. Do you have any feedback from the growers that do supply the major supermarket chains as to whether they're happy about that
10 situation, whether it's better than the wholesale market, whether it's worse, it's just different? Are you able to give us a bit of a feel for – there's these two different chains, supply chains, a lot of product, both chains obviously go to the majority supermarkets, but can you give me a bit of a feel for the differences from the growers' perspective from those two separate chains?

15 MR DELIS: The one phrase that seems to come up continuously from the people that I've spoken to is that when we talk about some of the impediment that are unique to doing business with the chains, they always use the same expression in that they're saying well, you know, that's the price of doing business with them, and that
20 they also then go on to say that they have a choice. When you actually question them how real is that choice, they're very quick to sort of back down from the position of choice and say "Well, perhaps it's not as real as I thought it was". I don't know if that captures the question, but I think that really sums it up quite well that there are problems there, I think.

25 DR KING: With the guys who supply direct for major supermarket chains because if mangos are a fruit that tend to be conditioned, do they still have to go through an intermediary to get to the major supermarket chains? So, like, you know if I look at bananas, bananas tend to, I'm trying to think is there any example of bananas who
30 would literally take them off the tree, pack them, send them off to the supermarket chains, rather they go to, often, a growers co-op or something for the conditioning preparation, and it's the co-op or the intermediary who deals with the supermarket chain. So even though it's a direct link, specific wholesaler for the supermarket chains, it's still going through a middle person. Is that the same for mangos or is it
35 the case that some of the mango growers pick, into the containers, off to the supermarkets?

MR DELIS: Look, it may be different where growers are selling to regionally based chains, for example, a Territory grower selling to the Territory chains here, because
40 there's a capacity to manage all those problems that post-harvest latent problems. I suspect the reality is in terms of shipping from far north Queensland or the Northern Territory down to Melbourne it's unlikely that anybody would be in a position to be able to send that product without having an intermediary to manage it.

45 MR ZHIVOV: I'm Nathan Zhivov, I'm one of the staff at the ACCC. I'd like to ask you questions on five specific areas and hopefully it would be very quick.

MR DELIS: If you could speak up a bit.

MR ZHIVOV: Not a problem. I just wanted to ask you, you mentioned that there are certain problems in dealing with the major supermarket chains in there. Are you
5 able to at all be a bit more specific?

MR DELIS: Probably “problem” isn’t the word, but I think conditions of doing business. You know, you’ve got to question any organisation that has a capacity to extract a marketing levy of, I think, between 3 and a half per cent or up to 5 and a
10 half per cent from somebody when they’re doing business with them irrespective of what the agreed price was at the point of sale and the rationale is that you’ve entered into that agreement that respectively are to be deducted, and the independents don’t have the capacity to extract that from the wholesalers, although I know that there have been attempts because they’ve been passed back to me and we were selling to
15 our wholesaler.

MR ZHIVOV: So you’re saying that the major supermarket chains, they agree a price and then after that price is agreed, they come back to the grower or to the intermediary and say “I know we agreed that price, but I have to deduct a three and a
20 half to five per cent marketing levy”.

MR DELIS: No, what I’m saying is that the intermediary has already signed up to doing business on those terms. When they negotiated price, the cheque that’s sent out is actually reduced by that agreed amount. So it’s pre-arranged agreement
25 between the parties, and what I’m saying is you’ve got to question that – any organisation’s capacity to just unilaterally decide to take a percentage off a price.

MR ZHIVOV: I’m just trying to get an understanding of how it works in detail. So the mango grower sends to the intermediary, there’s no price agreed at the time it’s
30 sent, is that correct? And then the intermediary informs at a later stage the grower of the price, but then when the cheque is sent, it is the price that was informed minus three and a half to five per cent?

MR DELIS: No, the reality is most growers don’t see any of that transaction because
35 wholesalers are acting as merchants.

MR ZHIVOV: Can I move on to exports very briefly. I just wanted to ask you mentioned that there is some exports five to seven per cent in the potential for growth. Have you seen the growth in exports, although I accept that it’s small, have
40 any effect on the price you’re getting domestically?

MR DELIS: No.

MR ZHIVOV: I want to ask you about one-touch packaging. You mentioned that
45 there are a number of costs involved in moving to one-touch packaging that were born by the grower specifically, things like storage, logistics and freight, and that issue around the 140 kg per pallet difference. I wanted to ask you at the time of

those moves what was the effect of on the price of mangos of moving to a system where the grower absorbed those costs.

5 MR DELIS: Look, mangos aren't a big user of the one-touch packaging in terms of the reusable plastic crates. There's certainly a push in cardboard on the Woolworths side, that I'm aware of on that packaging. Depending on the size of your operation, it could have been a bit cheaper for you, and if you're a smaller operator, you might have found that it was probably a bit more expensive in using the cardboard.

10 MR ZHIVOV: Was there a change in the price being offered?

MR DELIS: Well, again, it's a market system, so you've really got no way of determining whether that's a true signal from the market as a consequence of that product or not. There is no – my understanding Coles has a policy of making sure
15 the growers weren't out-of-pocket as a consequence of moving to that product, and so they looked at what people were paying for packaging in their region, and then the hiring rate was set in accordance with all those additional costs, so the idea was that people wouldn't be out-of-pocket any extra. I'm told that the commercial reality of that is not always 100 per cent because there was an allowance made for how many
20 crates people could erect in a given time period. Commercial practice has indicated that that's not the case, that people don't operate as machines, can't produce those sort of volumes, so I think there's some disparity there between what was being paid and what ended up being – coming back to the growers.

25 MR ZHIVOV: I'd like to move on to dealing with wholesale markets and central markets and the horticulture a little bit. It seems from other evidence that we've heard that generally speaking, putting what legally should be the case to the side, but general practice is that the contracts between the growers and people in central
30 markets tend to be oral. Would that reflect your experience?

MR DELIS: I really can't comment. I would imagine – there's certainly – it depends what you mean by a contract. Are you talking about at the beginning of the season, or are you talking about on a transaction-by-transaction basis?

35 MR ZHIVOV: Could you tell me about both?

MR DELIS: When the code was introduced, certainly we saw facts as coming from the wholesale markets indicating how people wanted to do business. I'm not sure that everybody necessarily signed those agreements, so that there was compliance,
40 and then in terms of the actual transaction by transaction basis, I think there's still a lot of verbal information going on. I only recently last week I had a grower approach me, a bit upset at the fact that they had been promised verbally one price over the phone and then their returns were half of what they'd been promised, wanting to know what they should do and how to deal with it. So that practice still goes on.
45

MR ZHIVOV: So if on I understand correctly, though, at the beginning of the season there is some form of written agreement that's at the very least sent out, if not necessarily signed?

5 MR DELIS: No, what I'm saying is that the mandatory code's only been in place for one season for our industry and we saw evidence of that occurring last year. I can't speak for this year.

10 MR ZHIVOV: Okay, not a problem. You mentioned that when you previously had, I think it was something in the order of 30,000 trees, you were able to negotiate with people in central markets that they'd transact with you on an agency basis.

MR DELIS: Yes.

15 MR ZHIVOV: Can I ask, and I just need general, I don't need specifics, what impact did that have on the price that you received for your mangos?

20 MR DELIS: Look, I can't really now. I mean it's going back a few years. I think what it did for me more importantly is it gave me true market signals so that I could manage my business more effectively.

25 MR ZHIVOV: If I could be a bit more specific, I suppose what I'm asking you is did you suffer a drop in your price as a result of the fact that the agent was now acting as an agent as opposed to a merchant?

30 MR DELIS: No. In fact, I'll go one step further, I'm always dubious when I get prices back from wholesalers that always seem to be in nice multiples of 50 cents, and when I questioned one of my wholesalers privately, one of the employees for one of my wholesalers, he said there's a tendency to round down.

MR ZHIVOV: Can I ask you one more question about those people that you dealt with on a true agency basis: you said that it was improved transparency. Was it at a level that you were satisfied with?

35 MR DELIS: I only managed to have that with one person and an undertaking from a second person. Yes, absolutely, I actually saw who the product was being sold to, you know, down to one and two box sales. It was a bit more daunting because we were getting, like I said, ten pages worth of faxes at price advising, but we were quite happy with that because we were actually seeing the different sizes that were being
40 sold as well, so we were getting a lot more market signals to manage our business.

45 MR ZHIVOV: I have one final question and it's just a general question: I suppose if there are any general comments you'd like to make about competitive issues in the grocery industry relating either to mangos or from your perspective other fruit that would be useful, do you have any general comments?

MR DELIS: Just one. I question the rationale of the current economic model, and I'll use an example. You've got to ask the question in the US, which is the perceived free market capital of the world, my understanding is that anti-trust legislation has been in existence for well over a hundred years, but more specifically I've been led
5 to believe that there is legislation over there that prohibited the grocery chains from taking any more than 17 per cent market share.

Now here's the free capital of the world, an economic model that talks about this equilibrium nation, and it is a dominant paradigm in thinking, and I just think that
10 maybe we need to be revisiting that whole model and looking at what other people are doing and questioning whether or not some of these core values and assumptions, you know, because for example they talk about equality of bargaining positions between parties as one of the key values of the economic model. I put it to you that
15 the very existence of the ACCC would imply that, perhaps, that's not the case the need that the ACCC has powers to allow for collective bargaining would imply that that is also not the case.

So I just – I wonder rather than through this process, rather than we just come out of it and stick another band aid on the current economic model, whether we should be
20 really revisiting some of these core assumptions and values and reassessing where we're going.

MR ZHIVOV: I don't have any further questions.

25 MR MARTIN: Just following on, on that theory, do you see the alternatives to the two major chains who you're suggesting have got a very big percentage of the market, are they better to deal with, do they give better prices? What's this outcome that you'd be looking for on this theory?

30 MR DELIS: What I'm saying is that there is an expectation for us to put in some boundaries for what we think as a society is a workable solution, and you've got to question whether it be the chains or whether it be the banks, that's a healthy situation for Australia to be finding itself in, in terms of competition, and so I just wonder whether we need to be putting in some boundaries in the current thinking rather than
35 sort of having this belief that the free market model should be left completely to its own devices because if you go back through history, and using I think an author Brian Toohey talked about free market economy a thousand or two thousand years ago saw the Christians being fed to the lions, so I think society has to sometimes step in and question some of these things and say "Is this where we need to be?" Again, I
40 draw from the American example. Free market world capital, and yet they've sort of looked at what they're doing and have been looking at what they're doing and managing and putting in some guidelines, and there are organisations that were formed over there, that's their sole purpose just to manage and give advice to Government about what is in the best interests of society as a whole.

45 MR MARTIN: Thanks very much, Mr Delis.

MR HENRY: Very quickly, Mr Delis, you mentioned that when you were a major producer with 30,000-odd trees you would turn up announced at the wholesale market. Is that a common practice within the industry, that I suppose the question is to what extent do growers follow their produce down the highway or do they view
5 that as their role as ending as soon as the product is off the property?

MR DELIS: When you say “industry”, you mean mangos?

MR HENRY: Yes, sorry, yes.
10

MR DELIS: The reality is, unfortunately, the industry derives its income from probably about six weeks, so everything is geared around to six weeks. I’m in a fortunate position that the business was large enough that we had enough people in the key positions that I needed, if needed to be, could get away. The majority of the
15 industry isn’t in that position and so the owners of the business seem to be the key people in those organisations, so it’s difficult for them to do that. What you find is those that do, and there are, I know, some that do, tend to actually follow their produce on the last consignment. When they’ve finished their operation, then they’ll go to the markets and given the leave time from actual packing to sale, they’ve got
20 plenty of time to get down there and see a reasonable amount of their product down there.

MR HENRY: Just turning briefly to the product rejection forum, knock-out as you’ve described it, when it’s rejected you said there’s not a lot of feedback to
25 growers. Are you aware that the MSC – sorry, the major chains provide the wholesaler or the intermediary with any evidence of why it was rejected, photographic or even a simple explanation as the product was too small or is it just simply--

MR DELIS: Yeah, they do QA assessments and provide some evidence back to
30 them.

MR HENRY: And are you aware of any times when there’s been complaints or
35 allegations that product was knocked back and the grower believed it to be of a suitable quality or it made the specs?

MR DELIS: No. What I am aware of, off situations where product is knocked back, taken back to the wholesaler, kept for 24 hours and then put back in and repassed.

MR HENRY: At a different price, or what would it possibly--
40

MR DELIS: I’m not sure about pricing. I just know that I would have thought that the specifications are the specifications, so I would assume that it would have met the specs. If it doesn’t meet it in the first instance, then how could it meet it in the
45 second instance is probably the key question, I would have thought. Price, I think, is probably less relevant in that situation. I could say that that situation, depending on

the volume of fruit, could create market distorters, that product may be presented for resale along with whatever's arrived on that day and could drive down price.

5 MR HENRY: I suppose to ask the question directly, you're not aware of any instances where price was agreed and then in between the price being agreed and delivery there's been a change in the wholesale price and then there's a potential for a grower to perceive that their product was rejected because now the buyer could pick up produce at a lower price?

10 MR DELIS: No, I can't comment.

MR HENRY: Once it's rejected, what happens to it? Does it go to the processing market? Is there much of a processing market for mangos in Australia?

15 MR DELIS: Once it's rejected, I think in the current climate it would depend on what packaging was being used. If it was in the Coles packaging, the Coles packaging is owned by Coles, so the grower has one of two changes: either repack it, and I would imagine that would involve throwing away what doesn't qualify, and putting it back into Coles. In terms of the Woolworths packaging, and they're –
20 specifically they're plastic returnable crates, that really represents the same – they have to do the same thing because although the packaging, I understand, is owned by Chep, it's not available to other retailers other than who it's been targeted for, so again the grower's expected to bore the costs of repackaging, unless it's in cardboard, that's the only time that it would be able it to go back to the central
25 markets, and in terms of processing, I think by the time you get to that stage, again if it's any of those plastic returnable crates I suspect packaging/processing would be less of an option, then cardboard would be.

30 MR HENRY: So to get your product on the processing market, you have to aim at that from the start point? It's not an alternative once your product is knocked back?

MR DELIS: It's always an alternative, but there'll be a cost and I suspect the cost would probably make it quite prohibitive, depending on the packaging, very much so.
35

MR MARTIN: Thanks very much, Mr Delis, for taking the time to come in today and for giving us all that information.

40 SHORT ADJOURNMENT

MR MARTIN: We will get going if everybody's ready. We have the witnesses from the Northern Territory Department of Health and Community Services. Perhaps if you could identify yourselves and indicate your positions and roles, but
45 before just in terms of the process, I just have to remind you that it is 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 anything without which the evidence is

misleading and I did introduce myself initially, but I am John Martin, a commissioner with the Competition and Consumer Commission and my colleague, Commissioner Steven King, and we have ACCC staff who are joining us for the hearing.

5

If you can introduce yourselves and give us an indication of your role and the role in the matters that we're interested in.

10 MS CLEARY: I'll kick off. Jenny Cleary, and I'm the assistant secretary for health services in the Northern Territory Department of Health and Community Services. So that role encompasses all of the primary health care components of the health system in the Northern Territory and most of the public health elements of it, and in particular remote area primary health care and public health including nutrition.

15 MS TURNER: Carrie Turner, I'm a nutrition project officer. I sit within the policy area of the Nutrition and Physical Activity Team. I guess I'm here because one of my major roles is to coordinate this survey that we do annually, the nutritionists and other health staff do a survey in the remote stores so I collate the information.

20 MR MARTIN: Maybe we can start by understanding what the survey is and what the role of monitoring this covers in terms of the pricing and other aspects of food supply in remote areas.

25 MS CLEARY: Commissioner, is it okay if I give you just a tiny bit of context before I describe the survey?

MR MARTIN: Yes.

30 MS CLEARY: Okay, very quick.

MR MARTIN: I know, you know, for people, us included, understanding this, that is good to get a context.

35 MS CLEARY: Great. Okay. So you'll be aware from your research around the Northern Territory that we cover a sixth of the land mass of Australia, and we contain only 1 per cent of the Australian population. So we suffer diseconomies of scale around all things. We have five urban centres, but only two of these have populations above 10,000, so again very disbursed and very small.

40 Aboriginal people comprises about one third of our population and 70 per cent of that Aboriginal population of the Territory lives in remote communities.

45 There are around 70 discrete Aboriginal communities. It's hard to actually count them because it's difficult to draw the line between a community and an outstation. There are many hundreds of, you know, sort of collections of dwellings, but we would say about 70 communities of size.

There's an enormous nutrition-related burden of morbidity, particularly in remote areas and particularly among the Aboriginal community, that the nutrition sort of tie in there as in children there's still a high proportion of babies born low birth weight from importantly nourished mothers, we have a high rate still of what you might call
5 failure to thrive, so children who are underweight, especially in the under 3 population, and then in adulthood we've got massive levels of obesity, diabetes, coronary heart disease, high blood pressure and kidney disease, and a syndrome which is quite clearly documented from local research that links, you know, poor chronic disease outcomes and early on-set of things like diabetes and poor outcomes
10 associated with those diseases with poor nutrition in the antenatal and early childhood period and then obesity in lack of physical activity and smoking in adulthood. So there's this double whammy, if you like, of poor – you know, poor in terms of under-nutrition in kids and then over-nutrition at least energy-wise in adults that's really producing an epidemic of chronic diseases in adulthood.

15 So that's a little bit of background.

MR MARTIN: So it's like a bit of a vicious circle.

20 MS CLEARY: It is, yes, that's exactly what it is.

Our submission to you, our written submission, included the 2007 Northern Territory Market Basket Survey, so I'll just draw your attention to a few things out of there as I go through it as a bit of an overview.

25 Page 4 in that document talks about the ownership and management of stores. All communities have some form of food supply in the form of a store. Sometimes it's a tin shack and often it's quite a flash building these days, flash by remote community standards. 60 per cent of those stores, of the stores that we surveyed, are owned and
30 operated by the community, a group that represents the community.

MR MARTIN: Is that in number or turnover? The 60 per cent.

35 MS CLEARY: 60 per cent in number, yes, and 55 per cent of community stores – sorry, 55 per cent of stores in remote areas have a dedicated committee, so a group of people that worry for the governance of the store. 18 of the 67 stores that we surveyed in 2007 are privately operated, and six of them are run by ALPA, the
40 Arnhem Land Progress Association, which is a relatively longstanding co-op, with a lot – it has a very strong policy around indigenous employment and a very strong nutrition policy and we've worked for a good 15 years or so, the nutritionists of the Territory Health Department and ALPA to ensure that things go well there.

45 DR KING: Sorry, just to interrupt just to make sure that I understand, so the 18 that you're referring to doesn't include the ALPA run stores?

MS CLEARY: Correct. 28 per cent of the stores that we surveyed self-report having a nutrition policy to work to; in other words, among their business principles they're

aiming to, you know, promote the good health of the community through healthy are foods, but self-reporting, we haven't tested the reliability of self-reporting.

5 MR MARTIN: Well, how do they do that if they – like do they limit what they stock or do they – how does that play out in terms of what they do provide to the –

10 MS CLEARY: Perhaps I'll give you ALPA as an example because ALPA has operated now for a good decade with the strong nutrition policy, and the way that they do that is through, yes, limiting the variety of unhealthy foods, shelf placement of healthy foods so that they become more prominent to people. They have used price signals at various times, and I might just defer to Carrie to tell me whether they're still doing that.

15 MS TURNER: The freight, the – yeah, they've a subsidy on the fruit and vegetable, so they subsidise the freight for that, so I think they aim for, I think it's around 10 per cent, that's the mark-up they'll put on fruit and vegetable, so they wear the cost freight of the fresh produce.

20 They also do things in the takeaway where they – they don't sell fried foods in the takeaway and measures like that.

25 MS CLEARY: So the market basket survey that we did in 2007 revealed, as it usually does, the high cost of food in remote areas. The basket of foods ranged from \$508 to \$888 in remote stores.

Perhaps I'd better just tell you a little bit about the methodology. It's an annual process. The surveys are carried out – there's a tool, a standardised today, you know, a flick sort of check list that either a nutritionist employed by ourselves or a health staff member who's had a little bit of training to enable them to utilise the tool, carries out the survey. It's the – the tool involves a basket of food and it's designed to nutritionally feed a family of six for a fortnight. The family just quickly – I'll tell you about the family, the family is a six-member family, an older woman, a grandma, a dad and a mum and three children of varying ages, one's a pre-schooler, one's a teenager and one's a primary school student. So their nutritional needs have been calculated, you know, with the woman menstruating, the grandma needs to look after her bones, the pre-schooler's still – you know, the children are growing, etc., etc., and the basket would actually cover their basic nutritional needs. You're probably aware that most Australians eat more than their needs because we're all growing slowly – growing outwardly slowing, you know, a kilo a year or something like that, and that is also quite true of our Aboriginal population. So obviously people spend – you know, buy more than that, but we're just talking about pricing that basic basket.

45 Do you want me to talk about what's in the basket? It is in your documentation.

MR MARTIN: That would be useful.

MS CLEARY: Just quickly, okay.

MR MARTIN: To some extent we've looked through this, but we would like – and it gives us a chance, then, to clarify anything that we may be –

5

MS CLEARY: Yep, okay. So we've broken it down into five food groups, as nutritionists do, and the first group is bread and cereal. So there's flour, 4 kg of flour, 14 loaves of bread, a kilogram of wheat biscuit cereal – that's, you know, Weet-Bix or Vitabrits – a kilo of rolled oats, a packet of long grain rice and seven
10 cans of spaghetti, tinned spaghetti. Fruit is the next group. There are 50 apples, 55 oranges, 55 bananas, 7 litres of orange juice and 7 440 g cans of canned fruit. Vegetables, there's a list of some ten veges, potatoes, onions, carrots, cabbage, pumpkin, fresh tomatoes, canned tomatoes, canned peas, canned beans and baked
15 beans in varying quantities, and just a quick word about canned foods. Canned food is actually very nutritious, and in many stores the nutritional value of, say, a can of beans may well be higher than, you know, two-week old beans that you can tie in a knot that are fresh.

MR MARTIN: Yeah, I was thinking that when you said all the cans of spaghetti,
20 why you wouldn't have some pasta, but I can see the point in terms of that.

MS CLEARY: Yes. Also the food basket is also based to a large extent on what we know people buy as well, so we've tried to compromise what people buy and what
25 people need and put it into the best basket that we can.

Meat and alternatives, there are cans of corned beef, people eat a lot of canned
30 corned beef. Seven cans of corned beef, seven cans of mixed meat and veges, the stew-type of things, 1.5 kilos of fresh or frozen meat, one kilo of fresh or frozen chicken and one dozen eggs, and then the other group of foods is "other", that's four by 500 packs of margarine, four kilos of sugar and one 500 gram pack of sugar, so a smaller quantity of sugar.

DR KING: Just on those, would all remote stores always or at the time of survey
35 have all of those products, or is it sometimes that the stores don't have them and what actually happens then? Do you then use the normal price of those products or –

MS CLEARY: Yes, that's right. If a store – most of the foods are in most of the stores.

40 MS TURNER: 95 per cent, I think. If the item isn't on the shelf, like with the canned meat, they will try to and find the price of what that item would be if they did stock it because it might just be that they've run out of stock. If not – and if, as a last resort, we substitute the town store price, yeah. But it is quite, those items it's quite high. I think it's around 95 per cent of them were around there.

45

MS CLEARY: That's improved over the years.

MS TURNER: If there's a store that has too many missing items, we'd just take them out of the survey, yeah.

5 MS CLEARY: The next element of the tool is really the calculated income of the hypothetical six-member family, and that's also spelled out here. It's based on all of the family receiving all of their benefits. The granny's on a pension, the mum is on a parenting allowance, the dad is on Newstart, and the children are receiving whatever – whatever's available to the children, and that's also spelt out in one of our appendices in here. So the hypothetical income of that hypothetical family for the
10 fortnight is \$1,829.24 per fortnight.

Once we've collected the information and churned it around in our computers and so on, we report the information back to each community in terms of their own outcome versus the average. We place the survey report, the general survey report that
15 doesn't identify individual communities on the department's Internet and provide information to the minister and to other people as they've shown interest. So it's public information.

MR MARTIN: You say that doesn't show individual communities, but it shows the
20 range?

MS CLEARY: It shows the range, correct, and we have an undertaking with the individual communities and particularly with their store management that their information is confidential to them, they'll be incorporated into the general report,
25 and they will see their own information but other, you know, the public can't. But within a community it's fed back to – if the store is managed by the community, then basically the community gets the information. If it's a privately owned store, then permission is sought to share the information with the community and store managers provided that permission generally speaking.

30 Just quickly limitations of our survey tool, one of the things that possibly skews result – could possibly skew results is that generally speaking a store manager knows through courtesy call that the survey will happen, you know, next Monday or whatever. We don't sneak around stores with hidden clipboards. So it is possible
35 that prices get adjusted for the survey date, but we think that's very unlikely given the way that they look, the prices look.

DR KING: Have you ever had any, because that was one of the things that struck us reading through your submission, we thought is there any game playing going on
40 here at the store level.

MS TURNER: I think if there is, it's very small amounts because often people just – in some cases the prices haven't even been on the product, so they've just taken the basket through the register, so unless they'd gone in – and they might just know that
45 they're coming within the next week. They might not know the specific date, so yeah, I think nutritionists sort of have a fair idea of what prices they are and they would, yeah, if they thought--

MR MARTIN: Anyway it is done via taking the package of goods through the cash register?

MS TURNER: Occasionally, yeah, if they're not on the--

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MR MARTIN: You're not ringing up them and saying "Look, tell us what you're prices are"?

MS TURNER: No, they go out and, yeah.

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MS CLEARY: The other important limitation of the survey is that, you know, we're not trying to – our methodology is approximate, and so the supermarket and the corner store which we compare the remote basket with will be, you know, randomly selected in any given town in any given year, so we're not actually tracking it against Bi-Lo or Coles or Woolworths in particular. It's generally speaking against a supermarket. We're not doing ten supermarkets and taking an average. We're taking one random supermarket. We're not revealing its identity because that's not the point; we're using it as an approximate urban price – two approximate urban prices, one being a supermarket, a large supermarket, and the other being a small corner store.

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MR MARTIN: So can you describe what's actually been happening over the time since you started the survey, what's been the trends in price?

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MS CLEARY: We do have ten years worth of data. Over that time we've seen our average remote price of the same basket increase by 33 per cent over ten years. The price increases have exceeded CPI. The price increases, interestingly in the – they actually track lower than the base. So the base has increased at a greater rate than the remote stores have increased.

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MR MARTIN: So the gap, the gap has narrowed.

MS CLEARY: So the gap has narrowed, yeah.

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MR MARTIN: So what are the dimensions of the gap? I know it varies. An average I thought 17 per cent in the latest one?

MS TURNER: Yeah. Can I just say the latest survey was a little unusual in that the gap would just compare to the Darwin supermarket not the average of all the supermarkets. Darwin supermarket last year for some reason, the fruit and vegetable portion especially was quite expensive, so it actually looks a lot closer than what it has been in previous years. There was just that jump up, which puts it a little bit further over I think, yeah.

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MS CLEARY: I'll get Carrie to answer that question for you. She's very familiar with this data.

- MS TURNER: Yeah, so – we left it as Darwin supermarket in the survey because each year we've always compared to Darwin supermarket, but if you compared it against the NT average of supermarkets, the difference was much greater, so we went back and checked the data that had been recorded and it was okay, so for some
- 5 reason Darwin was quite expensive, but usually it's around 30 per cent the difference.
- DR KING: From the 07 data, I mean it was 17 per cent compared to the Darwin supermarket.
- 10 MS TURNER: Yep.
- DR KING: Do you have actually a number for it compared to sort of a broader supermarkets around the Northern Territory or not?
- 15 MS TURNER: I have done it, but I don't have it with me, yeah, sorry.
- DR KING: But it was in that sort of 30 per cent range?
- 20 MS TURNER: Yeah, yep.
- MR MARTIN: So within that basket, then, what are the – like that's an average, are there particular products that are – the differential's much greater, as I understand it.
- 25 MS TURNER: The fruit and veg is very varied from year to year. For example, after Cyclone Larry when the bananas were expensive, everything went up that, because I guess that's one of the limitations of the basket is because we multiply it by – the price of bananas by 55 bananas or whatever it is, it actually makes quite a significant difference. The reality is people might decide not to buy bananas that
- 30 particular year, so it may not be what people are actually spending, but because we're comparing from year to year we have to keep it the same.
- Yeah, fruit and veg is the one that has the greatest variability.
- 35 MR MARTIN: But that's also the case in the Darwin.
- MS TURNER: Yes.
- DR KING: If we compared it to the margin, let's say, so how does that – so let's say on an average year, margin's about 30 per cent for the remote store compared to an
- 40 average supermarket.
- MS TURNER: Yep.
- 45 DR KING: Have you got any feel for how that differs between product category. So if we were looking at fruit and veg, you're able to say fruit and veg is usually 20 per

cent more or 40 per cent more. What about the canned spaghetti or the corned beef? We're sort of trying to get a feel what actually drives those.

5 MR MARTIN: Drives the 30.

MS TURNER: Yeah, it's – the average mark-up.

10 MS CLEARY: The percentage increase of the food in the remote versus the Darwin price, the bread and cereals was a 13 per cent differential. The fruit was 4 per cent differential, the vegetables are 28 per cent differential.

MR MARTIN: Is this in the latest?

15 MS TURNER: Yes, that's in the latest one.

MS CLEARY: Yes, that's 2007.

20 MR MARTIN: But this probably gives the same relativities, whether it's 13 or 17 per cent over all.

MS TURNER: Yeah. I did flick through a couple and it was very varied, yeah, but often around the – the breads and cereals probably not so much as much as the other groups, yeah. Often this other food one, which is the sugar and stuff, was actually quite expensive too comparatively, yeah, which you wouldn't necessarily consider.

25 MR MARTIN: No, you'd think the flour and the sugar would be more a commodity thing.

30 MS TURNER: Flours and breads and cereals.

MR MARTIN: It's in breads.

MS TURNER: Yeah. Sugar and margarine is another food, yeah.

35 DR KING: Have you got a feel for how they've changed over previous – you said you flicked through, is that a flick through previous years? So let's say fruit was 4 per cent, veggies were 28 per cent.

40 MS TURNER: Yeah, unfortunately that was--

DR KING: It strikes me as a bit odd.

MS TURNER: Yeah, unfortunately that was compared to that one Darwin supermarket survey.

45 DR KING: Any deal of – is that really an outlier, or in other years there's fruit and veggies sort of about the same?

MS TURNER: Yeah, they're about – yes, I think this year was – yep, you're quite right, perhaps in that layer, and in other years the fruit and veg would probably be about the same differential between them and Darwin, and Darwin, yeah.

5 DR KING: Do you see in the data usually the effect of the subsidies at some other store across subsidization on the fruit and vegetables, so if you're saying the gap is about 30 per cent on average to a Darwin supermarket, does fruit and veggies usually come in a bit lower, say at about 20 per cent or less than that or you don't really--

10 MS TURNER: I've seen surveys where the fruit and veg in remote stores has been cheaper than in Darwin, particularly if it's compared to, say, in East Arnhem, compared to the supermarket in east Arnhem, maybe not so much against Darwin, but I have seen it's cheaper in some remote stores and this is perhaps due to our ALPA's policy because that's where the ALPA stores are generally are as in East
15 Arnhem so I have seen – and people anecdotally have told me that they will go – when they go to the community to visit, they will buy their fruit and veg there because it's cheaper than buying it in, say, Nhulunbuy.

MR MARTIN: So that's products. Then there's the different centres themselves.
20 There seems to be quite a range between them and what is that range and what do you think drives it? Is it they are more remote or sometimes--

MS TURNER: Are you talking about the district centre's markets?

25 MR MARTIN: District, particularly some may – you've talked about an average, some had are much higher than that average and some are lower.

MS CLEARY: I think we have to be very careful about drawing any conclusions about the supermarkets and corner stores because, as I said, we take one random
30 sample per year per town, and so it's not reflective necessarily of, you know, of the food supply in that place. Having said that, and so that's very critical that it's not misinterpreted, but having said that, the supermarket prices vary – are varied last year, so there's one sample, N equals 1. Darwin was 550 for the basket, \$550, Nhulunbuy was 600. Katherine was 518, Tennant Creek was 518 and Alice Springs
35 was 488. So Alice was the lowest at 488 and the highest was Nhulunbuy at 600.

DR KING: Just on that, would the remote stores in the Alice Springs region, if I can put it that way, would they have also then reflected that they tended to be--

40 MS TURNER: They do tend to be –

DR KING: - lower than –

MS TURNER: Yep, yep, yep.

45 DR KING: So those prices that you see reflected at the town or city supermarkets, they're also in a sense that gap's being reflected at the remote –

MS TURNER: Yep.

DR KING: - I don't want to call it the local remote settlement.

5 MS TURNER: Yes, that's correct. The Barkley district and the East Arnhem districts are regularly between the two of them have always been the most expensive districts, both in terms of supermarket and remote stores.

10 DR KING: The road stores, presumably the community stores are run on a not for profit basis.

MS CLEARY: Generally speaking. Community managed ones would – perhaps this is an important point to cover, in fact. Why are prices high? And one of the elements is mark-up. Council and community can require the store to fund a
15 community project and, you know, it's debatable, it's not our decision to make, obviously, but to what extent should prices be, you know, subsidising community projects, that's the community's call to make. So, for example, a sporting oval, a swimming pool, school, you know, enhanced school sort of opportunities for kids, those can be funded for mark-up.

20 MR MARTIN: So it's like a levy through the--

MS CLEARY: Well, it's just a – you know, everything costs a bit more.

25 MR MARTIN: You never know, though, whether it's – means that – you know, you don't know what rank the store pays or how all that works in terms of the costs of the store anyway, so they could all have different business models.

30 MS CLEARY: That's right, that's right, and our concern is, obviously, the nutritional health of the community, so accessibility and affordability.

MR MARTIN: And the bottom line.

35 MS CLEARY: Go hand-in-hand for us. There are many other reasons why prices are high, so I would say very rarely would there be excessive mark-up related to those projects, but it's not – you know, it's a judgment call that's not ours to make. Transport's obviously a key issue because we've got a lot of island communities for a start, so in East Arnhem and the Darwin region, we've got some food can only arrive by – some communities can only receive their food supply either by sea, barge
40 or by air. We've got very poor roads. There's no road linking Darwin to Nhulunbuy so everything that arrives at Nhulunbuy has to come by air or barge. For example, you know, trucks don't last very long if they do the run from Darwin to Port Keats, well, maybe one season might just about do it for a truck, I'd expect, and a lot of communities get cut off in the wet, so that's for, say, a good three months of the year
45 with rivers up and again back to air transport. Long distances, to tiny communities, it might be a four-hour truck to get to, you know, a community of 200 people, so there's not a lot, you know – there's sort of no economy of scale there. The clients

out there have – customers out there have reduced buying power, they don't of a lot – you know, unemployment's high and income's – you know, they're among the poorest in Australia. Storage is a real challenge, especially where you've got a community that's small and you can't, you know, it's very difficult to make
5 sufficient sort of – to cover the overhead of running a big freezer, for example. I know in Carrie's and my time we've worked here for many years, and in our time we've seen a great improvement in refrigeration and, for example, many stores now have glass – open display fridges which, when I first worked in the territory 20 years ago, you never saw a display fridge, it was just a rusty freezer that the store manager
10 knew what was in there but no-one else did kind of thing. But storage remains a really huge challenge, and power supplies in remote communities are, you know, also very – there's a great diseconomy of scale associated with those, so improving storage facilities in a remote store can often be, you know, unfeasible in terms of its current ampage or, you know, electricity supply, but that's not – all of those are
15 legitimate reasons why things are expensive, but there have been numerous examples of the store manager and it happens rarely these days, I have to say, but the store manager doing a flit in the night with the cash register under his arm and, you know, short of actual fraud there's been, you know, there's always difficulty attracting well trained and well meaning people to very remote communities where their life is
20 pretty tough, and, you know, yeah.

MR MARTIN: Do you have much of an understanding at the wholesale level what happens in the supply to the remote stores? Does that come from one of the major suppliers or one of the chains? I mean how – what are the economics of that?
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MS TURNER: Most – I'm more familiar with the top end, I guess, but most stores are supplied by one or two key wholesalers, IG--

MR MARTIN: IGA, Metcash.
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MS TURNER: Yeah, and one or two key fruit and veg suppliers, and there might be a meet supplier as well. As far as I'm aware, Coles and Woolies have very little input into – have no – nothing to do with the supply to remote stores.

MR MARTIN: Do you know if they've ever been approached some in
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MS TURNER: I don't – I wouldn't be able to answer that, yeah.

MR MARTIN: In terms of being involved in that, remote?
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MS CLEARY: Over the years there have been numerous efforts at different times to, you know, to get wholesalers, food transporters, store managers, you know, involved in food chain investigations and looking at how access and affordability could be improved in remote areas. At the moment I think probably our eggs would largely
45 be in the basket of outback stores, which is a company, a not for profit company, which is taking a larger and larger focus around managing remote area stores. It's got a key role, I guess, in training up managers and it does actually run a small group

of stores, but with the Australian Government intervention requiring the licensing of stores, outback stores is likely to pick up the failures, if you like, of stores that don't make the cut in terms of the standards set by the Australian Government. Outback stores has got an interest in the food chain with not for profit focus and a clear nutrition bent. They employ employee nutritionists which is a good start.

DR KING: In the past has there been any – the community stores grouped together traditionally to buy off the wholesale level, or is it a case of almost each store by itself? Do they attempt to get any sort of buying power when they go to, say, IGA distribution they can say “Look, give us a better deal because, you know, we can bring you 70 stores rather than bringing you one store”.

MS CLEARY: Yeah, that's a very good idea, and that's certainly where ALPA began, the Arnhem Land Progress Association, so it does achieve for its six stores that sort of buying power. Outback stores can do the same thing in other parts of the Territory, but is still just beginning, I guess.

I'm not aware of any other co-ops operating at the moment.

MS TURNER: There's May Weary, a similar sort of model some central Australia, sorry, no Northern South Australia. They have sort of grouped together and they also employ nutritionists, so they've got a strong nutrition focus and they have – I don't know whether they're – they have aligned their deliveries so that they can just go along on one route and they've – part of the problem in the past has been that store managers weren't there, so the truck would have to then unload or – and then load their stuff back on and then go on and they've actually made a commitment to be there and to make it all run efficiently, yeah.

MS CLEARY: Largely speaking, you know, the answer to your question is no, that they do largely operate as tiny little stand-alone businesses struggling on a daily basis.

DR KING: Do you notice – so you've got, I think, 18 – sorry, was it 18 stores or 18 per cent were privately--

MS CLEARY: 18 stores.

DR KING: 18 stores, sorry. Do you notice anything from your data, it's a bit hard because of the degree to variation, but is there anything from the data and any sort of feel out there that, you know, they are a bit more expensive because they're private as opposed to the community stores or is it really just not the case?

MS TURNER: We haven't done that analysis specifically. I know certainly some of them have been, yes. Yeah, they – what we have looked is employment of Aboriginal people and Aboriginal – employment of Aboriginal people in those stores is definitely a lot lower in the privately owned stores, but yeah, I haven't specifically done – there's a couple I can think of that are at the end of the scale as being the

expensive stores, but I haven't actually done an average of them compared to the other stores, yeah.

5 MS CLEARY: So there may be a couple that are at the other end and it wouldn't be fair to--

MS TURNER: Yeah, it wouldn't be fair to, yeah--

10 DR KING: To tar them all with the same brush?

MS TURNER: Yeah, that's right, yeah, yeah.

15 DR KING: I understand. Presumably, please correct me if I am wrong, I assume there's no community where there's sort of more than one store and they're competing with each other. I assume that each of them is--

MS TURNER: There's a couple, there's a couple.

20 DR KING: There is?

MS TURNER: Yep.

MS CLEARY: But generally --

25 MS TURNER: But generally speaking it's just the one, yes.

MS CLEARY: And that's another reason why you're not expecting an awful lot of efficiency necessarily.

30 DR KING: Well, where there are a couple of stores, is it, sort -- do you notice anything from the data that suggests anything odd, gee, you know they do keep each other a little bit more honest or do they do have to be on the ball a bit more?

35 MS TURNER: No. One year they might be good, one year -- and I think part of the reason is the store managers change, management changes so frequently.

40 DR KING: What's the sort of -- I don't want to say life expectancy of the stores, what's the sort of turnover rate? To they tend to turnover once every two or three years, or 18 months?

MS CLEARY: It's highly variable. I can think of a few that have been out there nearly as long as me. It's highly variable.

45 MS TURNER: And a store might go through a stage where they have someone who's quite stable and then in six months, seven months --

DR KING: Until they get someone stable again.

MS TURNER: Yeah.

DR KING: Because it's a sort of obvious – I assume it has a pretty unsettling, but it's pretty unsettling for the community if you're continually changing the store manager who do things different.
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MS TURNER: Mmm.

MS CLEARY: They're used to people coming and going as you can imagine, not just in the store.
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DR KING: Yeah.

MS CLEARY: I'd like to just offer a couple of observations about the income side of the equation if you're interested in that. I know your issue is grocery prices and our issue is grocery affordability, if you like, so the other side of the equation is the affordability. There's a couple of things. Number one is that remote area allowance is applied to pensions and public incomes, are not graded in terms of remoteness. So a remote area – all of the Territory receives a remote allowance, including Darwin, and obviously there's something like a 30 per cent differential between town and bush, so some sort of recognition of the additional prices that remote – that what territorians call remote people have to cope with, you know, it seems highly justifiable.
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The other issue is that remote area allowances haven't increased over the period of our surveys, so while prices have, there's been no actually allowance increase.
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MR MARTIN: Would it be the case, though, that non-food costs might be greater in urban Northern Territory, or is that – or the opposite?
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MS CLEARY: Accommodation costs would be, accommodation standards would also be hugely better. Yes, I mean basically we pay for what we get in cities and in remote areas those things are not able to – you know, they're not there to be purchased, I suppose, largely.
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MR MARTIN: Was there anything else that we haven't covered? We found that very useful in terms of – and your submission was very helpful as well. So thank you very much for coming in today and for explaining it all to us. Thank you.