



SEAFOOD INDUSTRY AUSTRALIA

**Australian Competition and Consumer
Commission Perishable Agricultural
Goods Inquiry Submission**

Submitted via email: ag inquiry@accc.gov.au

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Seafood Industry Australia (SIA) welcomes the opportunity to make a submission to the ACCC Inquiry into the bargaining power in supply chains for perishable agricultural products in Australia.

SIA is the national peak-body representing the Australian seafood industry as a whole. With members from the wildcatch, aquaculture and post-harvest sector, including state, territory and sectorial associations, along with seafood businesses and producers. We are the voice of Australian seafood.

The Australian seafood industry directly supports more than 15,000 Australian jobs, and countless more downstream in transport, logistics, and processing; and contributes \$3.5 billion in gross domestic product annually to the Australian economy.

SIA provides consumers, Government and other stakeholders with confident and united representation.

Our mission is to Promote, Protect and Develop the Australian seafood industry on the national and international level. Our unity indicates that we love what we do, we stand by our products, and that our products are the best in the world.

Our Pledge

We are the Australian seafood industry, and we are committed to putting the best Australian seafood on your table now and for generations to come.

To ensure we do this in ways we are all proud of, we promise to:

- Actively care for Australia's oceans and environment and work with others to do the same;
- Value our people, look after them and keep them safe;
- Respect the seafood we harvest and the wildlife we interact with;
- Be transparent and accountable for our actions;
- Engage with the community and listen to their concerns; and,
- Continually improve our practices.

This is our pledge to you.

Overview

In response to the launch of the inquiry on August 26, 2020, SIA put out a call to all SIA members and the broader seafood industry for information and feedback on the issues as outlined in the terms of reference of the inquiry. SIA received 15 responses from industry, and interviewed a further five producers for a more in depth understanding of the seafood supply chain and its culture. The responses varied widely and as such SIA does not offer a unified or singular position on the state of bargaining power in supply chains for seafood products in Australia.

The Australian seafood industry directs its produce into four main trading sectors:

- Major supermarkets;
- Independent retailers;
- Foodservice; and,
- Exports into international markets.

Independent retailers and the foodservice sector form a sizeable market for domestic consumption of Australian seafood, and the responses received for this submission appear to find no fault in the bargaining power in this portion of the supply chain.

For the purpose of this inquiry, and as a result of the responses received, SIA will focus on the bargaining power of the supply chain from harvest through to the supply of seafood to the major supermarket chains.

SIA represents both wild catch and aquaculture businesses in Australia. We received responses from both sectors and found the responses varied between the sectors, but were consistent within those sectors.

Aquaculture

The Aquaculture sector, for the most part, were cognisant, if not resigned to the realities of supplying the major supermarkets. There appears to be an understood trade-off between profit margin and volume. Producers are price takers in this sector of the supply chain, not price setters. A number of producers interviewed stated they would suffer a reduced margin for the ability to trade at volumes that were advantageous to growth and capital investment. Securing a major supermarket contract made the individual business more attractive for capital raising exercises. Higher margins were pursued through food service, independent retailers and the export market as a compensatory pricing strategy.

In terms of corporate culture, the aquaculture sector mostly reported positive interactions with the supermarket executives and buying teams.

An impediment identified by a number of producers were the length of purchase contracts, especially when the price paid was depressed. Over the long-term the impact to the business was detrimental and for some it could threaten the survival of the business.

Covid-19 resulted in a tough trading environment with the closure of foodservice and export markets, and with them their stronger margins. Domestic retail was buoyant and flooded with produce. Many businesses suggested the major supermarkets offered temporary price increases to support suppliers, however the offer came with a “claw back” and as such many businesses declined to accept the offer.

Wild-catch

Whilst aquaculture is the cultivation of seafood under controlled conditions, it is in stark contrast to the wild-catch fishing sector in which the conditions are beyond control. Aquaculture is often land-based with a growth schedule for fish of 12-24 months which requires planning and reasonably predictable supplies. However, wild-catch seasons are impacted by weather, ocean conditions, crew availability, and, government policy and monitoring.

It is no wonder the difficulties experienced in the supply chain, particularly with the major supermarkets, is felt more keenly by this sector of the Australian seafood industry, who cannot control the seasonal timing or predict the volume of the catch. Wild-catch is the antithesis of a controlled environment. Considering the contractual nature of the interaction with major supermarket chains, it appears to be inevitable businesses in this sector will experience more hardship.

At the business level, it appears the major supermarkets are highly transactional and while there is lip-service given to relationship building and strong supplier relationships, this is undermined by the regular changes in buying personnel. Annual reports and press releases celebrate the supplier relationship, the desire to be leaders in sustainability, and other ESG goals, however it appears this counts for nothing in the midst of contract negotiations.

Contracts, commitments and undertakings are often actively ignored, or cancelled, due to lacklustre sales and short-term outcomes regardless of the additional costs which have been incurred by the supplier to achieve meet the agreed terms. The opposite is no more attractive, in instances where sales have been above expectation, unreasonable pressure is applied to ensure supply of the produce at exaggerated costs that will not be compensated for. Price shopping is a common occurrence after a deal has been finalised if a lower competitor price is offered.

Wild-catch fish supply, which is highly perishable, can be required to be held in cold storage for extended periods of time, at the whim of the supermarket, with no compensation provided.

One supplier suggests “This conduct is tolerated because of the volume of business that they can write, but it is unethical, unconscionable and ubiquitous,”. The decision for many wild-catch businesses is that they should return to doing business with like-minded customers, sharing honest and constant values where they are able to build relationships for mutual benefit.

Power of the Supermarkets – Example in action

Supplied to SIA by the South East Trawl Fishery Industry Association, the following example is an understanding of the way in which the supermarkets use their ability to control the market:

“Through joint venture AVC, Coles owns 87 pubs and through JV ALH, Woolworths 323, meaning the supermarkets currently have an ownership stake in 7% of pubs in Australia. As a rule, the fish dish is generally the highest priced item on the menu in these pubs. However, using cheap imported raw material means that the dish also has the lowest raw material costs and therefore provides the greatest contribution to overheads (gross profit). It is common practice for these pubs, many of which are in coastal towns, to label their fish dish “flathead” in their menu when in reality it is an unrelated species from South America or a farmed species from South-East Asia. The Australian Fish Naming Standard does not allow this; it states that only species of Australian flathead can be labelled as “flathead”. The size of these two groups and the widespread and systematic nature of this mislabeling by the supermarkets means that flathead substitution in particular has become commonplace in other pubs and clubs. The Australian industry has caught flathead for more than 100 years and it has taken this long to build the strong brand equity it holds with the Australian seafood consumer. Paradoxically both supermarkets adhere to the Australian Fish Naming Standard in their supermarkets, but hide behind JV structures in pubs to justify their mislabeling.

Woolworths, Coles and Aldi all operate responsibly sourced seafood policies under which they do not acknowledge fisheries managed by the Federal or a State Governments. Instead they only accept wild-caught fish from fisheries, most of which are foreign, that can afford a third party sustainability accreditation such as the Marine Stewardship Council (MSC) certification or pass an independent assessment. We note that while some third party accreditation schemes such as the MSC are transparent, that neither Coles’ or Woolworth’s schemes (which are run by a consulting firm and WWF respectively) have any publicly available criteria, scoring, input or appeal process. Again, paradoxically, many of the fish species substituted in Coles and Woolworths pubs for “Australian flathead” are not sold in their supermarkets because they do not meet their own sourcing requirements.

In conclusion it appears Coles and Woolworths use their power imbalance to substitute cheap imported frozen products for Australian flathead in their pubs and clubs (where country of origin labelling is not a requirement), but twist their policies in supermarkets so that most of their seafood is either farmed salmon grown in Australia, or wild-caught fish from large industrial fisheries that can afford third party certifications. Economies of scale mean that generally imported fish from industrial (accredited) fisheries is cheaper than Australian wild-caught fish. In an effort to gain the supermarket sales channel several Australian fisheries have entered the MSC scheme and in doing so moved their management away from the Australian and State Governments, and into the hands of a London-based accreditation scheme.

Conclusion

SIA can broadly state that the experience of the Australian seafood industry in its supply chain interactions with the major supermarket chains is as varied as the seafood it supplies. The aquaculture sector appears to be willing and somewhat able to navigate the challenges of the high volume, low-margin landscape of the majors. This is in-part due to the ability to compensate the margin loss through diversified supply to independent seafood retailers, foodservice and export markets. Aquaculture naturally lends itself to volume and harvest planning, and has more capacity than wild-catch to manage its supply to meet changing demands. The experience could not be more different in the wild-catch sector, where the influence and insistence on sustainability stories, and the very elemental nature of commercial fishing in open oceans impairs the ability of seafood businesses to find stability and security in supermarket contracts. The decision by majors to stock only accredited, MSC or ASC certified seafood disables small, sustainable producers, who cannot afford the high price tag that comes with this type of certification and ongoing reviews, from being ranged, and undermines the robust fisheries management conducted by the Australian Government, and the relevant State/Territory bodies, and the science it produces. The lack of integrity in business transactions is felt more keenly, and appears more overt in the wild-catch sector. It must be said, the level of satisfaction in the corporate behavior and culture of the supermarkets is low.

Overall, there is a resignation at the power of the major supermarkets to influence price through their ability to draw volume. There also seems to be little separating the major supermarkets from each other in a competitive or corporate cultural perspective.

In comparison to the dairy industry, the seafood industry can access a varied supply chain through to the consumer. Currently the Australian seafood industry is not completely reliant on the major supermarkets for distribution and as such the difficulties felt by the individual businesses in the seafood industry are not industry-wide. The choice to interact with the major supermarkets brings with it a seemingly known risk of highly competitive and often ruthless behaviour. It must be an industry commitment to protect our producers by investing and supporting a variety of supply chain outcomes to ensure that the influence and control of the major supermarkets does not rise beyond current levels.

I welcome the opportunity to discuss this submission with you further and can provide more detail if needed. I would like to thank you in advance for your support of the Australian seafood industry and our future.

Yours sincerely,



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