



WESTERN AUSTRALIAN
FRUIT GROWERS' ASSOCIATION
I N C O R P O R A T E D

11th March 2008

Grocery prices inquiry – Submissions
Australian Competition and Consumer Commission
GPO Box 520
Melbourne Victoria 3001

Dear Sir/Madam

Public Submission to ACCC Grocery Inquiry by the Western Australian Fruit Growers' Association

The Western Australian Fruit Growers' Association (the WAFGA) welcomes the opportunity to provide a written submission to the ACCC inquiry into the competitiveness of retail prices for standard groceries.

As background, WAFGA is the peak pome (apple and pear), citrus and stone fruit industry representative body in Western Australia, with a membership of more than 600 commercial fruit growers. WAFGA conducts agri-political representation, research and development, communication and promotional activities with the primary objective of ensuring both a profitable and sustainable industry for all Western Australian fruit growers. In 2004/05 WAFGA members produced 76 950 tonnes of fruit, with a total gross value of production exceeding \$90 million. The vast majority of this produce is sold as fresh fruit, with some processing as juice occurring with pome and citrus fruit. The Western Australian Department of Agriculture and Food has estimated that expected production increases over the next five years will see this gross value increase by another 20%. WAFGA members are situated from Kununurra to Albany and therefore are a vital part of the State's current and future rural and regional economy.

The ACCC inquiry into the competitiveness of retail prices for standard groceries is extensive, and broader than the WAFGA has capacity to comment on, therefore we will not address all questions in the Issues Paper, but rather will address specific questions related to the interests of our members. Much of the information we present in our submission relates to the apple industry, as long term data on the retail prices of citrus and stone fruit has been more difficult to collect and validate.

- 1. What have been the major causes of rising food prices in Australia (e.g. drought, transport costs, etc.)? In particular, what have been major causes of the rising prices of products such as milk, cheese, bread, fruit and vegetables?*

The WAFGA remains unconvinced that there is a longer term trend of rising prices for pome, citrus and stone fruit prices, but rather that in 2007/08 we are seeing some short term increases based upon fruit supply and demand. A 2004 study ⁽¹⁾ conducted by the Department

of Agriculture, Fisheries and Forestry found that for apples 'season production variation is the biggest driver of prices and returns' whilst for oranges 'seasonal production variations are one of the biggest drivers of prices and returns'.

There is therefore natural price fluctuation for pome, citrus and stone fruit within and between seasons which mask longer term pricing trends. This is illustrated in Figures 1 and 2 which show the average retail prices for both Pink Lady™ and Granny Smith apples in an industry sample of Perth's retail apple prices from September 2003 to October 2005. This data shows that prices vary between years, based on supply and within year, based on availability and issues like storage costs and the presence of other fruits. WAFGA is unaware of any longer term analysis indicating significant trends in prices.

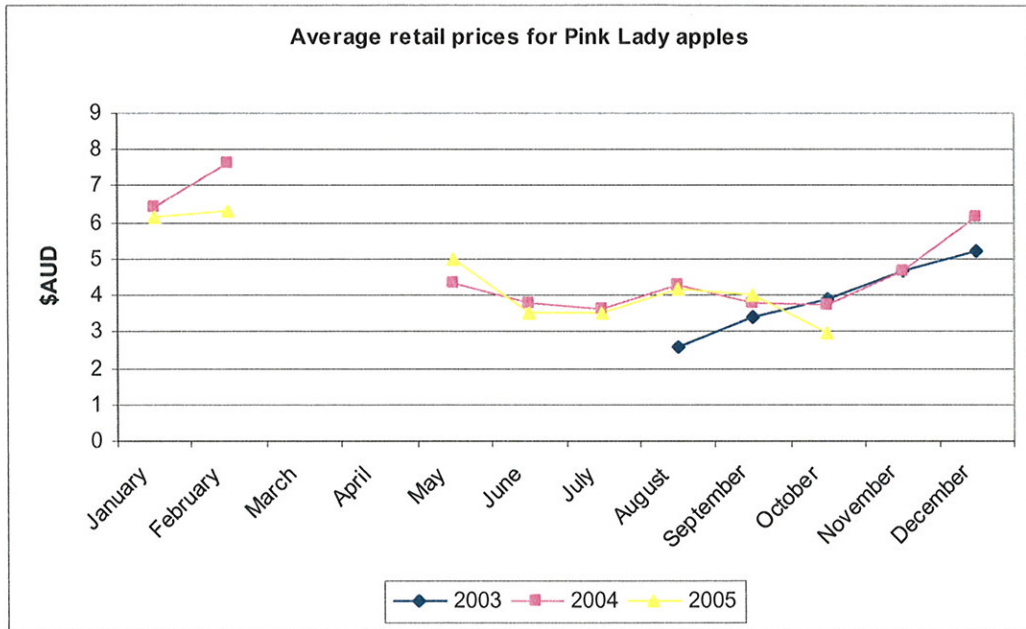


Figure 1.

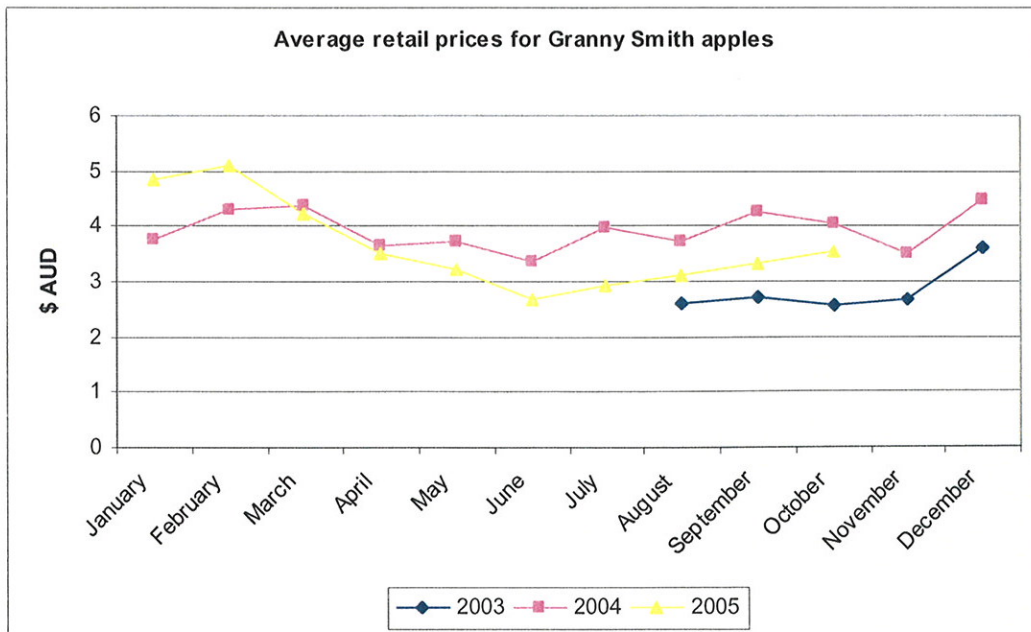


Figure 2.

21 *The proportion of the final retail price of the product accounted for by each part of the supply chain*

A 2004 study ⁽¹⁾ found that the producer receives 25-35 % of the retail price at the farm gate for citrus (both loose and bagged) and 22-30% for apples. An unpublished 2005 report commissioned by Apple and Pear Australia Ltd identified that the grower's return varied between 25 and 31% of the retail price depending on supply chain options. This report stated that " a core impediment in the value chain is the 'producer gets what's left' price setting model which provides minimal incentive for intermediaries to achieve the maximum selling price and rarely acknowledges the true value that is added".

25 *How important is price for consumers when they decide where to buy groceries? Does this differ depending on the grocery product?*

WAFGA believes that the retail price is a consideration for all consumers of pome, citrus and stone fruit, as it would be for all of our purchases however there is debate about its importance, which has led to its analysis in consumer studies.

Horticulture Australia ⁽²⁾ found that 'price' ranked behind apple fruit quality aspects such as taste, crispness, and firmness in influencing purchasing decisions. Price, as such becomes important when there is consumer dissatisfaction with fruit, which for apples occurs as the outside appearance and the eating quality may not be related. This is supported by an unpublished study conducted by Curtin University in 2004 which, when reviewing the importance of various factors in purchasing apples noted that 'in making their decision to purchase fruit in a retail store, freedom from pests and diseases, freedom from bruises and blemishes, freshness, firmness and freedom from chemical residues are all equally important. Price and indeed value for money is very much a secondary consideration, suggesting that the majority of consumers value quality above price'.

29 *How do retailers compare their prices with those of other retailers? How often are such comparisons made? Over which products are such price comparisons made? Against which retailers do they compare prices? Are price comparisons done on a national or local basis, or both?*

The WAFGA is unable to comment on the practices of retailers in assessing their competition; however we are able to report on our observations of retail prices for apples. The WAFGA conducted a study of the retail price of apples at four retailers in one shopping centre in Perth for 21 weeks in August and December 2003. This could therefore be considered to be representative of the options available to consumers to 'shop around' based on four alternative retail chain stores at a single location.

Our results (Figures 3 and 4) show that there is significant price movement on a weekly basis between retailers and frequently large movement, both increase and decrease, in the retail price. The WAFGA is sure that there are a number of contributing factors to this but if we consider the general trend of increasing price across the period (Figures 1 and 2) then large decreases of 20% within 7 days may be generated by reviewing competitors prices.

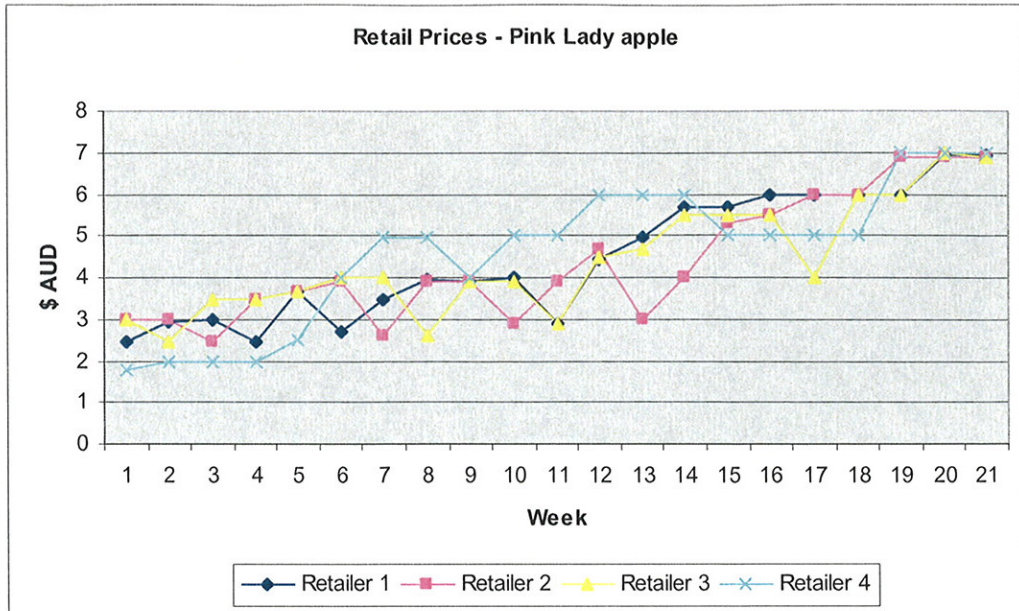


Figure 3.

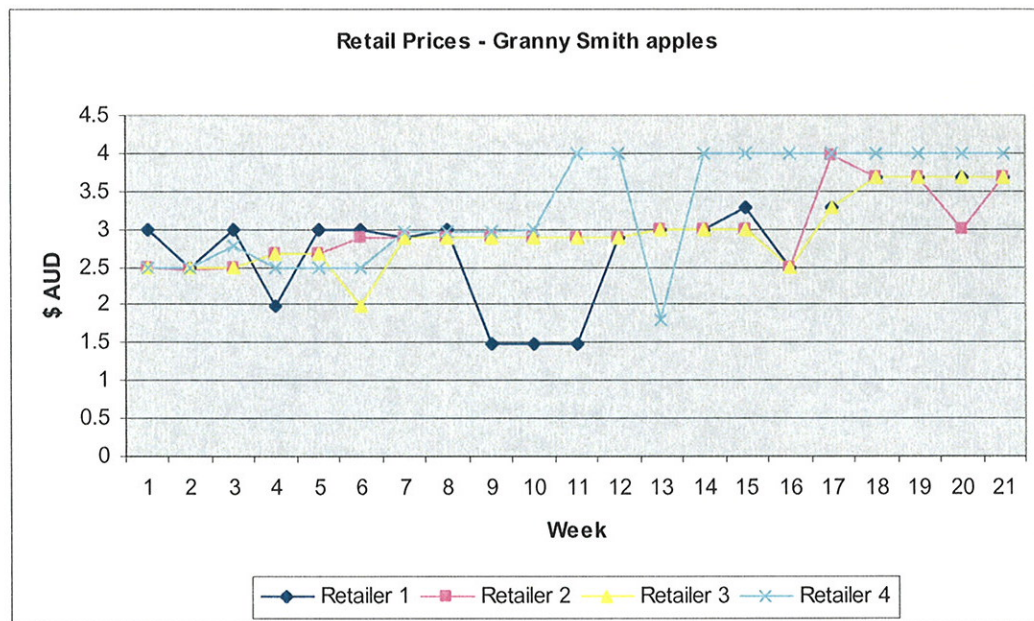


Figure 4.

47 Do grocery wholesalers or retailers with buying power pass on the lower prices they can achieve from suppliers to retailers and consumers?

The WAFGA believes that with fresh apples, the price variation in and between seasons makes it difficult to support the concept that retailers with larger buying power pass on cost benefits to consumers. Information presented in Figures 3 and 4 shows that there is movement within, but no trend of the large retailers being constantly and significantly cheaper than other retail outlets.

DAFF ⁽¹⁾ found that 'the apple industry still suffers from a reputation for having highly variable quality and availability between and during seasons. Variation in region, time of season, retailer and variety also cause much fluctuation in apple retail pricing and adds to consumer uncertainty and confusion'.

This adds to uncertainty as to lower prices, which may reflect lower quality, as packing or grade standards are not applied to a proportion of fresh fruit in Australia, and therefore there is variation between lines of fruit. That said, the WAFGA has not seen evidence however that buying power is passed onto the consumer, on an ongoing basis.

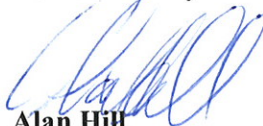
- 81 *What has been the impact (if any) of the Code on market behaviour along the supply chain for horticultural products?*
- 82 *What would be the impact on market behaviour along the supply chain for horticultural products if retailers and other major buyers were also included in the Code?*
- 83 *Would such inclusion improve the effectiveness of the Code?*

The WAFGA believes that there has been little impact of the introduction of the Horticulture Code of Conduct on its members, with the majority reporting to be using agreements signed prior to the 15th December 2006.

The WAFGA is aware that there was a Horticulture Code Committee appointed on 13th September 2007 to review the implementation and ongoing functioning of the Code and therefore will withhold comment on these three points until viewing a report from that committee.

Could you please ensure that you formally acknowledge receipt of this submission and advise the WAFGA on any future developments in the ACCC inquiry into the competitiveness of retail prices for standard groceries?

Yours Sincerely



Alan Hill
Executive Manager
Western Australian Fruit Growers' Association

References

1. Spencer, S. (2004) Price Determination in the Australian Food Industry, A Report, Australian Government Department of Agriculture, Fisheries and Forestry. Canberra.
2. Moxham, H. (2003) Consumer Research 2003 in Tree Fruit Australia, August 2003