Australian Nuffield Farming Scholar

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Family Farms: The Next Endangered Species?

By

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Thirdly, the numerous people and organisations who have been a valuable source of help and information to me, but particularly the UK National Farmers Union; Institute of Grocery Distribution (UK); James Graham from the Scottish Agricultural Organisation Society; Charles Parrott from the USDA, Helen Johns, Ontario Minister for Agriculture, and Perry Smith from ABARE.

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Executive Summary:

Over the last thirty years there has been a dramatic fall in the percentage of the retail price that farmers receive, with no apparent explanation for this debilitating trend. At the commencement of my core study, I posed a series of questions that I hoped to find answers for:

1. What had changed in the market place over the last thirty years?
2. Was farmers' declining percentage of the retail price nothing more than just simple supply and demand economics, or could this trend be solely attributed to the commonly vilified supermarket chains that now dominated the food retail landscape?
3. What were the causes of this trend?
4. Was the same occurring in other parts of the world, but most importantly were there any effective solutions that might address the fundamental problem of farmers' diminishing share of the consumer dollar?

In answer to the first question; there has been obvious changes to consumer lifestyles, buying habits and the way food is now being retailed. Catering for and keeping just ahead of those changes has been the outstandingly successful supermarket revolution. The growth of that form of retailing has had a profound effect around the western world with an enormous benefit to consumers with a conversely large impact on supply chain dynamics. As a consequence the retail concentration and scale of operations are the most obvious changes to have occurred over the last three decades.

With modern supermarket chains corporate scale and financial capacity has come market power as a result of substantial market share – no where in the world is this more evident than in Australia, with the current oligopoly of major retailers accounting for nearly 80% of the national grocery market. This is in comparison to the top two retailers in the UK (Tesco & Sainsbury) with 16.5% and 11.6% respectively. With the recent advent of strategic alliances to deliver fuel discounting, the market domination of Coles Myer and Woolworths will only increase in the coming years.

While the role of supply and demand economics will always play a part in farm gate prices, an explanation for the declining percentage of the retail price that farmers receive is not as obvious. From the numerous government inquiries I reviewed only two of them hint at the primary reason for the decline in the farmer's share of the retail price, and that is the ability of

the service type members of the supply chain to pass increased costs either up or down the supply chain.

The “Price Determination in the Australian Food Industry” report alludes to this fact in its findings and further suggests that the primary production sector unlike the upstream service providers, can and have benefited from the adoption of technology and hence due to competitive pressure could afford to sell their raw products at lower prices due to those efficiency gains. While that explanation may contain an element of truth for some industries such as broad acre farming, it is certainly a tenuous argument when applied to labour intensive farming such as horticulture. In any business, at some point in time, efficiency gains will not be able to compensate for continual cost increases.

The fundamental point of difference that all reports reviewed and governments continually fail to acknowledge is that farmers are <u>the only price takers</u> in the food supply chain, and as such deserve special consideration because of that inherent negotiating weakness!

The reason why farmers are receiving less of the retail dollar is because farm gate prices are remaining relatively static while all other supply chain participants continue to pass on cost increases. Over time, this has the effect of diminishing the percentage of the retail price that farmers receive. Consumers are obviously benefiting from cheaper food prices but the practice is having a profound effect on the future viability of rural Australia and thousands of family farms. The reality is that farmers can not be expected to continue to supply raw product at the same price, year after year and still remain viable – that defies basic sustainability!

This debilitating trend is the same all over the western world with no regulatory “magic bullet” out there yet that will ensure farmers’ receive an economically sustainable share of the food value chain. Numerous government inquiries around the world have only proffered soft solutions such as voluntary codes of conduct for retailers considered as possessing market power. The French dual retail pricing scheme failed, with the fate of the Canadian retail food levy still under consideration. Whilst admirable in intention, strategies such as the NFU’s Farming Counts campaign are an enormous financial and human resource commitment but will only be successful if sustained for a long period and government and regulators are prepared to listen and react positively.

Despite there being no regulatory magic bullet out there yet that will ensure farmers receive an economically sustainable share of the retail dollar, I believe that further investigation is warranted to develop a mechanism that will directly index/link farm gate prices to retail food prices. Whilst acknowledging the complexities of such a mechanism and its applicability to only products retailed in Australia's domestic market, it would at least pass the first test of sustainability and accommodate the law of supply and demand.

In the face of ongoing consolidation of the retail and processing sectors of the supply chain, the most appropriate response from the farm sector must surely be to fight fire with fire. **Whilst cooperative structures tend to be viewed suspiciously by the general farming community, the standard cooperative principles they are built on are more relevant for the supply chain of today than they have ever been in the past.** In effect, cooperation enables individual farm businesses to overcome the disadvantages of small scale, and the consequent imbalances of negotiating power in food supply chains. The type of corporate structure is somewhat secondary to the main focus, which is fundamentally about the mutual benefits of collaboration.

Both State and Federal Governments must make a long term commitment to fostering and funding farmer collaboration, as well as removing legislative impediments that prevent such practices. While the imminent changes to the Trade Practices Act regarding collective bargaining will be of some benefit, they do not go anywhere near the exemptions contained in the Capper Volstead Act (USA).

Ultimately though, the future viability of Australian family farms will be decided by the strength of desire by the general public and Federal Government to have the majority of their food grown safely at home – or, imported from the cheapest source. Without general public and Government recognition that farmers are the only price takers in the supply chain; and without some sort of intervention measure; the reality is that globally, only the lowest cost producers or the producers who have the greatest government support will survive the law of the jungle.

The question remains - do Australians want to sustain our remaining family farms, or let them become the next endangered species?

Report Recommendations:

1. **That the Australian Bureau of Agricultural Resource Economics attempt to develop a regulatory mechanism that will directly index farm gate prices to retail food prices.**

2. **That "Australian Collaborative Board" office be established in every State and Territory, to promote and support collaborative ventures between farmers.**

3. **That Agriculture Fisheries Forestry Australia develop and fund a universal farmer group formation program that can be delivered through the Australian Collaborative Board network and/or State and Territory Department of Agricultures.**

4. **That the Trade Practices Act and National Competition Policy be amended in recognition of the significant lack of countervailing power that farmers have in modern supply chains, with particular focus on SMA's, Collective Bargaining and the Public Benefit Test.**

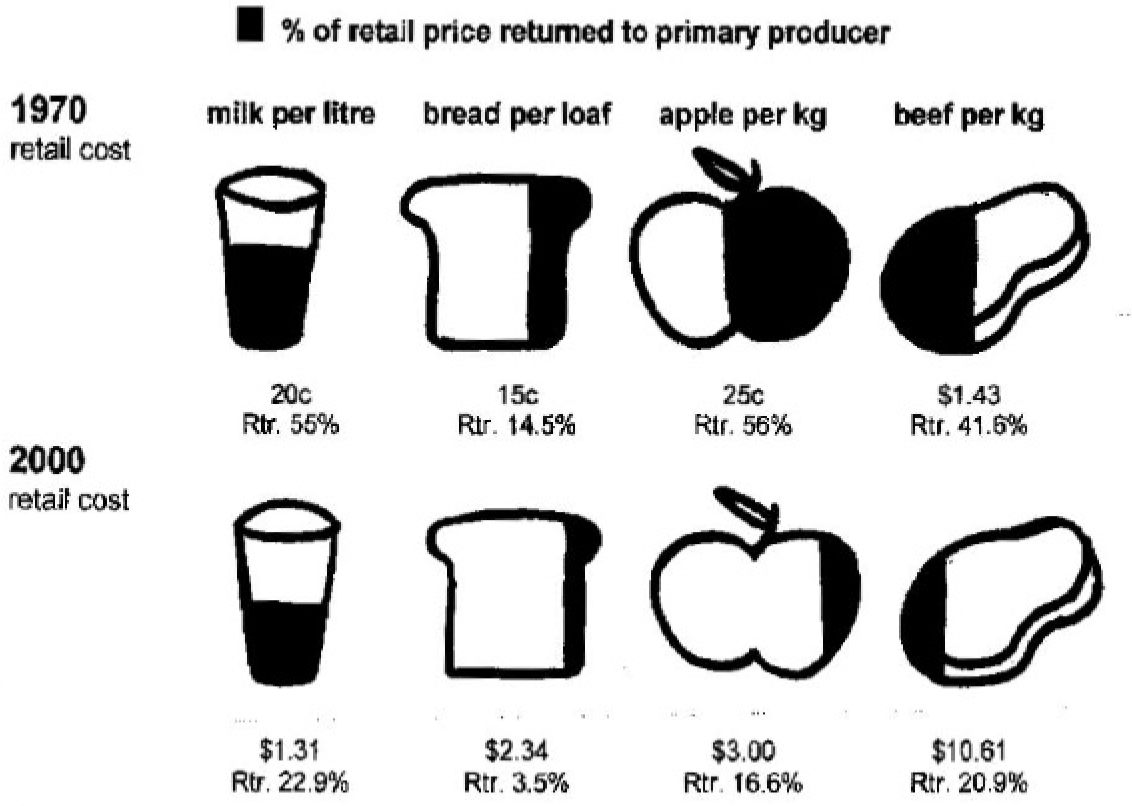
5. **That all levels of Government across Australia recognise the general disconnection that is starting to occur between rural and urban communities, and develop policy in such areas as education and the public service to bridge that widening knowledge gap.**

6. **That the Federal Government commission a comprehensive report into the future of farming in Australia along the same vein as the Curry Report in the UK, and the Odyssey Report in Canada.**

Introduction:

Growing up as a third generation apple and beef producer from South West Western Australia, I frequently heard my father and other farmers consistently complain that they were "receiving the same prices for their products that they were twenty and thirty years ago". That statement perplexed me somewhat as all of our farm inputs had continued to rise over the same period, as had retail food prices.

The issue crystallised in my mind when I was sent an article that appeared in the Sydney Morning Herald of June 2000 titled "Supermarket Squeeze". The text included quotes from dairy and apple producers about how little they were paid at wholesale level compared to the price their products were retailed at in supermarkets. The greatest personal impact though was from the following graphics that accompanied the story:



All figures based on ABS and Abare Reports except for apples where published retail & wholesale data was used.

The dramatic fall in the percentage of the retail price that farmers received was stark, and went a long way to explain the farmer's lament previously mentioned. Whilst one could argue the absolute accuracy of the figures presented, there could be no such argument about the underlying trend. At that point in time it appeared blatantly obvious that unless that trend could be arrested, the future viability of Australian family farms and the rural communities they supported would remain under serious threat.

I pondered over what had changed in the market place over the last thirty years: Was the declining percentage of the retail price nothing more than just simple supply and demand economics, or could this debilitating trend be solely attributed to the commonly vilified supermarket chains that now dominated the food retail landscape? What were the causes of this trend? Was the same occurring in other parts of the world, but most importantly were there any effective solutions that might address the fundamental problem of static farm gate returns?

Aims/Objectives/Study Goal

As a result of the above ponderings I finally defined my study subject as:

"Farmer collaborative support programs and possible regulatory solutions for the ever decreasing percentage of the retail price that primary producers receive."

The primary focus of my study would be to examine the causes of the above trend; if the same was occurring in other parts of the world, and were there any regulatory solutions that had been trialled or being considered to address the problem.

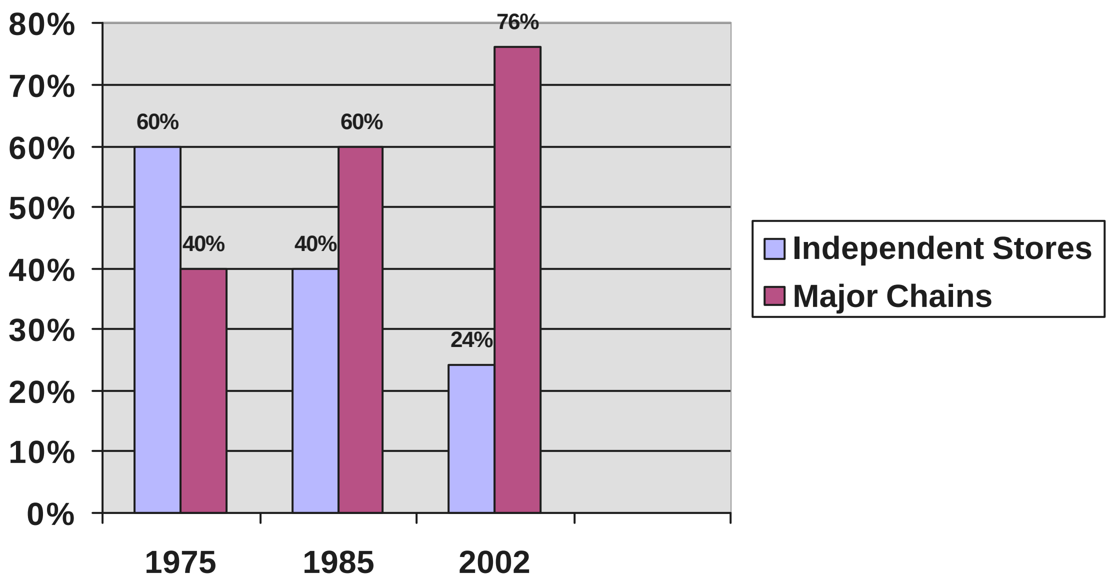
In addition to my primary focus, it was plainly obvious that collaboration at producer level was the most obvious strategy to combat ongoing consolidation of the retail and processing sectors; but what kind of assistance was available for producers who wish to venture down that road, and what legislative impediments were there in the way? As a consequence, farmer collaborative support programs would form a secondary if somewhat superficial feature of my study.

Preface

Without doubt, one of the greatest events to affect modern agriculture has been the emergence and now dominance of retail supermarkets chains around the western world. That evolution has irreversibly changed the bargaining dynamics of almost every supply chain, for almost every product you can think of. Gone forever are the days where primary producers were well matched in terms of bargaining power with small green grocers, butchers etc. The vast majority of modern supply chains now see the majority of farmers with a massive imbalance in countervailing power, with their negotiating power significantly diminished.

The following table gives a graphic illustration of how retail market share in Australia has changed over the last three decades:

Australian Grocery Market Share



Source: *WA Independent Retail Grocers Assn*

The fundamental reason for such a meteoric rise in market share by major supermarket chains has been their ability to provide consumers with the convenience of one stop shopping and a vast range of low priced groceries. As the pace of Australian life started to accelerate in the 1970’s and families started to change from single to double incomes, the time spent on mundane tasks such as grocery shopping became very valuable. Combined with increasingly time poor consumers, and issues with increased traffic and parking problems associated with purchasing from traditional individual stores such as the green grocer, butcher and baker, supermarkets provided the perfect solution.

Whilst consumers have benefited enormously from the advent of this modern retailing marvel, it has come at a cost to not only direct competitors but also to other members of the supply chain. A simple example of the cost to retail competitors was demonstrated in research discovered by Dr Hermione Parsons while studying Australian fruit and vegetable supply chains. Dr Parsons found that in 1970 the Melbourne metropolitan area sustained 1394 green grocers, yet over the next 30 years that number had dwindled to just 700. The almost halving of numbers is dramatic enough, before one adds Melbourne's enormous population growth over that period to the equation.

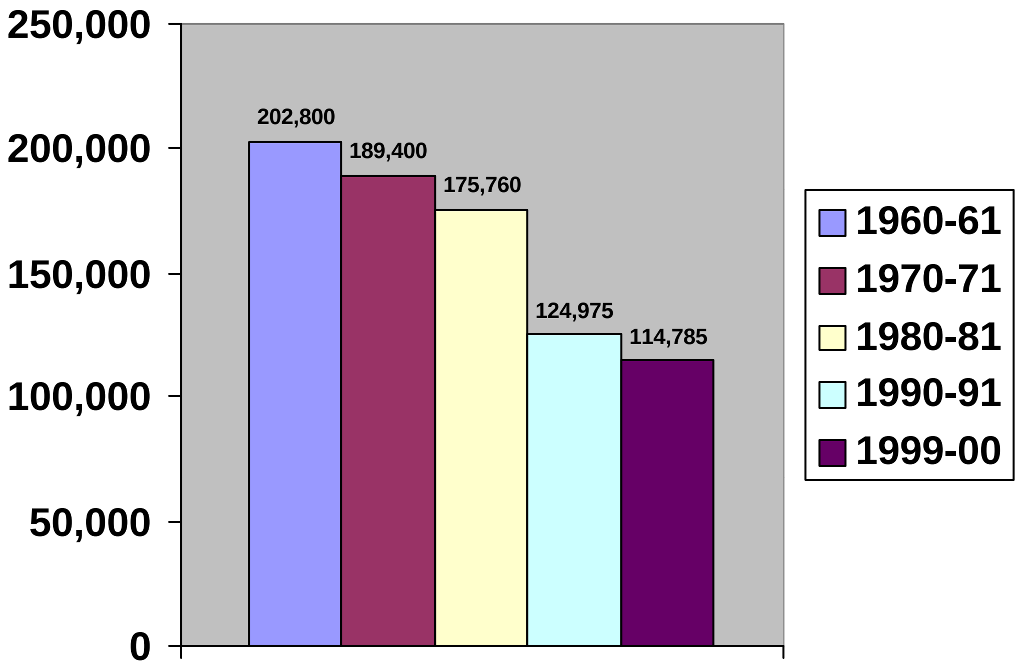
The same trend is also evident in other parts of the world, as rationalisation continues to cut a swathe through uncompetitive businesses, across all supply chains. A good illustration of that rationalisation is found in the Scandinavian country of Denmark:

- 140,200 farms in 1970 compared to 55,800 in 1999
- 1,350 dairy factories in 1960 compared to 45 in 1999
- 77 slaughterhouses in 1962 compared to 3 in 1999

Source: Danish Agricultural Council 2000 Handbook

The farm sector in Australia has also not escaped the harshness of industry rationalisation as the following graph bluntly demonstrates:

Australian Agricultural Establishments



Source: Australian Bureau of Agricultural Resource Economics

Coupled with the alarming decline in farm numbers above, there has also been a steady increase in the average age of the Australian farmer, which is now widely reported to be around 58 years of age. Recent Australian Bureau of Statistics research on rural and regional themes has also uncovered another disturbing trend:

- *Young people are one of the most mobile groups in the population. In the five years to August 2001, half of all people aged 15-24 years moved residence.* ***Almost three times as many young people left country areas than arrived in these areas*** *(226 net departures per 1,000 young people). Nearly two thirds of the net outflow of these young people was to capital cities.*

Summary

When one considers the statistical information presented in the previous pages it is difficult to know where to start in attempting to find solutions for such massive changes in both society and supply chain dynamics – if indeed there are any!

Fundamentally though; the dwindling number of family farms; the increasing average age of farmers; the net loss of young country people to our cities, can be stemmed if sustainable profits can be returned to the majority of farmers and hence rural communities. It is worth pondering for a moment what kind of rural communities and the number of family farms we would have in Australia, if the percentage of the retail price farmers received in 1970 remained the same today?

The primary reason why there has been such a dramatic fall in the number of family farms over the last four decades is arguably due to the farm gate price they receive for their products. When farm gate returns remain unchanged for long periods of time and farm input costs rise, very quickly smaller production units become unviable and the world wide trend of neighbour buying out neighbour becomes common practice.

Whilst that ongoing trend can be simply passed off as industry rationalisation and a “weeding out” of inefficient or uncompetitive producers, at some point in time the communities in which those farmers live will reach an unviable stage of their own due to continuous depopulation. This stress point occurs due to the fact that provision of health, education, roads and other many other services are usually based on a critical mass of population. Due to inflationary pressure over time, that critical mass of population continues to increase in tune with the costs of service and infrastructure delivery.

If sustainable profitability could be returned to the majority of family farms, then the financial incentive for young people to stay on the land and in rural communities will be evident. Realistically though, young people will only be prepared to take over the family farm if they can generate similar incomes and lifestyle working on the farm, as there peers can working off the farm! If the decline in the number of family farms and rural depopulation can be halted, then so too can the closure of many retail businesses that rely on population to sustain them.

Of critical importance however is to sustain the current number of family farms into the future and not lose any more to the law of the jungle. Due to the enormous capital costs involved in modern agriculture, the barrier for young people to enter farming is enormous. The harsh reality is that once a family farm is sold it is extremely unlikely that a new entrant will be the purchaser, and the depopulation cycle continues.

Regulatory Solutions:

In considering any kind of market regulatory solutions, the first stumbling block to overcome is the basic law of supply and demand economics. Any market regulation that does not account for this basic principle will not be sustainable in the medium to long term. There are many examples of this but perhaps the highest profile of those was the Australian Wool Reserve Price Scheme that failed in the 1980's.

In essence, the Wool Reserve Price Scheme set a minimum price for all wool produced and refused to sell under that price. The result of that well intended strategy however was a steady increase in the stockpile of wool that was continually passed in at auction because international buyers were unwilling to pay the set price. Coupled with a resistance from international buyers there was an increasing supply from wool producers who had the comfort of a guaranteed price that ignored international market forces. In the final analysis the Scheme was unsustainable because it failed to accommodate the basic law of supply and demand.

Direct production subsidies also insulate supply and demand in addition to distorting international trade, and are now being recognised for those failings by nearly all agricultural trading nations around the world. Fundamentally though, the ability to sustain any type of subsidy support for the farm sector is heavily reliant on the ratio of population (tax payers) to the number of farmers being supported, with the gross domestic product of an economy also playing a major factor. For the reasons just explained, Australia could never afford to subsidise its farmers to the same level that the United States or European Union does – even if it chose to do so!

In addition to regulatory solutions allowing for the law of supply and demand, there are realistically many other weaknesses and impediments blocking the path to implementation:

- Australia can only regulate its domestic economy – not exported product.
- Potential to infringe World Trade Organisation rules and obligations.
- Safe parliamentary passage of enabling legislation (minimal lobbying power)
- Strong opposition from retail and consumer lobby (compliance costs and higher food prices)

Government Inquiries:

Despite the difficulties of developing and implementing effective regulatory solutions to address falling farmer returns and increasing market power in the processing and retail sectors, the problem continues to grow and will not improve unless there is Government intervention. Over the past decade around the world there have been a number of Government inquiries commissioned as a result of the ongoing growth and dominance of supermarket chains in the food retail sector. In addition, reports driven by the farm sector itself have been developed to address the current and future challenges it faces with the ongoing cost/price squeeze and supply chain bargaining imbalances. The following pages will take a brief look at those inquiries.

USA

In 2000 the United States Department of Agriculture's Economic Research Service (ERS) commenced a three stage inquiry into the effects of retail consolidation in the fresh produce sector. The inquiry was born out of concerns from industry associations and fresh produce suppliers that recent retail consolidation had led to market power and the growing incidence of fees and services.

Between 1996 and 1999, there had been 385 mergers in the US grocery industry with the acquired companies having combined annual sales in excess of US$67 billion. The national market share of the top eight grocery companies had also risen from 26% in 1987, to 37% by the year 2000.

Stage One:

"Develop a comprehensive overview of the produce industry, including consumption and retail sales trends, markets and market channels, and the changing structure of produce buyers."

The ERS found that per capita consumption of fresh produce had increased 12 percent during the period 1987-97. They also found consumers, were becoming more concerned with their health and desiring year round availability of fresh produce such as grapes and strawberries – items that were traditionally viewed as seasonal.

Like most consumers in the western world, rising incomes and time poor lifestyles had driven consumer demand for fresh-cut ready to eat, quick-to-prepare products. A shift had also occurred in customers' buying habits with more purchases of fresh produce occurring in foodservice outlets rather than in traditional retail stores or supermarkets.

Traditional retailers were also responding to changes in consumer buying habits by expanding the size of their produce departments. The ERS found that the average produce department in the modern American supermarket carried around 335 fresh produce items - almost twice the number carried a decade before. The percentage of sales for pre-packed salads had also doubled over the same period.

The ERS found that most produce was still moving from grower-shippers through the traditional supply chain of merchant wholesalers to retail outlets, but between 1987 and 1997, the share of produce moving through merchant wholesalers, including wholesale produce markets, declined. Over the same period however, the share of produce being traded directly to large self-distributing grocery retailers increased. The remaining merchant wholesalers had survived by becoming larger and performing more functions for fresh produce buyers.

The ERS concluded that wholesalers and retailers had and would continue to consolidate and restructure in response to consumer demands, industry growth and competitive pressure. The potential for new information technology to increase economies of scale for large corporate retailers had also most likely contributed to the large mergers and acquisitions that had occurred in recent years. The overall reduction in numbers caused by such mergers and acquisitions however meant that those new companies had become increasingly important produce buyers as a result. Consequently new marketing and trade practices such as electronic data interchange and slotting fees have developed between buyers and sellers – this then raises concerns about fair competition and practices within produce markets.

To address concerns of fairness and potential abuse of market power the number and scale of produce grower-shippers would need to be compared relative to that of wholesalers/retail buyers. Also needed would be data to determine the relative importance of grower-shippers to large corporate retail supermarket chains. The effects of the recent mergers and acquisitions on grower shippers and merchant wholesalers would be analysed in the subsequent reports.

Stage Two:

"Identify and characterise the types of trade practices used in the produce industry, including trade allowances, services provided by suppliers, forward contracting, and marketing strategies."

The second stage report was driven by concerns from fresh produce growers that recent retail consolidation in the United States had led to market power and the growing incidence of fees and services. Retailers argued that these new trade practices were necessary to offset their costs of doing business as a result of increasing consumer demands. The type of fees which were becoming more and more prevalent were items such as volume discounts and slotting fees, as well as services like automatic inventory replenishment, special packaging requirements, and demands for third-party food safety certification.

The study of buyer/seller trade practices would compare those prevailing in 1994 to the recently consolidated period leading up to 1999. To gather the necessary information required to make an assessment it was decided to interview a range of supply chain participants from growers to retailers and of varying operational scale.

The interviews focused on seven fresh products: California grapes, oranges and tomatoes; Florida grapefruit and tomatoes; California/Arizona lettuce and bagged salads. The ERS interviewed up to 9 grower/shippers for each commodity and 57 in total.

The study found that the four largest retailers' share of the grocery market had risen from 17 percent in 1987 to 27 percent in 1999, and the 20 largest from 37 to 52 percent. Conversely shipper consolidation was occurring, but varied significantly across different products. For example, in 1999 there were 149 California grape grower/shippers but none of these controlled any more than 6 percent of total industry production. At the other end of the scale there were only 25 California tomato shippers. The value added sector of bagged salads was even more consolidated with 2 of the 54 companies accounting for 76 percent of total fresh-cut salads sold in supermarkets.

From a limited number of interviews and publicly available information the ERS concluded somewhat surprisingly that grower/shippers reported about equal numbers of buyers with some experiencing increases, some decreases, and some reporting no change in the number of outlets. What was evident though was the mix of buyer type changing, with the emergence of mass merchandisers.

When asked specifically about their number of retail accounts, most shippers perceived a decline due to retail consolidation, and that this had an adverse effect on their business. The impact of consolidation on individual shippers though was highly correlated with their relationship with the merging chains prior to consolidation. If a grower/shipper supplied the supermarket chain that was acquiring another chain then they felt they had a reasonable chance of increasing their sales, whereas as a grower who supplied the chain that was being taken over could be in danger of being cut from the supplier list.

There was no dispute from both ends of the supply chain that the incidence and level of fees and services were increasing, with grower/shippers particularly alarmed at the rapid escalation that had occurred over the last 5years.

Primarily due to operational scale, some shippers were found to be struggling more than others to adapt to the increasing fees and charges. Fixed costs services, always make up a higher percentage of sales for smaller companies than they do for larger firms who have the ability to spread such costs across larger volumes. The same rule of scale applied to smaller companies when it came to funding any large investments.

The ERS concluded that: *"in general, the relationship between shippers and retailers has changed, but only partly due to retail consolidation. Retail consolidation does not necessarily lead to market power. Market power may, indeed, play a role in new trade practices but that is an empirical question to investigate. Fees and services are also a function of several complex factors such as changes in consumer demand, technology, supply and demand conditions, shipper marketing strategies, buyer procurement strategies, the structure of the shipping and retailing industries, and the level of competition between companies."*

Stage Three:

"Empirically analyse supplier-to-retail price margin behaviour to investigate the presence of market power."

In order to determine whether retailers were able to exercise market power in either their produce buying or selling activities, the ERS defined the need to give consideration to three key issues:

(1) the point at which price is determined

(2) the symmetry of retail price adjustment relative to farm gate price movements,

(3) The rigidity or "fixity" of retail prices.

To do this the ERS examined the sale of apples, grapes, fresh oranges, and fresh grapefruit in six geographically separate retail markets - Albany, Atlanta, Chicago, Los Angeles, Dallas and Miami. The data used for this analysis came from weekly retail scanner prices and sales data captured during 1998 and 1999 and included most major retail chains.

The ERS concluded that prices for all of the fresh fruits they researched were formed at the shipper point of the supply chain. They also found that for all of the products, changes in retail price occurred much faster in response to increases in shipper price than they did when there was a decrease. The ERS suggested that this result could be seen as indirect evidence of a retailer's ability to extract some surpluses from shippers when prices were volatile.

In relation to retail price fixity the ERS concluded that retail prices did appear fixed in the face of fluctuations in supply and demand for the different products. Consequently, they believed growers would most likely be worse off because their product might not be allowed to respond to changes at the consumer level.

The ERS concluded that although their combined preliminary results seemed to imply that retailers did enjoy a degree of control over the determination of shipping point prices, the extent to which prices deviated from purely competitive levels required a more detailed analysis of price behaviour.

United Kingdom:

In April of 1999, the Director General of Fair Trading requested the Competition Commission (CC) to investigate and report under the monopoly provisions of the Fair Trading Act the supply of groceries from supermarket chains with more than ten stores and a sales floor area greater than 600sq metres.

The impetus for the investigation came from three angles:

1. Public perception that the retail price of groceries in the UK was higher than in equivalent countries in Europe and the USA.
2. The apparent differences between farm gate prices and retail prices.
3. Concerns about the effect major supermarket chains were having on small retail businesses in the traditional high street shopping areas.

A detailed international comparison of grocery prices was carried out which showed that 1999 retail prices in the UK were on average 12-16% higher than those in France, Germany and the Netherlands. It was felt however that a major factor in that difference was the influence of the international exchange rate for Pound Sterling which had the ability to distort grocery prices anywhere from 7-17%.

Another factor also identified was the generally higher costs of real estate and building construction within the UK. As a consequence of those findings, the CC concluded that there was no evidence to suggest that supermarkets were acting in an anti-competitive manner and profiteering at the expense of British consumers.

The disparity between farm gate and retail prices was also examined closely to see if recent declines in wholesale prices had been reflected in the supermarkets. This particularly emotive issue arose from complaints from UK farmers (particularly livestock) that price cuts they had suffered in recent times were not being passed through to the consumer.

After close scrutiny the CC were satisfied that reductions in farm gate price had been reflected in retail food prices, but where they had not, there had been cost increases in other parts of the supply chain. Particularly worthy of note however, was the CC's finding that: "*the existence of buyer power among some of the main parties has meant that the burden of cost increases in the supply chain has fallen disproportionately heavily on small suppliers such as farmers*".

The profitability of the supermarket chains was also examined to determine evidence of excessive profits. While the overall profitability of the sector was found not to be excessive between the years 1996 – 1999, it was noted that profits prior to that time had been higher.

The CC also found the practice of selling groceries below cost as "loss leaders" was also having a detrimental effect on smaller retail stores and high street shops. After examining various economic criteria, the CC concluded that the practice of continuous below cost selling by retailers with market power, specifically Asda, Morrison, Safeway, Sainsbury and Tesco, was against the public interest. Despite this practice breaching the Fair Trading Act, the CC argued that the cost and effectiveness of trying to prevent such practices would far outweigh the benefits.

In regard to supplier relationships with major retailers, the CC found a general climate of apprehension with most suppliers unwilling to be named or to name retailers who they believed were imposing unfair trade practices. A list of 52 alleged trade practices were sent to the major retailers asking them to identify which activities they had engaged in over the previous five years. The types of practices identified were non cost related discounts – sometimes retrospectively, changes to contractual agreements without enough notice and unreasonably shifting risks from the retailer to the supplier. The CC believed that where a request came from a retailer with buying power, it amounted to the same thing as a requirement or demand.

Out of the 52 alleged practices, the CC concluded that 30 of these when imposed by retailers with a market share greater than 8% (Asda, Safeway, Sainsbury, Somerfield and Tesco) adversely affected the competitiveness of some suppliers and distorted competition in that sector – and sometimes even retail grocery prices. The CC found that the above practices gave rise to a second complex monopoly situation.

The CC believed that the most effective way of addressing the situation just described was a mandatory Code of Practice that all retailers with a market share greater than 8% must comply with. In summary the CC was satisfied in general that the retail sector was broadly competitive, however remained concerned about some aspects of the structure and retail concentration in certain geographic locations. They recommended that a special unit of the Office of Fair Trading be established to deal with expansion of existing supermarket sites and establishment of new same fascia stores that were in close proximity to each other.

Australia:

Like the United States and the United Kingdom, Australia too has grappled with the economic and social effects that have occurred with the emergence and now dominance of the modern supermarket chain.

Fair Market or Market Failure

In 1999 a Joint Select Committee of Federal Parliament conducted an inquiry into the retail sector which was subsequently titled *"Fair Market or Market Failure"*. The inquiry came about due to concerns raised by the National Association of Retail Grocers of Australia (NARGA) about the growth of the large supermarket chains, and the implications this had for the ongoing viability of small and independent retailers, particularly those in rural and regional Australia. These concerns were taken up by the major political parties during the 1998 election campaign, with a commitment by the Coalition parties to set up an inquiry into the retail grocery sector as soon as possible after the election. The inquiry received cross-party support.

The Committee found evidence that over the past two decades the demise of hundreds of small grocery stores, butchers, bakers, florists, greengrocers, pharmacists, newsagents, liquor stores and other small retailers had occurred as a direct result of the continuous expansion of major supermarket chains and major specialty retailers.

As a result the Australian domestic retail grocery market had become heavily concentrated and oligopolistic in nature, with each of the three major players (Coles, Woolworths and Franklins) having a significant degree of economic influence and market power.

Despite the growth of the major chains and the demise of smaller retailers, it was thought that in general, consumers appeared to be benefiting from the competitive forces of the current market structure. The evidence revealed that, since 1986, grocery prices had fallen on average for baskets of foods and individual foods at supermarkets.

The Committee considered many issues including the current domestic market share of the three major retailers at the time which was considered to be around 80% of the dry grocery market.

Also considered was a request from NARGA who had called for the market share of each major chain to be capped at 25 per cent, with divestiture taking place within 5 years where any one chain exceeded that level of market share.

The Committee also found significant evidence of alleged predatory pricing, where it was said that the major chains were prepared to lose money indefinitely in certain stores to destroy small retail competition. The evidence was consistent and widespread, with the common complaint being that the difficulties lay in establishing predatory conduct under the current provisions of the Trade Practices Act (TPA).

Many complaints received during the course of the inquiry did not contravene the TPA, however the Committee did see the need to establish a mechanism outside the ACCC through which supply chain participants could bring complaints or queries for speedy resolution. As a result the Committee believed that a Retail Grocery Industry Ombudsman, combined with a mandatory code of conduct would bring behavioural change and increased transparency in the retail sector.

The Committee finalised its report by making a total of ten recommendations with the main items being:

- Reform of the TPA in relation to market concentration, mergers/acquisitions
- Reform of the TPA to give the Australian Competition and Consumer Commission (ACCC) greater power to take action on behalf of third parties
- The appointment of a Retail Grocery Ombudsman to mediate and provide speedy resolution of disputes that occur within supply chains
- The drafting of a Retail Industry Code of Conduct by the ACCC for the purpose of regulating the conduct associated with vertical relationships throughout the supply chain.

Price Determination in the Australian Food Industry:

In August 2003, Warren Truss the Federal Minister for Agriculture, Fisheries and Forestry initiated a study into price determination in the Australian food industry. The aim of the study was to identify and explain exactly how prices were determined throughout the supply chain with three particular objectives in mind:

1. Analyse the movement over time in retail prices paid by consumers in comparison to farm gate prices;
2. Identify the costs and value-adding factors which are determining food prices over time; and
3. Analyse the financial performance for publicly listed companies in food manufacturing, marketing and retailing in Australia and other countries.

Wherever possible, historical information for the previous ten years would be used as the time reference for the study. The project leader Whitehall Associates chose the following product categories to research due to the physical similarities between product at the farm gate and that offered for sale to the consumer.

- dairy products (milk, cheese, butter and spreads);
- meat (pork, beef, lamb);
- fresh horticulture (various product lines);
- orange juice;
- processed fruit;
- frozen processed vegetables (beans, peas, potatoes);
- rice;
- eggs;
- flour;
- vegetable oil; and
- sugar

Objective 1: Farm Gate/Retail Price Comparisons

In relation to core grocery lines, the study found that simple comparisons between farm gate and retail prices were often simplistic and misleading. The services sector in general had relatively high labour costs which usually tended to keep pace with the general productivity growth of an economy, which in turn generally exceeds inflation. However, it was felt the raw costs of goods generally benefited from improvements in technology, which could lead to a lowering of labour costs – for example, mechanisation in the farm sector.

The adoption of new technologies and hence lower cost of production could, coupled with competition eventually lower the price of many primary products. As a consequence the intrinsic costs of primary products generally rose at a slower pace than the costs of services such as transport, storage, handling, distribution and retailing. It was felt that this fundamental difference between the service and primary production sectors explained why the value of raw commodities, over time, has tended to represent an increasingly smaller percentage of the retail food price despite competition at all levels of the supply chain.

Objective 2: Factors Determining Prices

The report provides an enormous level of detail that maps the different products through the value chain and explores the factors that determine prices. During the analysis the authors took into account the factors that generally govern price setting and competition, which include:

- Supply and demand conditions;
- The influence of international trade;
- The nature and extent of integration within the supply chain between producer and consumer;
- The use of technology and innovation; and
- Product competition from direct and substitute sources.

Objective 3: Performance of food companies

To meet this objective the authors undertook an in depth analysis of financial performance for Australian publicly listed food manufacturing, marketing and retailing companies and compared them to similar businesses in other countries.

The authors found a highly competitive retail sector which combined with the strong presence of national and international brands had resulted in a low margin grocery sector operating on less than four per cent earnings before interest and tax.

The authors also found that business costs for Australian supermarkets represented around 22 per cent of turnover, whereas United States and European grocery retail leaders operate in the range of 16–20 per cent. While headline sales revenue essentially tracks economic growth rates of around 3–4 per cent plus inflation, food retailers have been able to generate earnings per share growth in the low double digits in recent years by increasing their share of the retail food market and reducing their costs of doing business through scale and supply chain efficiencies.

Despite the existence of a highly concentrated domestic retail sector, the analysis concluded that the financial performance of Australian-based food companies was not substantially out of step with the performance of international firms or comparable businesses in foreign markets.

Other issues:

Other issues that arose and were examined as result of the analysis into food pricing were:

- The nature and quality of information in the food industry and the scope for greater knowledge
- Management to enhance the understanding of the factors affecting prices;
- Assertions as to market power in the food sector;
- The nature and scope of value-adding in the food sector and the impact that such activities are having on food pricing and returns to each part of the industry; and
- Adjustment by parts of specific industries to ongoing changes in market conditions.

Perhaps the two most contentious issues that the report examined were the existence and use of market power, and lack of transparency within food supply chains.

In regard to the existence and abuse of market power the report concluded that:
"One of the major determinants as to whether there is abuse of market power is whether super-normal profits can be sustained over time. The competitive nature of retail markets and the level of returns being earned in the Australian food sector do not indicate that there is major abuse of market power to the detriment of food product suppliers".

In regard to lack of transparency or visibility in food supply chains the report concluded that: *"There is decreasing transparency in several food industry sectors in view of the concentration in food processing and marketing, and the consequential sensitivity to movement in margins. Retailers are vigilant for opportunities to reduce costs due to the pressure on major companies to offer increasing shareholder wealth."*

Other Reports:

Curry Report - UK

Report of the Policy Commission on the Future of Farming and Food (UK)

In August 2001, an eminent group of people led by Sir Donald Curry (Curry Report) were appointed to:

"advise the Government on how we can create a sustainable, competitive and diverse farming and food sector which contributes to a thriving and sustainable rural economy, advances environmental, economic, health and animal welfare goals, and is consistent with the Government's aims for Common Agricultural Policy (CAP) reform, enlargement of the European Union (EU) and increased trade liberalization."

The report was precipitated by the gradual decline experienced by the UK farm sector over past decades, which had reached crisis point with the emergence of BSE (mad cow disease) in the late 1980's and the outbreak of Foot and Mouth disease in 2001.

The Commission started with the end in mind and outlined its vision for the future of the farming and food industry in England, before following on with a comparison between this vision and the reality of UK farming at the time.

Very quickly the Commission identified that the reason they believed farming in the UK was so dysfunctional was that farming had become detached from the rest of the general population, economy and the environment, and so, reconnection became the central theme of the report. They felt the key objectives of future public policy should be to reconnect the food and farming industry by specifically:

- reconnecting farming with its market and the rest of the food chain;
- reconnecting the food chain and the countryside; and
- Reconnecting consumers with what they ate and how it was produced.

It was felt that desperate circumstances required desperate measures and so many of the numerous recommendations were considered by the authors themselves as quite radical. Perhaps the most radical of those was the recommendation to move away from direct production subsidies provided under the Common Agricultural Policy and into payments linked to environmental stewardship and rural development. This would be a huge culture shock for the farm sector but was deemed necessary if their future was to be sustainable in the long term.

In addition to the removal of direct production subsidies, other recommendations dealt with a multitude of issues including:

- Foreign currency risk management
- Benchmarking, research and technology transfer, demonstration farms
- Reconnecting the supply chain
- Conduct of retailers and suppliers
- Farmer collaboration, risk management
- Labour availability
- Quality assurance and branding strategies

The Curry Report is unrivalled in its consideration of the economic, social and environmental challenges facing farming and rural communities in the UK and a lot can be said for the very same type of report to be commissioned on the future of farming in Australia.

Odyssey Report - Canada

Agricultural Odyssey Group – An Industry Quest for Solutions (Ontario/Canada)

In late 2000, a group of Ontario farm leaders recognized that the pace of change in agriculture, at both a domestic and international level, was quickly outstripping existing agricultural policies. It was felt that a new strategic vision was needed to build on existing strengths and capture new opportunities, as well as identify challenges that might disrupt the farm sector and its current on farm practices.

In February 2001, Roger George, a former President of the Ontario Federation of Agriculture was invited to chair a group of farm leaders from a cross section of agriculture and so began the Odyssey Group.

The name "Odyssey" was chosen as being descriptive of a long wandering journey or adventure down winding paths unknown. The Group had a single mandate, that being to: '*examine issues that may impact upon the agricultural sector during and beyond the first decade of the new century and present policy options and recommendations to the Ontario farm leadership."*

While the mandate was concise, the Odyssey Group quickly recognised the scope of the project was immense, reflecting the complexity of the agri-food chain and international agriculture in general. Over the course of the project, the Odyssey Group held public meetings across Ontario with farmers and their organizations.

A broad cross section of other stakeholders was also consulted, which included government officials, members of academia, food processors and distributors, multi-national corporations, consumer advocates, taxation and legal experts, former farm leaders, leading-edge business leaders, and rural groups. A special effort was also made to consult with the next generation of young farmers who would be most affected by strategic decisions made today, but ultimately affect their future and the future of rural communities.

In addition to the Odyssey Group taking a hard honest look at the challenges facing agriculture in Ontario, a seven country fact finding tour to Europe by nine Odyssey representatives was undertaken. This proved invaluable in helping the Group better understand prevailing international economic and consumer pressures. Extensive research and some visits to the United States provided the Odyssey Group with a sense of where the U.S. farm sector was also heading.

In total, the Odyssey Group made 82 recommendations relating to the nine subject areas listed below:

1. Consumer Trends – (8)
2. Food Safety – (6)
3. Marketing in a Concentrated Food Sector – (4)
4. Environment – (19)
5. Agricultural Extension and Technology Transfer – (4)
6. Farm Income and Marketing – (11)
7. Technology and Research – (12)
8. Land Use and the Rural Planning – (9)
9. Rural Development and Leadership – (9)

In addition a second module relating to Farm Organisations and Strategic Direction was also included with a further 11 recommendations.

Like the Curry Report in the UK, the Odyssey report focuses on the need for the farm sector to be seen by the general public as responsible custodians of the land and providers of safe food. The entire report though, is premised with the fact that there must be an opportunity for farmers to achieve new levels of excellence and dynamic growth, but this can only occur in an arena where they can earn fair profits from their investment.

Perhaps one line from the report best summed up the future of farming in Ontario:
"No meaningful long-term change can be sustained without reasonable assurance of profit."

Regulatory and other Solutions:

Interestingly, both the "Fair Market or Market Failure" (Australia) and the "Competition Commission" (UK) reports recommended the development and application of mandatory codes of conduct to govern trade practices within supply chains. Disappointingly though, during the subsequent process of development, lobbying and negotiation, the mandatory intent of both Codes was diluted down to only voluntary compliance. What could have been very effective tools for the control of misuse of market power and unfair trade practices, has been weakened considerably. The effectiveness of voluntary codes of conduct could perhaps best be compared to voluntary speed limits – why bother complying when you don't have to!

Dual Retail Pricing – France:

In the northern summer of 1999, the Minister for Agriculture announced a three month "dual retail pricing" trial that would be enforced in all major supermarket chains. The Minister was reacting to strong lobbying from stone fruit growers and intense media pressure about the sizeable disparity between the price farmers were being paid for their fruit and the retail price consumers were being charged for the same fruit at supermarket level. The inference was made that the supermarket chains were making super profits at the expense of the growers.

During the trial, it would be mandatory for supermarkets to display the farm gate price of the fruit on the same ticket that the retail price was listed. The strategy if somewhat naïve, was that the anticipated consumer backlash over the expected large price disparity would embarrass the supermarkets into either paying a higher price to the growers or lowering their margin so that consumers gained a benefit. At the commencement of the trial it was thought that this complete transparency might provide a panacea.

At the end of the three month trial period the scheme was allowed to slowly slip away with little protest - the scheme had failed for two primary reasons. Firstly, the supermarket chains refused to cooperate and display the grower price alone, and instead added packing, transport, distribution and their own operating costs to the grower price. Consequently, the margin or disparity in prices observed by consumers was only minimal and so the expected backlash was averted.

Secondly, the scheme failed because the complete transparency through all stages of the supply chain enabled competitors from different supply chains to identify the costs and margins of their rivals and thus seize commercial opportunities at each others expense.

Supermarket retailers also gained from the ultimate transparency of competitor supply chains and took the opportunity to drive further cost and margin efficiencies from their own supply lines. All in all, this well intended regulation failed to deliver what was hoped for and instead delivered disclosure of what had previously been proprietary or commercially sensitive information.

Food Levy – Ontario/Canada

Whilst not aimed directly at supply chain margin disparity, one controversial recommendation from the Odyssey report did deal with farmers' increasing compliance costs for environmental and food safety programs.

The Odyssey Group recommended that:
"Governments implement a levy on retail purchases of food and beverages to be used to assist with food safety and environmental improvement practices."

The Group identified that food safety issues and new standards were being driven by the by the big end of the food supply chain as well as Canadian regulators and export customers. They also identified the potential double standards that could apply if imported products without any food safety assurance were competing with Canadian product that had to comply with domestic regulations. The dangers of that double standard would be firstly a competitive disadvantage to Canadian farmers and secondly a public health risk to consumers by being exposed to imported product that may not have been produced under the same standard of food safety.

Odyssey posed an important question: "*would consumers pay a premium to farmers for environmental excellence and food safety assurances, or was that a role for tax dollars, similar to providing safe highways?"* The Group concluded that while no definitive cost had been attached to the increased requirement for on-farm food safety programs, it was clearly substantial, and had the ability to totally extinguish farm profit margins.

Anecdotally, the Odyssey Group had heard national figures of $500 million as a potential cost for increased on-farm food safety compliance. As a consequence they believed there was a need to find out if the consumer was prepared to pay either directly or indirectly for that enhanced peace of mind.

Similar to increased food safety compliance costs, increasing environmental regulations were also having a major impact of farm profit margins. The Group identified that unlike many on-farm improvements, there was often no obvious immediate financial benefit or reward for the environmental remediation that farmers undertook on a regular basis. The dilemma in Ontario and right around the world was/is, who should pay for the environment, clean water, wildlife habitat, and other societal benefits?

The Group concluded that lack of knowledge or understanding of environmental problems by farmers could be addressed, but their lack of capital for remedial work, presented a huge impediment to progress. Perhaps a principal identified in the Curry Report would be appropriate – if the wider society is going to gain a benefit, then perhaps society should be prepared to pay?

UK – NFU Farming Counts Campaign

In September 2002 the National Farmers Union (NFU) launched its "Farming Counts" campaign by setting up a food stall outside its head office in London's West End and selling selected food items to the general public at farm gate prices. The event was designed to alert consumers as to how little of the retail supermarket price farmers actually received.

An investigation by the NFU had found that a basket of farmed produce, including beef, eggs, milk, bread, tomatoes and apples, typically cost £37 at retail; however, farmers only received a value of £11 for it at the farm gate which was only 28% of the retail value. The following spread sheet identifies the products used in the investigation, the retail price and the percentage of that price that UK farmers were receiving:

Commodity	**Retail value (£)**	**Farmer receives**
Beef (topside)	6.58	26%
Lamb (shoulder)	4.57	49%
Pork (loin)	4.78	20%
Chicken (fresh)	2.32	21%
Bacon (back)	6.97	14%
Milk	0.36	25%
Eggs	1.51	21%
Apples	1.26	26%
Potatoes	0.91	8%
Tomatoes	1.10	51%
Cauliflower	0.81	41%
Carrots	0.58	28%
Onions	0.73	23%
Strawberries	4.26	52%
Bread (wheat)	0.74	8%

Source: NFU Newsletter

The extensive public relations campaign included a series of events focusing on each sector of farming, with farmers themselves urged to take part in explaining their plight to the general public. To assist farmers in that education process the NFU developed a simple brochure containing easily understood facts and figures that could be handed out to consumers.

Emphasising the effects of the poor farm gate returns farmers received, the brochures were designed to make an impact by containing the following harsh facts:

- **9 ………** 9 pence is all farmers get for a pint of milk – less than the cost of production. This is true for many other products like cereals, fruit and pork.
- **35 million…………..**35 million tones of food is produced by Britain's farmers for you every year.
- **400.................**400 is the number of jobs lost in farming every week

The overall strategy behind the Farming Counts campaign was primarily to re-educate British consumers about the financial plight of UK farmers and how important the sector was to both the wider society and economy. If the campaign was successful and attracted widespread public support and media attention, it was hoped that the British Government may even legislate to provide equitable and sustainable farm gate returns for UK farmers. In many ways though, the NFU campaign mirrored the central focus of the Curry Report which was all about farmers and consumers reconnecting again and gaining an appreciation of what was involved in producing the food they ate.

Collaborative Assistance:

USA

In terms of cooperative support, the United States provides arguably the best structural and legislative frameworks in the world. Commencing with the "pro cooperative" Capper Volstead Act of 1922, there has been a continual and ongoing commitment by subsequent US Governments to fund and foster collaboration amongst farmers.

An example of that commitment is the continued federal funding of at least sixteen "Centres for Co-ops", including four universities. Their roles are research, education, information sources, and extend to coal face extension and advisory work. The establishment of the USDA Rural Business Co-operative Service is another example of ongoing commitment to cooperative support. The Service plays a development and facilitation role under federal legislation and maintains a grant fund of $40 million for technical assistance to help farmer's add-value to their produce through co-operation. In addition, the Rural Development agency has had its charter broadened and now has a direct role in facilitating and developing co-operation in conjunction with established co-ops and their consultants.

Again established by legislation and solely for the benefit of farmers and agricultural co-ops, the US operates a farm credit system that raises funds by selling bonds and notes in capital markets. These funds are then directed back to rural communities across the US through six regional Farm Credit Banks and the Agricultural Credit Bank. Farm Credit System bonds are considered secure by investors, and perceived as having a government seal of approval.

Like the Farm Credit System recognises investment capital can be a major stumbling block in the establishment cooperative ventures, a "Guaranteed Loan Program" also exists to overcome this basic problem. The Program provides loan guarantees of up to $40m for existing co-ops and loan guarantees to individual farmers of up to $400,000 to enable them to buy equity in their co-ops.

United Kingdom

In comparison to the USA, collaborative assistance in the UK does not enjoy anywhere near the same level of government legislative or funding support as its Trans Atlantic neighbour. Only the Plunkett Foundation and the Scottish Agricultural Organisation Society could be considered as providing dedicated services to promote farmer collaboration in the UK.

The Plunkett Foundation was established primarily to ensure a continuation of Sir Horace Plunkett's life long work of supporting and promoting agricultural cooperatives and farmer controlled businesses (FCB's). Plunkett was clearly a man ahead of his time and recognised that even in the late 1800's farmers could better control their destiny and profitability if they cooperated together for the purposes of processing and selling their products.

From humble beginnings in poverty stricken Ireland, the passion Plunkett had for farmer owned cooperatives gave rise to not only the Foundation in later years but also to agricultural organisation societies in Ireland, Wales and Scotland in the early 1900's. The Plunkett Foundation still continues to this day to encourage the development and growth of producer marketing cooperatives and FCB's by fulfilling a training and consultancy role.

Arguably the best example of a dedicated service to farmer collaboration in the UK however is the Scottish Agricultural Organisation Society (SAOS) or the Scottish Collaborative Board as it is commonly known. As mentioned previously, SAOS was established as a direct result of the inspiration and vision provided by Sir Horace Plunkett and has contributed enormously to Scottish agriculture over nearly one hundred years of operation.

> The stated purpose of SAOS is to "strengthen the profitability, competitiveness and sustainability of Scotland's farming, food and related rural industries, through the development of co- operation and joint activity."

Fundamentally SAOS encourages farmers to respond to increasing consolidation in the processing and retail sectors by collectively achieving similar economies of scale and hence countervailing supply chain bargaining power. As farm machinery and labour costs have continued to rise over the years, so too has the emergence of machinery and labour rings which allows the sharing of machinery and employees between groups of farmers. SAOS assists in the formation and support of those groups in addition to the more traditional buying and marketing FCB's.

SAOS is wholly owned by close to one hundred FCBs and rural co-operatives. Their combined turnover exceeded £800 million in 2000, and accounted for more than 35% of all Scottish farm output. Collectively SAOS' members account for a very significant component of the Scottish food and agricultural industries, and the Scottish economy in general.

Members elect a Council to govern SAOS, which in turn elects a Board of Management. Council consists of leading innovators and executives from the boards and management teams of member businesses. In addition, the National Farmers' Union of Scotland and the Scottish Association of Young Farmers' Clubs also appoint representatives. SAOS is funded by a combination of member fees, consultancy income, and the Scottish Government.

European Union – Producer Organisation Capital Grants

The EU delivers an incentive based scheme to encourage its farmers to collaborate by way of capital grants for cooperative type infrastructure. The scheme is only available to horticultural producers in recognition of the fragmented nature of the industry, lack of supply chain bargaining power and the considerable infrastructure costs involved in constructing modern pack house and cold storage facilities that are compliant with ever increasing food safety and environmental regulations. The capital grant system does require financial commitment from producers and as a consequence is only available on a dollar for dollar basis. Ultimately, the scheme is designed to help encourage producers to achieve collective critical mass and thus economy of scale for the packing, processing and marketing of their product.

Australia

In comparison to the USA, UK and EU, Australia has a complete lack of dedicated farmer collaborative assistance in either formation and support or financial incentives. While most States have cooperative associations, they receive little or no funding from governments and are therefore limited in their ability to play a promotional and development role. There are some fine examples around Australia of new FCB’s being established with government assistance, but that has usually been as a result of pilot programs by visionary State Agricultural Ministers or forward thinking local agency staff.

The well received “Agriculture – Advancing Australia” (AAA) stable of programs also provide the following assistance, but sadly nothing specific to collaboration:

- Farmbis – training assistance to improve business management skills
- Farm growth through export growth – gaining easier access to markets through bi-lateral trade agreements
- Farm Help – assistance with options for financial difficulties
- Farm Management Deposits – income set aside for loss making years
- Rural Financial Counselling Service – financial assessment for businesses
- Industry Partnerships – self reliance and change management
- Industry Leadership – leadership training for women, young and indigenous people.

In 2001, AFFA supported a pilot collaborative marketing program with Queensland stone fruit growers with considerable success. A significant proportion of the growers involved reported a 30% increase in profit margins with the lowest receiving a 15% improvement. Sadly though, the program disappeared through lack of ongoing commitment.

Collaborative Impediments:

The most common impediment around the world that prevents collaboration between farmers is the various legislations governing competition and general business conduct. In the USA the primary governing legislation is their "Anti Trust" set of laws; in the UK their "Fair Trading Act"; and in Australia, the "Trade Practices Act – 1974" (TPA).

All legislations share the same primary purpose and that is to ensure that consumers benefit from the cheapest goods and services possible by preventing any business conduct that could be considered anti competitive. A fundamental flaw with most legislation however is the lack of recognition of differences between business sectors – specifically the price taking nature of primary producers. An exception to that rule however, is the exemption provided to US farmer owned and operated cooperatives by the Capper Volstead Act.

The Capper Volstead Act was enabled in 1922 and effectively gave farmers an exemption from anti collusion laws provided they were: *"engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in Associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged."*

The Curry Report also recognised the flaws within UK legislation and enforcement by competition authorities, stating that they strongly believed in the potential of collaborative ventures for all farmers. They encouraged the competition authorities to consider the context of UK agribusiness within the wider EU Market, particularly the consolidation of international suppliers, when looking at new or expanding collaborative ventures.

Likewise the Odyssey Report from Canada pointed out the impediments to farmer collaboration by recommending *"that the Co-operative Corporations Act be amended in regard to the capital structure requirements set out for co-operatives in order to facilitate the development and growth of new generation co-operatives in Ontario."*

Thankfully the Federal Government and Australian Competition Consumer Commission (ACCC) is starting to acknowledge issues of market power and are looking to make appropriate changes recommended by the recent "Dawson Review". Of particular relevance to primary producers are the recommendations relating to collective bargaining.

Currently collective bargaining is constrained under section 45 of the TPA and prohibits collusive conduct in the form of contracts, arrangements or understandings having the purpose or effect of substantially lessening competition. Price fixing or an agreement between competitors to fix, maintain or control prices for goods or services is prohibited regardless of its purpose or effect on competition. Interestingly section 51 (2) (a) exempts collective bargaining by trade unions in relation to working conditions, rates of pay and hours worked – why not the other price taking sector of the economy - farmers?

The positive change recommended by Dawson is the ability for small businesses to simply notify the ACCC of their intention to collectively bargain instead of the current expensive and time consuming authorization process. This should help small business to some degree in negotiating a better outcome than they currently achieve as individuals.

Conclusions:

At the commencement of my studies in June 2002 and at the beginning of this report I posed a series of questions that I hoped to find answers to:

5. What had changed in the market place over the last thirty years?
6. Was farmers' declining percentage of the retail price nothing more than just simple supply and demand economics, or could this debilitating trend be solely attributed to the commonly vilified supermarket chains that now dominated the food retail landscape?
7. What were the causes of this trend?
8. Was the same occurring in other parts of the world, but most importantly were there any effective solutions that might address the fundamental problem of static farm gate returns?

After interviewing, reviewing and talking to many people over the last two years about these fundamental questions, it is evident that there are no simple solutions for these complex issues – if there was, they would have been discovered and utilised long ago!

In answer to the first question; there has been obvious changes to consumer lifestyles, buying habits and the way food is now being retailed. Catering for, and keeping just ahead of those changes has been the outstandingly successful supermarket revolution. The growth of that form of retailing has had a profound effect around the world with an enormous benefit to consumers with a conversely large impact on supply chain dynamics. As a consequence the retail concentration and the scale of operations are the most obvious changes to have occurred over the last three decades. The following table provides an illustration of that corporate scale:

World's Top 30 Grocery Retailers by Turnover (2000)

Rank	Company	Country	Turnover (million $)[1]	No. of Countries[2]	% Foreign Sales	Ownership
1	Wal-Mart	US	180,787	10	17	Public
2	Carrefour	Fr	59,690	26	48	Public
3	Kroger	US	49,000	1	0	Public
4	Metro	Ger	42,733	22	42	Public/ family
5	Ahold	Nl	41,251	23	83	Public
6	Albertson's	US	36,762	1	0	Public
7	Rewe	Ger	34,685	10	19	Co-operative
8	Ito Yokado (incl. Seven Eleven)	Jap	32,713	19	33	Public
9	Safeway Inc.	US	31,977	3	11	Public
10	Tesco	UK	31,812	9	13	Public
11	Costco	US	31,621	7	19	Public
12	ITM (incl. Spar)	Fr	30,685	9	36	Co-operative
13	Aldi	Ger	28,796	11	37	Private
14	Edeka (incl.AVA)	Ger	28,775	7	2	Co-operative
15	Sainsbury	UK	25,683	2	16	Public/ family
16	Tengelmann (incl. A&P)	Ger	25,148	12	49	Private/ family
17	Auchan	Fr	21,642	14	39	Private/ family
18	Leclerc	Fr	21,468	5	3	Co-operative
19	Daiei	Jap	18,373	1	0	Public
20	Casino	Fr	17,238	11	24	Public
21	Delhaize	Bel	16,784	11	84	Public
22	Lidl & Schwarz	Ger	16,092	13	25	Private
23	AEON (formerly Jusco)	Jap	15,060	8	11	Public
24	Publix	US	14,575	1	0	Private
25	Coles Myer	Aus	14,061	2	1	Public
26	Winn Dixie	US	13,698	1	0	Public
27	Loblaws	Can	13,548	1	0	Public
28	Safeway plc	UK	12,357	2	3	Public
29	Lawson	Jap	11,831	2	1	Public
30	Marks & Spencer	UK	11,692	22[3]	18	Public
-	TOTAL	-	930,537	-	-	-

Source: Institute Grocery Distribution (UK)

In addition to corporate scale and financial capacity has come market power as a result of substantial market share – no where in the world is this more evident than in Australia, with the current oligopoly of major retailers accounting for nearly 80% of the national grocery market. This is in comparison to the top two retailers in the UK (Tesco & Sainsbury) with 16.5% and 11.6% respectively. With the recent advent of strategic alliances to deliver fuel discounting, the market domination of Coles Myer and Woolworths will only increase in the coming years.

As confirmed in the "Price Determination in the Australian Food Industry" report, the supermarket retail sector is fiercely price competitive with a real reluctance to raise retail prices for fear of losing customers and hence market share. I saw first hand evidence of this in the UK where none of the major retailers were prepared to make the first move and raise their retail milk price by one pence per litre, so that struggling dairy farmers could benefit. Only strong lobbying by the NFU and actual picketing of one supermarket chain by the more militant Scottish NFU forced an increase in the farm gate price of milk – all that pressure for a one pence increase!

Whilst the role of supply and demand economics will always play a part in farm gate prices, an explanation for the declining percentage of the retail price that farmers receive is not as obvious. From all of the government inquiries mentioned in this report only two of them hint at the primary reason for the decline in the farmer's share of the retail price, and that is the ability of the service type members of the supply chain to pass increased costs either up or down the supply chain.

The "Price Determination in the Australian Food Industry" report alludes to this fact in its findings and further suggests that the primary production sector unlike the upstream service providers can and have benefited from the adoption of technology and hence due to competitive pressure could afford to sell their raw products at lower prices due to those efficiency gains. Whilst that explanation may contain an element of truth for some industries such as broad acre farming, it is certainly a tenuous argument when applied to labour intensive farming such as horticulture. In any business, at some point in time, efficiency gains will not be able to compensate for continual cost increases.

The fundamental point of difference that all governments and the inquiries mentioned in this document continually fail to acknowledge, is that farmers are <u>the only price takers</u> in the food supply chain, and as such deserve special consideration because of that inherent negotiating weakness!

Whether they realise it or not, today's farmer has a lot in common with wage and salary earners – they are both price takers and as a consequence both have an inherent negotiating weakness. The difference is that wage and salary earners are protected from exploitation of that weakness by the minimum award wage system, and rightly so. One can only imagine the social unrest (if not anarchy) that would exist if there was no minimum award wage system and Australian workers had to individually negotiate their rates of pay with two major corporations who controlled nearly 80% of the jobs?

Whilst recognising the obvious benefits of the minimum award system for Australian wage and salary earners, I am not suggesting that farmers should receive a minimum price for their products, because that would defy the economic law of supply and demand, and ultimately be unsustainable. However, an economically sustainable solution must be found very soon or else thousands more family farms will become unviable!

In summary the reason why farmers are receiving less of the retail dollar is because their prices are remaining relatively static while all other supply chain participants continue to pass on cost increases - over time, this has the effect of diminishing the percentage of the retail price that farmers receive. Consumers are obviously benefiting from cheaper food prices but the practice is having a profound effect on the future viability of rural Australia and thousands of family farms. The reality is that farmers can not be expected to continue to supply raw product at the same price, year after year and remain viable – that defies economic sustainability!

This debilitating trend is the same all over the western world with no regulatory “magic bullet” out there yet that will ensure farmers’ receive an economically sustainable share of the food value chain. Numerous government inquiries around the world have only proffered soft solutions such as voluntary codes of conduct for retailers considered as possessing market power. The French dual retail pricing scheme failed, with the fate of the Canadian retail food levy still under consideration. Whilst admirable in intention, strategies such as the NFU’s Farming Counts campaign are an enormous financial and human resource commitment but will only be successful if sustained for a long period and government and regulators are prepared to listen and react positively.

Despite there being no regulatory magic bullet out there yet that will ensure farmers receive an economically sustainable share of the retail dollar, I believe that further investigation is warranted to develop a mechanism that will directly index/link farm gate prices to retail food prices. Whilst acknowledging the complexities of such a mechanism and its applicability to only products retailed in Australia’s domestic market, it would at least pass the first test of sustainability and accommodate the law of supply and demand.

In the face of ongoing consolidation of the retail and processing sectors of the supply chain, the most appropriate response from the farm sector must surely be to fight fire with fire. **Whilst cooperative structures tend to be viewed suspiciously by the general farming community, the standard cooperative principles they are built on are more relevant for the supply chain of today than they have ever been in the past.** In effect, cooperation enables individual farm businesses to overcome the disadvantages of small scale, and the consequent imbalances of negotiation power in food supply chains. The type of corporate structure is somewhat secondary to the main focus, which is fundamentally about the mutual benefits of collaboration.

Both State and Federal Governments must make a long term commitment to fostering and funding farmer collaboration, as well as removing legislative impediments that prevent such practices. While the imminent changes to the TPA regarding collective bargaining will be of some benefit, they do not go anywhere near the exemptions contained in the Capper Volstead Act (USA).

Ultimately though, the future viability of Australian family farms will be decided by the strength of desire by the general public and Federal Government to have most of their food grown safely at home – or, imported from the cheapest source. Without general public and Government recognition that farmers are the only price takers in the supply chain; and without some sort of intervention measure; the reality is that globally, only the lowest cost producers or the producers who have the greatest government support will survive the law of the jungle.

The question remains - do Australians want to sustain our remaining family farms, or let them become the next endangered species?