Submission to the Senate Select Committee on Supermarket Prices

Sustain: The Australian Food Network

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Contents

Recommendations

1. In line with recommendations one, two and three of the Inquiry into Food Security in Australia (*Australian Food Story: Feeding the Nation and Beyond*, 2023), **we urge the Federal government to develop a comprehensive and integrated National Food Plan.** This would also require the **establishment of a Minister for Food and Portfolio for food security, advised by a National Food Council** comprised of stakeholders and experts in First Nations food sovereignty, agricultural production, logistics, retail, health, climate, disaster resilience, education, and waste management (House Standing Committee on Agriculture, 2023). We recommend investigating the **Scottish Good Food Nation Act** (2022) as a highly relevant and recent national precedent. Without a comprehensive plan and portfolio that has the power to make positive policy change across the food and farming system, we are likely to continue within the cycle of MSC inquiries every 10 years and ever-deteriorating terms of trade for farms and other suppliers to MSCs. This will have severely negative consequences for our medium and long-term national food security as well as for the integrity of our national food system.

2. **The mandate and foundational economic assumptions of the ACCC must be revisited and redeveloped**. As demonstrated in the *ACCC and Federal law* section of this submission, the ACCC is currently mandated and structured to prioritise consumer interests and the market exchange process, on the flawed assumption that there is equity of bargaining power between buyer (MSCs) and sellers (farmers, value-adders, others). This assumption defies the reality we are all familiar with, i.e. that the Australian grocery sector is a duopoly with excessive market power concentrated in the MSCs which have expanded their scale of operations dramatically in recent decades. The power imbalance between MSCs and producers/suppliers has reached dramatic proportions to the benefit of the former and the detriment of the latter (see the examples in the draft submission from SECNA, Appendix 1). Without legislative authority to check this power asymmetry, the ACCC facilitates the ongoing and unsustainable financial pressures on producers and other suppliers, as well as enabling the continuing loss of retail diversity and fair competition for Australian consumers, thereby entrenching unfair duopoly price setting. Germany, the UK, and Aotearoa have all expanded the remit of their competition watch dogs, having experienced these same issues.

3. **Federal law must be reformed to replace the ineffective and self-regulatory approach to managing the MSCs with a mandatory framework**. This requires that the Food and Grocery Code of Conduct (FGCC) becomes mandatory, and for it to be updated to ensure that negotiations and contractual arrangements between the MSCs and suppliers/producers are balanced and fair. As Dixon et al. (2020) note:

    > *Government has been motivated to act or be seen to act on the concerns relating to the power of the MSCs in the supply chain but has also been ready to accept the assurances of the large chains that they are sufficiently motivated by competitive pressures to respond in ways that will win or win back the trust of other market participants.*

As is evident from the catalysts that has led to the necessity of this inquiry (and as this submission highlights), the MSCs have continuously demonstrated their inability to self-regulate to ensure that food system actors, from producers to consumers, are given a fair deal. Therefore, government has a clear need and mandate to step in and take regulatory action to protect producers, suppliers, and consumers.

Such reforms will require greater scrutiny of the range of practices utilised by the MSCs to the disadvantage of their suppliers. This includes various forms of hidden fees, exorbitantly priced sales reports, compulsory discounts, and the ability to terminate supply contracts with no notice or compensation. Such changes would also bring the sector into alignment with other Australian statutory codes of conduct, ending the MSCs ability to self-regulate.

4. **The Federal government should work with State, Territory, and local governments to amend planning frameworks to ensure that a diverse range of food retail options are promoted in new developments and protected in existing suburbs**. As elicited in the *MSC-consumer dynamics* section of this submission, despite the common misconception and the relentless marketing campaigns, MSCs are not the cheapest option for consumers, and only gain market dominance through employing several strategies (aggressive covenants, temporary price undercutting, land banking commercial property in new developments, etc.) that are only possible due to the capital they hold and can access. Consequently, consumers are forced to shop at these outlets due to convenience, with transport and time constraints often inhibiting consumers' ability to shop elsewhere.

5. **An investigation into food system resilience strategies must be conducted to ensure sustainable access to food in Australia amidst concurrent crises and shocks** (climate, economic, geopolitical – all of which are likely to accelerate in the future). FoodPrint Melbourne has conducted such a study at the regional level amidst the pandemic, extreme climate events and global food crises. They found that a diversity of retail options and supply chains was vital to ensure food security (see graphic below – Murphey et al., 2022).

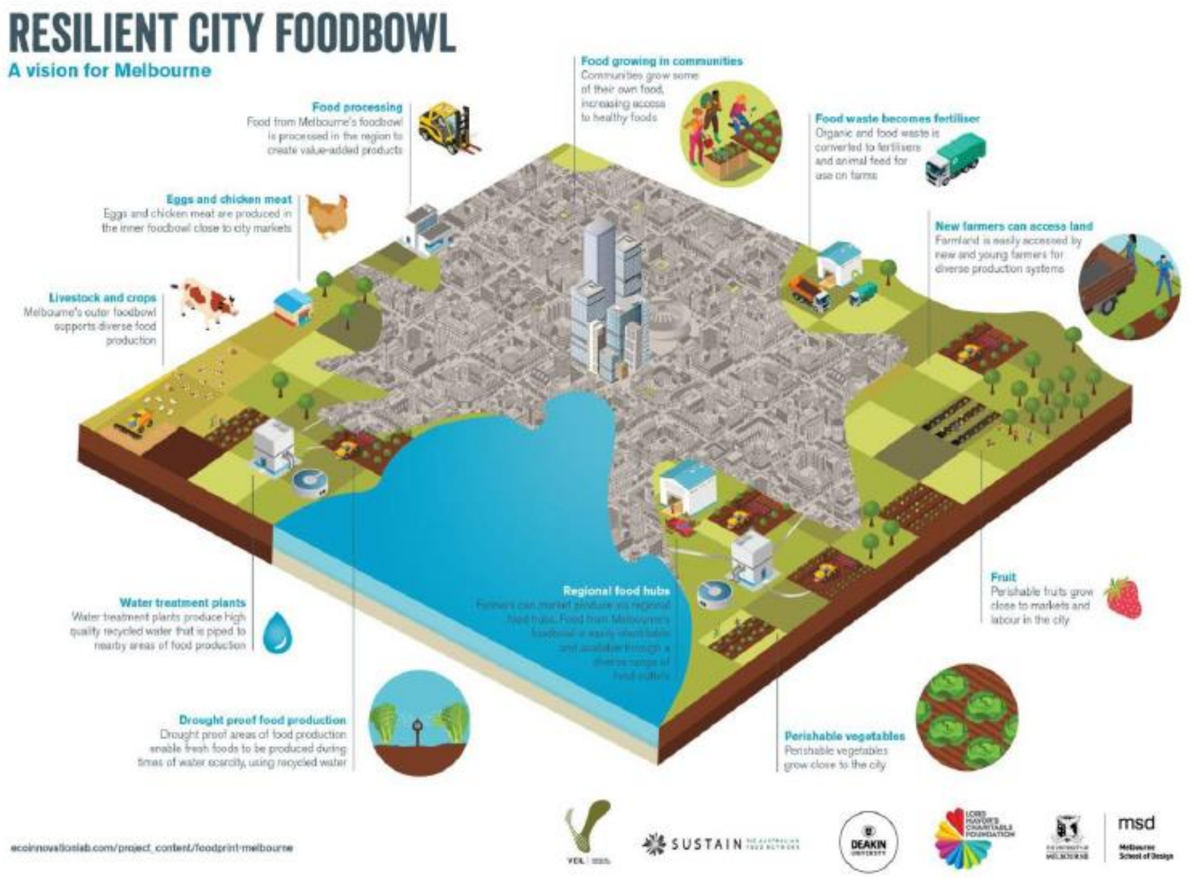


Figure 43: A vision for a resilient city foodbowl for Melbourne. Source: FoodPrint Melbourne

Introduction

This submission has been prepared by Sustain: The Australian Food Network. We are a "think and do" network, specialising in designing and building sustainable & healthy food systems. We work for the transition to a food system that supports flourishing communities, individuals, and ecosystems. We give people, councils, governments, and organisations the tools they need to help them become empowered food citizens, supporting healthy communities, people, and ecosystems.

Through this work, we have explored the role that major supermarket chains (MSC) play within the Australian food system. This includes conducting primary research (interviews, focus groups, and surveys) within many LGAs, investigating the role that MSCs play in their specific food security context. Our unique research, alongside that of other academic and food systems experts is presented in the following pages. It demonstrates the need for urgent policy reform around food retail to create a national food system that is equitable, healthy, and sustainable.

We welcome this inquiry and acknowledge the conditions that have facilitated its necessity. Namely:

- **The $1.1b and $1.6b profits** posted by Coles and Woolworths respectively last year amidst a cost-of-living crisis that is pushing millions of Australians into poverty, housing stress and food insecurity. As a clear indicator of the crisis, Foodbank's 2023 Hunger Report (2023) found that 3.7 million households (36%) 'experienced moderate to severe food insecurity'. Evidently, it is no longer just under- and unemployed individuals and families that cannot afford to eat well and / or skip meals: food insecurity is moving through the middle classes. This is a shocking situation for a country as wealthy as Australia.

- **The skyrocketing cost of groceries beyond inflation rates** consistently increasing at the highest rate of any OECD nation (see table below). This has often been blamed on Australia's acute experience of the climate catastrophe, but this assertion has been comprehensively questioned in the past (OECD data, 2023; Robinson & Vasek, 2009; Zumbo, 2009).

Inflation (CPI) Total / Food / Total less food, less energy, Annual growth rate (%), Nov 2023 or latest available

Total

Location	Latest
Australia	5.37
Canada	3.12
France	3.47
Germany	3.17
Italy	0.67
Japan	2.80
OECD - Total	5.40
United Kingdom	4.20
United States	3.14

(OECD Data, 2023) https://data.oecd.org/price/inflation-cpi.htm#indicator-chart

- **The MSCs wielding a 70%-80% market dominance**, often just below the threshold of what the ACCC considers problematic (ACCC, 2008b; Lawrence & Burch, 2007; Merrett 2019). This is a far higher concentration compared to many other OECD countries, with consumer inquiries in countries such as the UK and Aotearoa/New Zealand recommending intervention to protect consumers and producers, at much lower concentration levels than what we see in Australia (Commerce Commission New Zealand, 2022; Richards et al., 2012).

- **The coercive business practices of the MSCs** that see producers receiving a shrinking cut of the retail price: the infamous 'cost-price squeeze' (Newsome 2020); as well as a host of other commercial practices that are ethically dubious and experienced as oppressive by suppliers, both financially and psychologically (see Appendix A). The last national inquiry into supermarket price gouging found that over the previous decade (2000-2009), growers went from receiving 50% of retail price, to 20% (Richards et al., 2012).

We see several key issues within the Australian food retail and policy arena that have facilitated this inequitable and unsustainable marketplace. The three areas we focus on in this submission are:

- Coercive and unfair MSC-producer relations
- MSC-consumer duopoly that restricts competitive pricing
- Ineffective and limited remit of the ACCC

In the remainder of the submission, we develop these three areas further.

MSC-producer dynamics

Agriculture is a key foundation of Australia. This includes the 80,000+ years of Indigenous stewardship, as well as the farming economy that modern Australia was built on – livestock, wheat, and wool, just to name a few sectors. However, this integral part of the Australian economy and culture is now at significant risk of becoming unfeasible, and with it, all the wealth, jobs, food security, knowledge, and sociocultural bonds that it holds.

For over 60 years, farmers have been highlighting the growing asymmetry of power developing between themselves and the MSCs (Gruen, 1962). With increasing market concentration many farmers have little choice but to accept the prices set by the supermarket duopoly (Toomey & Petrovic, 2024). Often these prices are reduced post contractual agreement, with farmers being faced with the "choice" of accepting this new price (which would often only allow them to break even or, not infrequently, make a loss), or alternatively, let the produce go to waste as they are unable to find an alternative outlet within the time of produce perishability. As the ACCC ruled in 2014, these negotiations often take place with the implicit threat of halting their obligation to stock that suppliers produce (Grimmer, 2017)

> *"The problem we've found is we're 'price-takers', not 'price-makers' there... we don't know how much money we're going to get for the fruit when it leaves our place,"*
>
> (Nichols, 2024)

This power dynamic has enabled increasing profits for the MSCs and their shareholders at the cost of the viability of farming in Australia. Agricultural inputs and other inflationary costs have continued to outstrip the profits that farmers are able to make in this price-taking environment.

> *"As a means of increasing profits, the supermarkets have exerted pressure on suppliers to lower the costs of production and have used a variety of devices (such as slotting fees, customer loyalty schemes, and so forth) to increase their profits while passing on costs along the supply chain".*
>
> (Konefal et al.,2007)

Writing a history of Australian agriculture in 2007, CSIRO agricultural scientist Ted Henzell commented that:

> *"Australian farmers have felt the effects of [declining terms of trade] in a relentless cost-price squeeze...by 1999-2000 they needed to produce more than four times the volume to earn, in real terms, only just over half of what they had done in 1951-2."*
>
> (Henzell 2007)

If that was the production treadmill farmers were on at the end of the 21st century, we can only imagine how they are feeling now after nearly a quarter-century of further market concentration and sophistication of supermarket bargaining and profit-making tactics and practices.

From our own community consultations conducted in February 2023 in the Werribee South Market Gardens (City of Wyndham, Melbourne) we heard from many farmers that spoke of farming becoming economically infeasible. Many said they were deeply concerned about the future of farming in this crucial foodbowl region; some felt they had little option but to sell their land to developers. One commented that the price he was getting for his produce from the supermarkets 'was the same as it was in 1987', echoing Bundaberg farmer Trevor Cross's statement to the ABC in January 2024 that he was receiving '1978 prices' and that this would force him and his wife to exit farming.[1] The situation in Werribee South is incredibly worrying in an LGA that produces 10% of the state's vegetables (including 85% of the state's broccoli) on less than 0.002% of Victoria's land (3000 acres). While Werribee South may be 'the thin end of the wedge', the experience of market gardeners there is hardly unique; the perspective of many other farmers, advocates and research reveals similar trend (James, 2016; Lockie, 2015; NSW Farmers, 2019). This will have a serious impact on Australia's food security in the medium and long term if appropriate measures are not taken to protect the long-term economic viability of farming and create pathways for new entrants and young people.

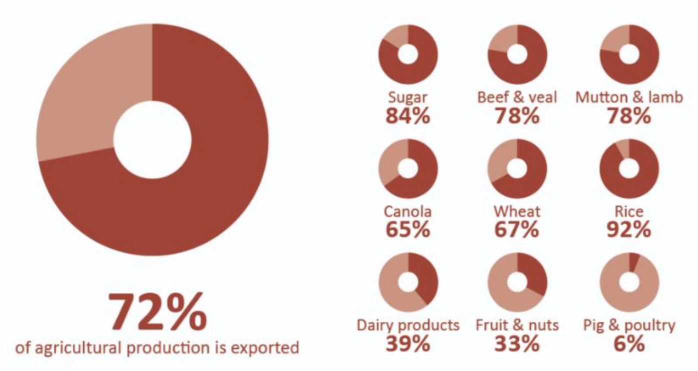
One way that farmers can retain economic viability is by exporting to international markets that offer fairer and more stable agreements. The more farmers who opt for this path, the greater the impact on the resilience of the domestic food system and food security. 72% of Australian produce is currently exported (Fig 7).

> *Instead of dealing with Coles and Woolworths, Daintree Fresh Far North Queensland farmer Shaun Jackson now sends 80 per cent of his produce — some 200,000 boxes of melons — overseas.*

(Nichols, 2024)

The volume of food produced in Australia is often cited as an indicator of food security. However, as the *Australian Food Story* report, together with a growing body of other research and reports demonstrate, food insecurity and food poverty are growing in Australia. Food affordability and the cost-of-living crisis, combined with inadequate levels of welfare benefits, are clear drivers of this dynamic. Price gouging behaviour by supermarkets together with the lack of diversity and competition in the Australian food retail sector are making the situation worse and demand urgent action by the Federal government.

Figure 7 Australian agriculture is export oriented



Note: Share of agricultural production exported by sector, 3 year average, 2017–18 to 2019–20. Source: ABARES, following method outlined in Cameron (2017)

(Department of Agriculture, Fisheries and Forestry 2023)

[1] See https://www.abc.net.au/news/rural/2024-01-08/accc-supermarket-pricing-inquiry-calls-pricing-gouging-claims/103293344

MSC-consumer dynamics

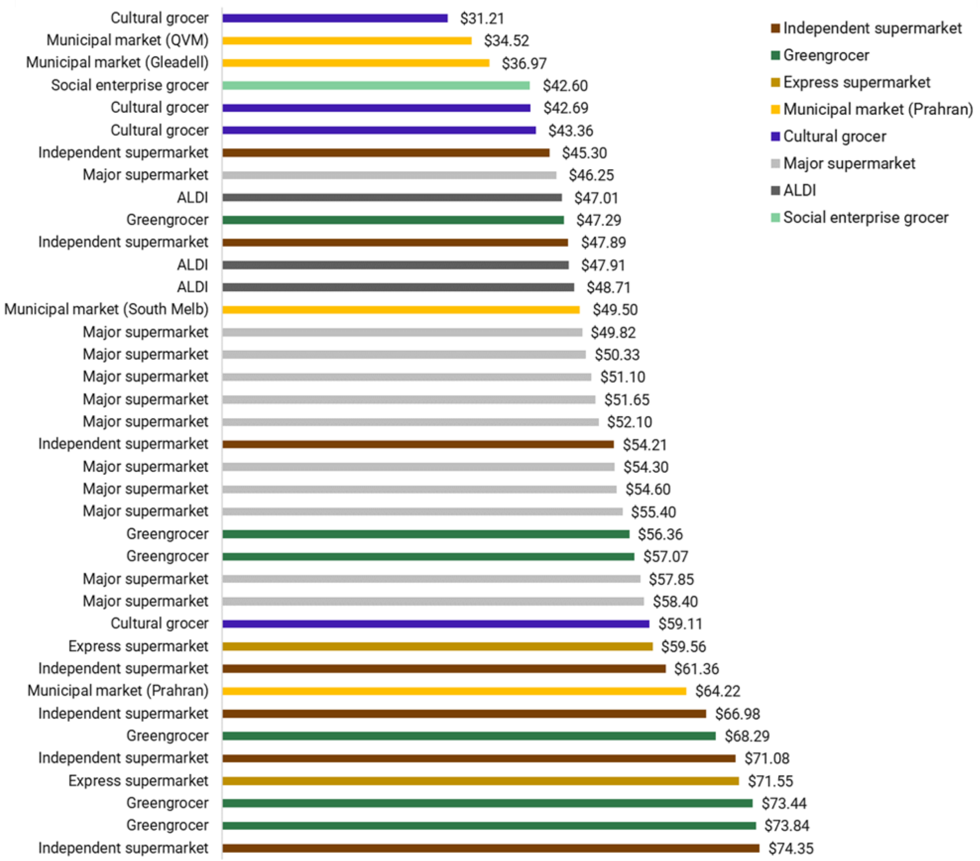
It has become a common misconception in Australia that MSCs create a competitive market, driving down prices and providing a cheaper alternative to the independent retailers through their efficiency in supply chain management and purchasing power.

However, Sustain's independent research in the last 24 months documenting the average cost of a fortnightly Healthy Food Basket (Lewis and Lee 2016) demonstrates the erroneous nature of this perception. In three separate research papers investigating food security and food affordability in the City of Maribyrnong, the City of Port Phillip, and the City of Casey (2023), we found that MSCs were more expensive compared to markets, some greengrocers and independent food retailers (see figures 1 and 15) (Sustain, 2023a; Sustain, 2022; Sustain, unpublished).

> *Cultural grocers were also consistently more affordable for fresh produce. ALDI was cheaper than the major supermarkets (Coles and Woolworths) and independent supermarkets. Greengrocers were generally more expensive, but with the exceptions of two "boutique" grocers in Richmond and Carlton North offering high quality produce at relatively low prices.*

(Sustain, unpublished)

Figure 1 – Average fresh produce basket by retailer type



Rather than cost, we found that the reason most people shopped at MSCs was due to convenience and lack of other options (Sustain, 2022; Sustain, 2023). Many suburbs in these and other LGAs have one supermarket as their only healthy food outlet. demonstrating why this is the case, Richards et al (2012) highlights one market controlling tactic used by MSCs that was outlined in the ACCC inquiry (2008a):

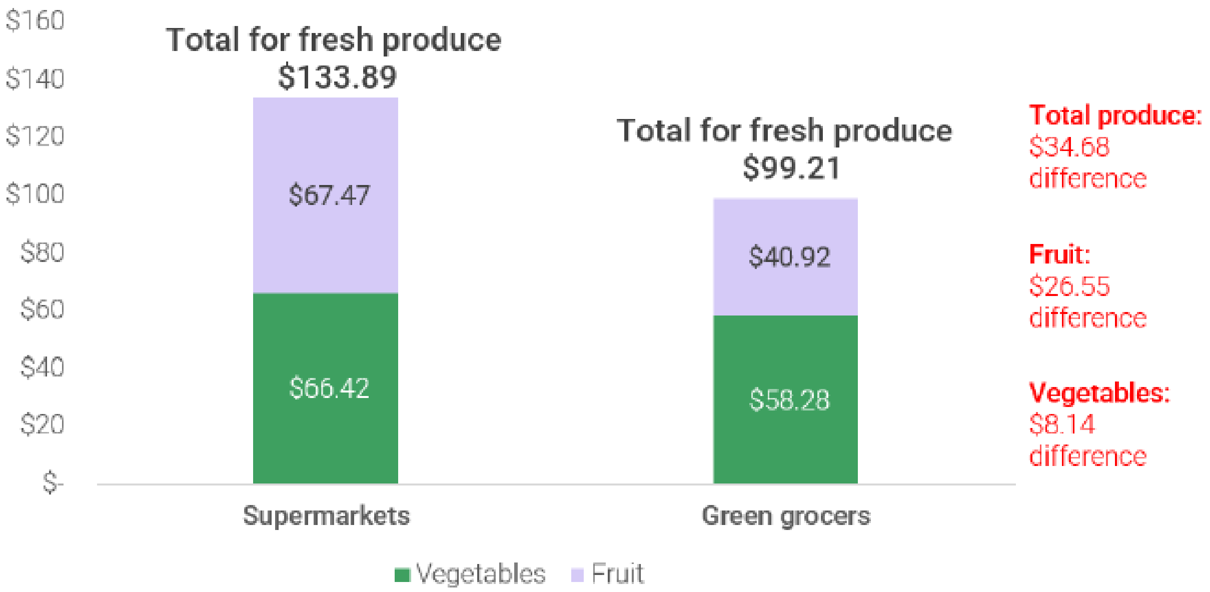
> *Coles and Woolworths did engage in deliberate strategies designed to ensure they maintain exclusive access to prime sites, including terms in their leases which effectively prevent centre managers leasing space in centres to competing supermarkets. These restrictive provisions usually take the form of an outright prohibition on the centre owner introducing a second, or third, supermarket into the centre for a specified period (usually 10 years) or make provision for a sufficient financial penalty via rents which renders it commercially unviable for the centre owner to introduce a competing supermarket.*

Additionally, in anecdotal comments from workshops we have conducted in Central Goldfields (yet to be published), community members and an independent retailer noted that as MSCs establish themselves in the area they often undercut independent grocers temporarily on in-kind food items to establish market dominance. In conjunction with restrictive covenants that inhibit competition in new shopping centres for period up to 10 years, these practices underline just some of the ways in which MSC reduce diverse and competitive retail options in many areas.

Consequently, for those that do not have access to a vehicle or work full time and may not have capacity to shop at alternatives outside their suburb, MSCs become the only option for purchasing groceries even though they are not as affordable as other retail options.

With the cost-of-living crisis continuing, and more individuals and families having to work extended hours, their capacity to a) physically access a grocer, and b) do so in hours when grocers are open, has been severely hindered. Demonstrating this, 97% of survey respondents in the City of Casey (Sustain, 2023) indicated that they shopped at MSCs, despite the higher prices charged by MSCs compared with greengrocers (see below).

Figure 15 - Cost comparison for fresh produce at supermarkets and greengrocers



In addition to the price that consumers are being forced to pay due to the concentration and market power of MSCs as well as lack of accessible local alternatives, our research found that produce sold at these outlets is less fresh, less healthy, less diverse, and less culturally appropriate for many communities.

> *"Cost of food: Community members reported that they were struggling with the increased cost of food and groceries, particularly at supermarkets, as reflected in recent ABS data indicating significant price increases across staple food groups including dairy (+14.9%), cereals (+11.8%) and fruit and vegetables (+5%). A lack of diversity in food outlets has likely also contributed to the rising cost of food experienced by Casey residents, via a dependence on major supermarkets."*
>
> (Sustain, 2023)

Current planning regulations and policies are seemingly blind to this lost value that follows the increasing market dominance of MSCs. Existing produce markets and independent grocers are becoming more endangered. In recent years, the Abbotsford market has closed (Waters, 2023), the feasibility of the Footscray market is under question due to unsustainable business terms (Sustain, 2022), and it took a huge community campaign to ensure the survival of the Preston market until at least 2028 (Eddie, 2023). These institutions are the lifeblood of many communities and must be protected to enable more equitable, diverse, and culturally appropriate sources of food. Moreover, they offer many farmers a more stable and fairer avenue to sell their produce.

> *"The loss of Footscray Market and surrounding Asian greengrocers would significantly reduce access to affordable fresh fruit and vegetables for many low-income residents. This loss will not be compensated for by supermarkets since, as the Healthy Food Basket mapping revealed, these retail outlets do not provide the most affordable access to healthy food for low-income residents."*
>
> (Sustain, 2022)

Despite the threat to community markets and independent grocers, the ABC (Toomey & Petrovic, 2024) has reported that many Australians are now rediscovering markets such as the Preston Market as they become more aware of the ethical and economic pitfalls of MSCs.

> *"It's cheaper for the consumer, it benefits the Australian farmers and it's better for the environment because of the minimal packaging," Ms Harry said.*
>
> (Toomey & Petrovic, 2024)

To ensure food security in Australia, keep healthy food affordable through competition, and enable access to diverse and culturally appropriate food, it is imperative that these existing markets and grocers are protected in planning and economic policy, and that new independent retail businesses are encouraged.

Australian Competition and Consumer Commission (ACCC) and Federal Law

The ACCC describe their mandate as promoting competition and fair trade in the marketplace to benefit consumers, businesses, and the community (ACCC, 2011), yet as Richards et al., 2012 notes,

> *"Under neoliberalism, independent statutory agencies, such as the ACCC, are established to oversee the functioning of the market and help avoid the inevitable descent into market monopoly as identified by Polanyi (1944) ... there has been much criticism amongst farmers and farmer peak bodies that the ACCC privileges consumers above all else. Certainly, the greater emphasis [of the ACCC is] placed on the costs to consumers at the checkout rather than fair trade between powerful corporations and farmers".*

In seeking to promote competition through this neoliberal logic, the ACCC has neglected to protect producers, suppliers, independent retailers, and consequently, consumers. This has led to today's paradigm in which the MSCs post record profits amidst a cost-of-living crisis and farmers struggle to make ends meet. As we have demonstrated, MSCs do not in fact create a competitive market for consumers; they generate asymmetry and unfairness in relation to suppliers and offer less diversity of food. Nonetheless, the ACCC has repeatedly found them to be "workably competitive" (Sustain, 2022; Sustain, 2023; Richards, et al., 2012).

The 2008 Report of the *ACCC Inquiry into the Competitiveness of Retail Prices for Standard Groceries*, the 2018 *Dairy Inquiry*, as well as the 2009 *Inquiry into Competition and Pricing in the Australian Dairy Industry* have so far been unable to effectively acknowledge and address the underlying causes that made these inquires necessary. Namely, the market and power dominance that the MSCs hold over suppliers and independent grocers and price gouging practices. As such, it is no surprise that we find ourselves amidst another inquiry into supermarket pricing in 2024.

While Australia's inquiries and competition watchdog have found MSCs to be workably competitive, thereby precluding the use of regulatory powers to intervene to protect competition and foster an equitable food system, similar inquiries in Germany, Aotearoa/New Zealand and the UK identified serious issues in the power dynamics of MSCs and suppliers with far less market concentration.

> *Interestingly, the outcome of the ACCC inquiry has been quite different from a similar inquiry in the UK where the Competition Commission (2000, pp. 97–98) reported, '… any main party with more than 8 per cent of grocery purchases for resale from its stores, … are, for the most part able to control their relationships with suppliers to their own advantage'.*
>
> (Richards et al., 2012)

> *We have found that competition is not working well for consumers in the retail grocery sector. If competition was more effective, the major grocery retailers would face stronger pressures to deliver the right prices, quality and range to satisfy a diverse range of consumer preferences. We make a number of recommendations which we consider will improve the conditions for competition in the grocery sector.*
>
> (Commerce Commission New Zealand, 2022)

In cases where the ACCC does possess the remit to challenge the MSCs on their more egregious supplier-MSC relationship tactics and practices, Federal law has protected Coles and Woolworths from any meaningful repercussions. The following case study demonstrates just one of the ways in which federal policy is not fit for purpose in protecting competition, consumers, and small businesses.

Conducting an independent assessment of the relationship between MSCs and their suppliers, Grimmer (2017) found that due to the market concentration of the duopoly in Australia, the major supermarkets were able to wield their power to deny suppliers agency, forcing them to accept terms and rebate programs that were unethical and misleading. This echoed the sentiment of the ACCC in cases brought to the Federal Court concerning allegations that Coles (2014) and Woolworths (2015) had engaged in unconscionable conduct in dealings with suppliers through their rebate programs:

> *…the pecuniary programme (which was designed explicitly to improve Coles' earnings) required certain suppliers to make "rebate" payments to Coles and threatened those who declined to participate (i.e., pay) with a range of hostile actions. These included the supermarket's withdrawal of support for replenishing stock in stores, promotional activities, and future orders. The rebate payments were also to be used to cover purported profit gaps, retrospective and prospective waste, and late and short deliveries by suppliers*.
>
> (Grimmer, 2017).

As Grimmer (2017) describes below, such practices negatively impact consumers and the market more broadly in several ways:

> *By restricting the types of products that might be available to customers (e.g., stocking national brands and increasing the number of supermarket private label brands), major supermarkets are effectively limiting consumer choice and are directly contributing to higher prices for some products… those suppliers that were not willing to accept the terms of the supplier rebate schemes (proffered by both supermarket chains) were threatened with cancellation of business contracts. This ultimately results in a reduction of product choice and limits availability of some products. It also prevents smaller producers and suppliers from entering larger supermarkets to provide customers with greater access to products and brands other than national brands and private label brands.*
>
> (Grimmer, 2017)

After the first Federal Court case, in which Coles received a small fine, a voluntary Food & Grocery Code of Conduct (FGCC) was created to provide an additional framework for relationships between the MSCs and their suppliers. However, the FGCC is inherently weak as highlighted by Dixon et al (2020):

> *The code is voluntary, so retailers can choose whether they will be bound by it. It covers transactions with direct suppliers only, so that primary producers (arguably the most affected by concentrated buyer power in the supply chain) are left to fend for themselves, including against increasingly powerful processors and other intermediaries.*

After undergoing a review in which the FGCC remained largely unchanged, the second Federal Court case found that Woolworths had not breached the code despite the ACCC finding their conduct unconscionable in requesting AUD $60 million from suppliers which was outside of normal agreed upon trading terms.

Despite the inquiries in 2008, 2009, 2018, and Federal Court cases in 2014 and 2015, it is clear from the catalysts of this current inquiry, that Federal law and the remit of the ACCC is not fit to protect suppliers and producers, nor consumers. Instead, it functions to protect the neoliberalisation of the food retail sector, concentrating profits in an ever-smaller number of pockets. This demonstrates the importance of taking decisive action is reforming Federal law and the ACCC, enabling both to consider and regulate the power imbalance between MSCs, consumers, suppliers, and independent grocers.

The impacts of this paradigm however, go far beyond the economic concerns that facilitated this inquiry. While they are evidently an exceptionally important concern amidst a cost-of-living crisis, the impacts of this neoliberal model on health, wellbeing, long term food security, and ecological sustainability must be considered and prioritised. It is likely that the economic pressure placed on farmers by the unconscionable business practices of MSCs (amidst other factors) will result in farming becoming untenable for many, particularly the small holder producers who are so vital to the fabric of rural and peri-urban communities as well as the nation's food security. Sustain has noted such sentiments in our research with the City of Wyndam, where many farmers cannot see a viable future for their farms (Werribee River Association, 2023).

With farming becoming economically untenable, more producers may preference the international market, again driving up prices in Australia (as noted in the section on MSC-producer relations). Alternatively, they may have to further industrialise their farming practices (synthetic inputs, monocropping, pesticides, etc) to increase yield to a profitable level – this, however, is not sustainable in the long term and leads to soil degradation, which in turn will cause significant agricultural and food security challenges in the near future (FoodPrint, 2018).

The comprehensive protection of competition, fairness, and leveling of power imbalances within the food retail and farming sector is imperative to equitable economic outcomes for all stakeholders, including producers, foot retail, and consumers. As outlined above, this would ensure that Australia's thriving agricultural sector is sustained into generations to come. This will require reform of Federal Competition Law and the ACCC to ensure that these priorities are legislated and mandated.

Appendix

Draft submission of SECNA to the Senate Supermarket Pricing Inquiry

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The Social Enterprise Council of NSW & ACT (SECNA) is a member-led peak body for social entrepreneurs and social enterprises, representing the interests of the 4,000+ social enterprises in New South Wales and the Australian Capital Territory.

Social enterprises are businesses for good. They trade like any other business but exist specifically to make the world a better place, socially and/or environmentally. They exist in every industry, every impact area and in every part of Australia. Some produce fast moving consumer goods and other items that could be or are being sold in supermarkets.

As a peak body for social enterprises, supermarkets are not a specialty area of ours, but after hearing so many stories from social enterprises and other organisations about how they are being treated, particularly by Woolworths and Coles, we felt compelled to make a submission.

We hope that these stories will shed some light on the unfair pricing and practices of the large supermarkets and that the inquiry will lead to meaningful change in this sector.

Pricing and discounts

Organisations told us that for primary producers, the large supermarkets set a price that they'll buy at, and individual producers have to take it or leave it. This is done through a subcontractor packing organisation for fruit and vegetables, so at arm's length. One organisation told us that they were getting $1.30 to $1.45 per kg for their fruit (which would then be sold for much more in stores), but it cost them $1.50 per kg to grow them.

A beef farmer told us that they're currently getting $2.50 per kg for their animals, which sells for $30-40 per kg on average in store, and that during COVID they were getting up to $6.00 per kg and consumer prices skyrocketed. The prices in store have remained the same, but the price for farmers is back down to $2.50 per kg.

Their neighbour, a farmer in regional NSW, has just ripped out 4,500 peach trees because it isn't viable to farm at the prices they can get from supermarkets, and they didn't see any other option.

For manufactured goods, we were told that Woolworths negotiates a margin of 30-40% that they will charge consumers on top of the wholesale price, but that they pressure suppliers to discount their products often, in order to achieve the required volumes to stay on Woolworths shelves. Suppliers must cover most of the discount and so can (and often do) end up selling their products at a loss.

Hidden and exorbitant costs

Our members told us that to supply to Coles, a farm must be “Fresh Care Accredited” and pay around $1,000 to get the accreditation. Meanwhile Woolworths has an innovation team that approaches food manufacturers and suggests that they join the Woolworths incubator, Seedlab.

Suppliers must pay for sales reports - for a small supplier, this starts at $10,000 per report. Larger suppliers told us they’re paying around $200,000 per year to Coles and Woolworths for reports, and that if they don’t do so, they’re told by the buyers within the supermarkets that their sales are in decline and they’re going to be removed from the shelves. Without the data, they don’t know what the true sales are, so are forced to pay these exorbitant costs to obtain the sales data.

Where are they now?

Not one of the organisations we spoke to were able to break even or better selling to Coles or Woolworths. Some continue to supply to them, "hanging on by our fingernails in the hope that if we can get bigger volumes, we might one day be profitable - if we survive the next range meeting with Woolworths". Some have found other avenues, such as selling fruit directly to local businesses at six times the price Coles would give them and setting up a market stall in a large commercial building in Sydney once a month thanks to a friendly connection. Some have gone bankrupt.

More about social enterprise

Social enterprises are businesses for good. Specifically, they are organisations that:
- “Are led by an economic, social, cultural, or environmental mission consistent with public or community benefit.
- Trade to fulfil their mission.
- Derive a substantial portion of their income from trade
- Reinvest the majority of their profit/surplus in the fulfilment of their mission.”

A 2022 report from Social Enterprise Australia found that there are more than 12,000 social enterprises in Australia, which contribute more than $21 billion (1% of GDP) to the national economy and employ more than 200,000 people (1.6% of the Australian workforce) each year - a similar contribution to the mining sector or the arts and recreation sector.

Globally, social enterprises make up more than 3% of businesses and there is strong and growing support for them, including from the United Nations General Assembly whose historic resolution ‘Promoting the Social and Solidarity Economy for Sustainable Development’, adopted in 2023, recognises the value of social enterprises and strongly encourages all member states of the United Nations to provide support for them at every level of government.

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