



AFPA Submission to:

**ACCC Supermarkets Inquiry –
Interim Report**

October 2024

About the Australian Fresh Produce Alliance

The Australian Fresh Produce Alliance (AFPA) is made up of Australia's key fresh produce growers and suppliers. The members include:

- Costa Group
- Perfection Fresh
- Montague
- Pinata Farms
- Fresh Select
- Mackay's Marketing
- Driscoll's
- Australian Produce Partners
- Premier Fresh Australia
- Rugby Farming
- Fresh Produce Group.

These businesses represent:

- half the industry turnover of the Australian fresh produce (fruit and vegetables) sector - \$10 billion total
- a quarter of the volume of fresh produce grown in Australia - 1 million of the 3.9 million tonne total
- more than a third of fresh produce exports - \$410 million of the \$1.2 billion export total
- more than 1,000 growers through commercial arrangements, and
- more than 15,000 direct employees through peak harvest, and up to 25,000 employees in the grower network.

The key issues the AFPA is focusing on include:

- packaging and the role it plays in product shelf life and reducing food waste landfill,
- labour and the need for both a permanent and temporary supply of workers,
- market access to key export markets for Australian produce,
- product integrity both within and outside of the supply chain,
- pollination and research into alternative sources, and
- water security, including clear direction as to the allocation and trading of water rights.

The AFPA's aim therefore is to become the first-choice fresh produce group that retailers and government go to for discussion and outcomes on issues involving the growing and supply of fresh produce.

Products grown by AFPA Member companies include:

Apples	Blueberries	Cherries	Nectarines	Raspberries
Apricots	Broccoli	Fioretto	Onions	Salad leaf
Asparagus	Broccolini	Green Beans	Oranges	Spinach
Avocado	Brussel Sprouts	Herbs	Peaches	Strawberries
Baby Broccoli	Butternut	Lemons	Pears	Sweet Corn
Baby Corn	Pumpkin	Lettuce	Pineapples	Table grapes
Bananas	Cabbage	Mandarins	Plums	Tomatoes
Beetroot	Cauliflower	Mango	Potatoes	Water Cress
Blackberries	Celery	Mushrooms	Cucumber	Wombok

Summary

The Australian Fresh Produce Industry (AFPA) welcomes the opportunity to provide feedback to the Australian Competition and Consumer Commission (ACCC) Interim Report (Interim Report) on its Supermarket Inquiry (the Inquiry). Ongoing consultation leading up to the release of the final report and recommendations will be crucial to ensuring that the issues identified are thoroughly considered and proposed solutions are effective.

Developments since the ACCC's Supermarket Inquiry commenced

Since the Inquiry commenced, and the AFPA provided a submission to the initial consultation, there have been substantial changes to the supermarket trading environment announced by the Commonwealth Government, as well as other related initiatives and announcements to promote competition.

Most notably, as referenced in the Interim Report, the Review of the Food and Grocery Code of Conduct (the Code) has concluded; there is much overlap between the issues identified during the Review of the Code and issues presented in the ACCC's interim report. Government adopted all 11 recommendations of the Review of the Code. Legislation to introduce the new mandatory Code is currently under consultation. The new Code aims to *"improve standards of business conduct by retailers and wholesalers (supermarkets) towards suppliers in the food and grocery industry"*¹ and, among many changes, provides the ACCC with greater authority and enforcement tools, including new penalties for breaches of the Code.

The Government also recently announced reforms to mergers, resulting in Australia moving from a judicial enforcement model to a primarily administrative regime, with the ACCC as the first instance decision maker on each notified acquisition². As described in the Interim Report, if implemented, these reforms will have *"implications for competition in the Australian supermarket industry"*.

Other changes of relevance include the Government's commitment to fund CHOICE to conduct quarterly price monitoring reports of supermarket products to provide consumers with more information about where to access the best deals, with the first report released in June 2024. Government is also *"strengthening the Unit Pricing Code to make it easier for Australians to make accurate and timely price comparisons"*³. These changes, designed to address many of the issues identified in the Interim Report, must be carefully considered as the ACCC progresses its inquiry and develops its recommendations.

Increasing Production and Inputs Costs

The Interim Report identified, as raised by the AFPA and several other submitters, that *"a range of domestic factors have likely contributed to increased retail grocery prices"*, including rising input costs. The rising cost of labour, fuel, electricity, fertiliser, chemicals, water, transport and others were specifically identified in the Interim Report.

As described in the AFPA's previous submission, the cost of producing fruit and vegetable increased by near 20% between 2019 and 2023. The largest proportion of this cost increase, 12.1%, has occurred since 2022, which is a notable delineation to the statement in the Interim Report that *"overall, the rate of inflation in input prices for the food and beverage manufacturing industries has declined since 2022"*⁴.

The two main drivers behind the increase in fruit and vegetable production since 2022 have been raising labour and energy costs. Labour accounts for on average 52% of the total cost of production. Labour costs have continued to increase sharply through 2024 and are anticipated to increase into 2025 and beyond. This is due to a number of factors, including annual increases to the minimum wage, changes to the horticulture industry Award, changes to the Pacific Australia Labour Mobility Program, legislated increases to the employer guaranteed superannuation

¹ [Treasury - Explanatory Statement - Competition and Consumer Act 2010 - Food and Grocery Regulations 2024 – Oct 2024](#)

² [ACCC - Merger reform – Oct 2024](#)

³ [Prime Minister – Media Release - Cracking down on shrinkflation to help Australians save time and money – Oct 2024](#)

⁴ [Treasury – Final Report - Independent Review of the Food and Grocery Code of Conduct](#)

contribution, and stagnant or decreasing productivity. Likewise, there have been rises in energy prices, and capital costs reflected in higher interest rates.

Based on the ACCC's initial findings and stakeholder submissions, it is clear that further consideration should be given to the cost of production inputs utilised during the earlier stages of the supply-chain, specifically those inputs relied on by primary industries.

Australian producers often described their situation as being 'caught in the middle' between two powerful supply and demand side forces: namely input suppliers and large retailers/processors. Essential inputs are often supplied by companies with considerable market power, who often have proprietary rights over an essential product. While the Inquiry's Terms of Reference has some scope to consider this key contributing factor to grocery shelf prices, due to time constraints and the focus of the 'Supermarket' Inquiry being at the consumer-end of the supply chain, it is unlikely to be sufficient.

Recent changes in direct and indirect labour costs should also be investigated as a key input, if only to clearly attribute a key reason for the increasing cost of production and to support greater industry, retail and consumer awareness of the contributing causes behind higher shelf prices.

The AFPA recommend that Government progresses a program of work, separate but complimentary to the ACCC work, that:

1. Identifies key drivers of production and supply costs
 - Complete a study to quantify the impact of each cost driver on the food production sector, segmented by industry (e.g., grains, livestock, horticulture). This analysis should also provide a high-level picture of how these costs vary across regions and production systems.
 - Consideration should be given the source of inputs and controlling entities.
2. Develop a pipeline of projects and investments to address opportunities and issues identified as key drivers of production and supply costs
 - Once key cost drivers are identified, targeted projects can be developed to mitigate these challenges, enhance productivity, and support long-term sustainability.
 - Projects and investments could aim to:
 - reduce dependence on imported inputs, lower input costs, improve efficiency of input usage.
 - reduce transport and supply chain costs, through new infrastructure and policy development.
 - address labour shortages through fit for purpose workforce solutions
 - reduce energy costs and bolster regional job creation in renewable energy.

Together with the findings of ACCC inquiry underway, the outcomes of the above recommended work would provide Government with a more complete picture of the drivers behind the increasing grocery prices. Other pieces of work underway, for example Jobs and Skills Australia's *Food Supply Chain Workforce Capacity Study* and Home Affairs' *Review of Regional Migration settings and the Working Holiday Maker Visa*, should also be considered to ensure a wholistic view of the factors influencing grocery prices. Government will then have greater capacity to make informed decisions about any new policies and investments to pursue, which will better safeguard the future of food production in Australia and stabilise grocery prices.

Ongoing Consultation and Stakeholder Engagement

Continuous consultation and engagement with stakeholders as the ACCC Supermarket Inquiry progresses is essential to delivering any outcomes. Ongoing dialogue will ensure that the views of fresh produce growers, retailers, input suppliers, and consumers are fully considered, leading to well-rounded and effective recommendations.

The risk of making uninformed or rushed decisions without proper consultation could lead to unintended consequences that may further strain relationships within the supply chain or exacerbate current market inefficiencies. For instance, poorly designed regulations, assessments on price transparency or market margins could disrupt the delicate balance between producers and retailers, weakening suppliers' positions or reducing competitiveness. It is crucial to avoid measures that inadvertently harm the sector's competitiveness and bargaining

position, as missteps could increase costs for consumers, reduce product variety, or even drive some producers out of the market.

The AFPA recommend that the ACCC remain committed to a collaborative and consultative approach, and release a draft final report and recommendations for feedback.

Engaging with all relevant stakeholders at every stage of the process will help ensure that the final recommendations support the long-term health and viability of Australia's fresh produce industry.

Outcome of the Inquiry

As highlighted by the Interim Report, food and non-alcoholic beverage prices grew by 23% between the March 2019 and June 2024 quarters, which is *"largely in-line with inflation in other goods and services, with CPI for all groups excluding food and non-alcoholic beverages increasing by 21.5% over this [the same] period"*. Despite the price of groceries increasing in line with broader household costs, groceries have garnered specific attention, and two narratives have developed – that groceries should be cheaper and that suppliers are not getting a fair price for their produce.

However, there is growing recognition that achieving fair compensation for producers may not coincide with cheaper grocery prices, indeed there is a certain dichotomy in trying to achieve such an equilibrium. Given the rising production costs—such as labour, energy, and fuel—identified throughout this Inquiry, maintaining or even increasing current consumer prices may be necessary to ensure that producers are fairly compensated. Striking a balance between affordability for consumers and fair returns for suppliers will be crucial as the ACCC finalises its recommendations. The AFPA emphasise that well-informed decisions are needed to protect the long-term sustainability of the sector and will ensure a level of stability in the prices Australians pay for their groceries.

Most recommendations to date from adjacent reviews and inquiries have sought to foster competition and improve market dynamics through broader reforms, such as ensuring fair dealings between suppliers and retailers. These kinds of recommendations have been widely supported and are most likely to yield positive outcomes. Any further proposed regulatory measures should continue to focus on addressing market imbalances without stifling the natural and mostly competitive pricing mechanisms that are critical to a well-functioning, and dynamic fresh produce market. Examples of these changes are those already being progressed through the new Mandatory Food and Grocery Code of Conduct.

The AFPA are strongly of the opinion that any ACCC recommendations that seek to specifically regulate price and product margins should be avoided, unless they are extensively consulted on, piloted to determine their efficacy or otherwise, and phased in over a lengthy period. This is because price and margin regulation, whether it takes the form of a guaranteed ceiling or floor price, risks distorting the market, which would not only undermine the competitiveness of the fresh produce sector but also provide less than optimal outcomes for consumers.

Attempting to enforce specific margins or price controls could also limit the flexibility growers and suppliers need to respond to market conditions and consumer demands. Such interventions may impact dynamic efficiency, resulting in a reduced return on investment, and diminishing the incentive to invest in areas such as technology and innovation to improve productivity. This ultimately harms both suppliers and consumers by reducing the availability of high-quality, diverse, and affordable fresh produce.

The Interim Report outlines the homogenous nature of fresh produce and acknowledges that this creates significant competition among the supplier base, and greater choice amongst retailers. Making assessments on supply chain margins, or publishing these margins, within the fresh produce industry should be done with extreme caution. There is also a substantive risk in creating pricing or margin floors and ceilings for homogenous product lines.

The fresh produce industry plays a critical role in Australia's food security and economy, and it is essential that the ACCC's final recommendations support a competitive, fair, and sustainable marketplace for the benefit of both suppliers and consumers.

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1. Introduction

The Australian Fresh Produce Alliance (AFPA) welcomes the opportunity to provide feedback to the Interim Report of the ACCC Supermarket Inquiry. The ACCC serves a vital role as Australia's competition regulator and consumer protection authority, overseeing fair trading practices, competition enforcement, and consumer rights under the *Competition and Consumer Act 2010*.

The Interim Report represents significant progress in the ACCC's Supermarket Inquiry, it reflects robust consultation and draws from numerous sources to make several preliminary findings. As the inquiry progresses, the AFPA strongly encourages the ACCC to continue the current level of stakeholder engagement and release draft recommendations for consultation as this will ensure any proposed changes are practical and effective.

2. Developments since the ACCC's Supermarket Inquiry commenced

Since the commencement of the Inquiry and following the AFPA's initial submission, significant changes and announcements of relevance to the supermarket trading landscape have occurred, which should be taken into consideration. Many of these developments are noted in the Interim Report.

Review of the Food and Grocery Code of Conduct

The Review of the Food and Grocery Code of Conduct (the Code) concluded in June 2024. The Code sets out minimum obligations and behavioural standards for retail and wholesale in relation to their conduct with their suppliers. Guiding these minimum standards is the primary obligation on major supermarkets (and wholesaler IGA) to deal with suppliers lawfully and in good faith⁴.

Considerable alignment exists between the concerns raised during the Code's Review and those addressed in the ACCC's interim report, particularly related to the section - Grocery Supply Chains. At a high level, these are issues of relevance to the *"market power disparity between suppliers and supermarkets [that] can lead to large bargaining power imbalances"*⁴, but also in other areas. The Review of the Code found that the lack of competition in the supermarket sector was a challenge to improving the trading conditions.

"The Review supports greater competition in the supermarket industry, which can be facilitated by an effective, mandatory Food and Grocery Code of Conduct, robust enforcement of Australia's competition laws by the ACCC, and wider competition policy reforms relating to planning and zoning laws" – pg. 89⁴.

The Review of the Code, similar to the Interim Report of the ACCC's inquiry, also identified that businesses trading in fresh produce were inherently more vulnerable due to the perishability of fruits and vegetables and other factors.

The Government has accepted all 11 recommendations from the Review of the Code, and legislation for the new Mandatory Code is currently in the consultation phase. This forthcoming Code aims to enhance standards of conduct among retailers and wholesalers (supermarkets) towards suppliers in the food and grocery sector. Among its many updates, the new Code grants the ACCC increased powers and enforcement capabilities, including the imposition of new penalties for violations of the Code. The new penalties should act as an effective deterrent.

Notably, the new Mandatory Code, based on the recommendations of the Reviewer, does not seek to regulate the price of fresh produce. This omission is supported by the AFPA as it would have an adverse effect on the industry.

"While some stakeholders have proposed introducing price floors for fresh produce, the Review considers that this would incentivise supermarkets to propose an artificially low price floor, which might be meaningless and fail to improve outcomes for suppliers. The Review recommends that where a grocery supply agreement for fresh produce does not include a price, it should include the basis for how price is determined" – pg. 67⁴

To the address the fear of retribution, the Review recommended, and Government has accepted, a number of changes, including that the ACCC establish an anonymous channel to receive complaints about retribution and other breaches of the Code.

Overall, the updated Mandatory Code and enhanced compliance and reporting measures represents a significant step forward in creating a fairer and more competitive supermarket trading environment, addressing long-standing concerns and laying the groundwork for improved outcomes for all stakeholders in the food supply chain.

Other Reforms, Investments and Commitments

Additionally, the Government has introduced reforms to merger regulations, transitioning Australia from a judicial enforcement framework to a primarily administrative model. Under this new system, the ACCC will act as the primary decision-maker for all notified acquisitions. As noted in the Interim Report, if enacted, these reforms could significantly affect competition within the Australian supermarket sector.

Moreover, the Government is investing in initiatives such as funding CHOICE to carry out quarterly price monitoring reports. This will empower consumers by providing them with more comprehensive information on where to find the best deals, with the inaugural report released in June 2024. The Government is also “enhancing the Unit Pricing Code to facilitate accurate and timely price comparisons for Australian consumers.”

These initiatives, aimed at tackling numerous issues identified in the Interim Report, warrant thorough consideration as the ACCC advances its inquiry and formulates its recommendations.

3. Issues Raised in the Interim Report

The Interim Report has identified a range of key issues, under several categories. Of most relevance to the members of the AFPA (suppliers), are issues raised relating to Grocery supply chains, as set out below. The AFPA acknowledges that the ACCC “*have not reached conclusions about any of the alleged practices raised by suppliers*”.

“Grocery supply chains

In our final report we will examine whether market power is being exercised in grocery supply chains and if so, the impact of this. For example, we will test and understand further the challenges suppliers have raised with us thus far, including the following:

- *their ability to effectively negotiate on price and implications for suppliers’ ability to make efficient production decisions*
- *information asymmetries between supermarkets and suppliers and the impact on supplier ability to plan, operate, invest and manage risks associated with operating their businesses*
- *their ability to effectively negotiate other trading terms such as rebates, promotional funding or use of ancillary grocery supply chains services offered by Coles and Woolworths, including whether these trading terms place disproportionate risk on suppliers*
- *hesitation about raising concerns with supermarket chains due to fears of jeopardising their ongoing commercial relationship.”⁴*

Negotiation on price and Information Asymmetries

As the Interim Report states, grocery supply chains vary significantly as does a supplier’s dependence on supermarkets. The interim report confirms that “*fresh produce suppliers rely on supermarkets to distribute most of their goods*” and that “*the perishability of fresh produce adds time pressure onto suppliers to sell their goods into retail and wholesale sales channels, usually with limited opportunities for export*”.

As a consequence of having limited alternative markets, especially overseas market access, the majority of fresh produce growers are largely dependent on supplying supermarkets to sustain and grow their businesses. As identified in the ACCC’s Perishable Agricultural Goods Inquiry in 2020, a supplier’s bargaining power is inherently reduced where goods have limited buyers and a very limited window of time for harvest and delivery⁵.

⁵ [ACCC – Final Report – Perishable Agriculture Goods Inquiry](#)

Bargaining power is further reduced by information asymmetries. The Interim Report notes that concerns relating to information asymmetry primarily relate to 3 types of information:

- seasonal volume forecasts and information about the price and volume other suppliers are offering, which is provided to suppliers in the fresh produce categories and determined weekly through tendering systems as a reference point to the price the supermarket is prepared to pay
- information supermarkets hold about suppliers' businesses operations
- supermarket quality assessment and rejection processes for fresh produce.

These three concerns were also identified as part of the Review of the Code and have sought to be addressed through the introduction of the updated and now mandatory Food and Grocery Code of Conduct. As one example, the Code has been updated with additional requirements for grocery supply agreements that relate to the supply for fresh produce, to provide those suppliers with more certainty. Also, new grocery supply agreements that relate to fresh produce must now specify the price of the fresh produce or the method or formula to be used to determine that price. New penalties have also been introduced to the Code relating to the misuse of a supplier's confidential information and new avenues for dispute resolution have been established to support swift resolution of contested rejections.

Despite these improvements to the Code, the AFPA acknowledge that challenges will persist relating to information asymmetry and are difficult to entirely resolve. There are of course options available to the ACCC to provide opportunities for suppliers (growers) to better discuss at an industry or local grower group level, seasonal outlook, supply, ongoing demand and to the extent it improves competition, price.

One issue that should be considered further is the finding that supermarkets use wholesale market prices as a guide for negotiating price with direct suppliers to supermarkets. As referenced in the Interim report, supplier roundtable participants suggested central market prices are not necessarily a suitable benchmark market price to inform decisions by the supermarket chains about the prices they offer and accept. Direct suppliers to supermarkets are subject to a myriad of requirements, including health, safety and ethical sourcing requirements and specifications. This often necessitates a not insignificant investment in infrastructure and resources (including labour), to enable them to meet orders, transact reliably, and work with other growers to aggregate produce for supply. Direct suppliers must also conduct regular audits against these requirements, which are both resource intensive and costly.

Suppliers to wholesale markets, who do not supply retailers directly, often do not have to meet these same requirements. Furthermore, produce supplied to wholesale markets varies in quality, type and specification meaning much of this product does not end up being supplied to the major retailers. Different grades and types of produce are typically traded in the wholesale market, often with a focus on supplying independent retailers and food service channels, where specifications for these products are often lower or different, and therefore should achieve a lower price than within the retail supply chain.

As supported by feedback from the ACCC's supplier roundtables, for the reasons stated, wholesale market prices are not a suitable or accurate benchmark market price to inform decisions by the supermarkets with respect to the prices they offer and accept.

The AFPA notes the ACCC's references to the Horticulture Code of Conduct, which defines and regulates trade in horticulture produce between growers and intermediaries, will be subject to a review in the very near future.

Trading Terms, including packaging, promotions and rebates

The Interim Report states that trading terms about which suppliers have raised concerns include additional trade spends, such as in relation to rebates and promotions and ancillary grocery supply chain services such as packaging, freight and advertising and marketing.

Similar to issues raised relating to Information Asymmetries, these are common themes raised during the Review of the Code.

With regards to rebates or payments for retailers or wholesalers' business activities, issues raised throughout the Review of the Code by fresh produce suppliers indicate that payments for artwork and packaging designs are the most disputed. The updated Code seeks to address this by further limiting the circumstances in which a large grocery business may require payments from suppliers to fund any activities undertaken in the ordinary course of business. This includes, but is not limited to, payments for a buyer's visit to the supplier, artwork or packaging design, consumer or market research, the opening or refurbishing of a store, or hospitality for the large grocery business' staff¹. However, this prohibition does not apply if a supplier allows provisions for this in their supply agreement and the payment is made accordance with the agreement and is reasonable in the circumstances.

A similar provision has been included for promotions, whereby a supermarket cannot require a payment, but they are allowed if included in the terms of the supply agreement. Most importantly, for both of these new provisions, the new Code will introduce significant penalties for breaches of these provisions.

The AFPA shares some concerns about requirements to use services provided by the supermarkets or third parties nominated by the supermarket. However, in some circumstances, it should be acknowledged that this creates efficiencies and economies of scale that support lower prices. For example, the use of a preferred pallet provider or logistics or packaging services may streamline supply chain operations, reducing transport and handling costs.

Nevertheless, it is crucial that these services are offered on fair and reasonable terms, ensuring that suppliers retain the flexibility to negotiate alternative arrangements if they find better or more cost-effective solutions elsewhere that meet the specified requirements. In forming any recommendations, the ACCC must strike a balance between protecting suppliers from undue demands and maintaining the operational efficiencies that benefit the broader grocery market.

Fear of retribution

The purposes of the Food and Grocery Code of Conduct will be updated to implement the Review's recommendation that it should address protecting suppliers from retribution. The legislation to implement the new Code now clearly defines and explicitly prohibits acts of retribution. Penalties for acts of retribution have been introduced, along with new requirements on supermarkets, new (and unanimous) channels for lodging allegations of retribution and other changes to mitigate retribution.

Going forward, the ACCC will play an important role in monitoring and enforcing the new Mandatory Code to ensure they are effective in addressing the concerns raised by suppliers, including relating to retribution. Further action should be taken if these changes are not impactful, noting the fear of retribution despite any reasonable efforts will likely persist to some degree.

4. Increasing Production and Inputs Costs

As stated in the Interim Report:

"Australian consumers have experienced significant increases in grocery prices since 2019, like other OECD countries. Prices for food and non-alcoholic beverages increased by 23% between the March 2019 quarter and the June 2024 quarter. This growth is largely in-line with inflation in other goods and services, with prices for goods and services excluding food and non-alcoholic beverages growing 21.5% over this period" – pg. 53

The Interim Report also states:

"The price of key inputs to food and beverage manufacturing rose sharply in 2021 and 2022 (figure 5.4). These cost increases for suppliers translated to higher prices for manufactured grocery products, which in turn, are inputs into the retail grocery sector" – pg. 57

Figure 5.4, referenced in the quote above, illustrates that while prices for food and non-alcoholic beverages have increased by 23% between the March 2019 and June 2024 quarter, this is less than the input prices to food product manufacturing, which has increased by near to 30% over the same period⁴.

The Interim Report specifically details the rising cost of several inputs, including labour, fuel, electricity, fertiliser, chemicals, water and others, and references several submission that raise this issue.

By example, contributors to the Inquiry highlighted that transporting produce to communities in remote and regional locations can add significant fuel and freight costs to the price of groceries. Figure 5.5 in the Interim Report demonstrates the rising cost of automotive fuels, the average price of unleaded petrol rose from \$1.32 to \$1.96 per litre between March 2019 and June 2024⁶.

Raising production and input costs have placed considerable pressure on food producers, including growers of fresh produce. As detailed in the AFPA’s previous submission to the ACCC Supermarket Inquiry, fresh produce growers have experienced a steep increase in the production cost across the board, as outlined in Table 1.

Table 1: Production Input Cost increase between July 2019 to July 2023

	% Cost Increase
Total Production Costs	+18.9%
Labour e.g. wages, super, allowances, administration, etc	+20.7%
Energy e.g. Electricity, gas, fuel, etc.	+20.0%
Capital costs e.g. Irrigation, machinery, infrastructure, etc.	+22.3%
Other production inputs e.g. Fertilizers, chemicals, packaging, water, etc.	+19.3%

Notably, while the Interim Report states that “overall, the rate of inflation in input prices for the food and beverage manufacturing industries has declined since 2022”, in the case of fresh produce the greater proportion of the input cost increase, 12.1%, has occurred since 1 January 2022. While the initial steep increase in costs was a result of the COVID-19 pandemic and international events, the drivers behind these cost increases are now increasingly domestic, and largely attributable to labour and energy (electricity, gas, fuel, etc).

Labour accounts for on average 52% of the total cost of production. Labour costs have continued to increase sharply through 2024 and are anticipated to increase into 2025 and beyond. This is due to a number of factors, including annual increases to the minimum wage, changes to the horticulture industry Award and the conditions of engagement of the Pacific Australia Labour Mobility Program, legislated increases to the employer guaranteed superannuation contribution, and stagnant or decreasing productivity. Likewise, there have been rises in energy prices, and capital costs reflected in higher interest rates.

Based on the ACCC’s initial findings and stakeholder submissions, it is clear that further consideration should be given to the cost of production inputs utilised during the earlier stages of the supply-chain, specifically those inputs relied on by primary industries.

Considering input costs is part of the Terms of Reference of this Inquiry, (“c) *factors affecting the price of inputs along the supply chain for groceries*”) and should continue to be a focus of the inquiry, however this is a ‘Supermarket’ Inquiry, with a large remit that is primarily concentrated on the consumer end of the supply-chain.

⁶ [ABS, Consumer Price Index](#)

A separate piece of work should commence that considers in greater detail the influence of fluctuating supply and cost of key production inputs, and the entities controlling supply of these inputs. Australian producers often described their situation as being 'caught in the middle' between two powerful forces representing the supply and demand side: input suppliers and large retailers/processors. Essential inputs are often supplied by companies with considerable market power and proprietary rights over a favourable product.

Recent changes in direct and indirect labour costs should also be investigated as a key input, if only to clearly attribute the increasing cost of production and support greater industry, retail and consumer awareness of the causes behind higher shelf prices.

The AFPA recommend that Government progresses a program of work that:

- Identifies key drivers of production and supply costs
 - Complete a study to quantify the impact of each cost driver on the food production sector, segmented by industry (e.g., grains, livestock, horticulture). This analysis should also provide a high-level picture of how these costs vary across regions and production systems.
 - Consideration should be given the source of inputs and controlling entities.
- Develop a pipeline of projects and investments to address opportunities and issues identified as key drivers of production and supply costs
 - Once key cost drivers are identified, targeted projects can be developed to mitigate these challenges, enhance productivity, and support long-term sustainability.
 - Projects and investments could aim to:
 - reduce dependence on imported inputs, lower input costs, improved efficiency of input usage.
 - reduce transport and supply chain costs, through new infrastructure and policy development.
 - address labour shortages through fit for purpose workforce solutions, long-term employment opportunities, modernise the agricultural workforce.
 - reduce energy costs and bolster regional job creation in renewable energy installation and maintenance.

Together with the findings of ACCC inquiry underway, the outcomes of the above recommended work would provide Government with a more complete picture of the drivers behind the increasing grocery prices. Other pieces of work underway, for example Jobs and Skills Australia's Food Supply Chain Workforce Capacity Study and Home Affairs' review of Regional Migration settings and the Working Holiday Maker Visa, should also be considered to ensure a wholistic view of the factors influencing grocery prices. Government will then have greater capacity to make informed decisions about new policies and investment to pursue that will better safeguard the future of food production in Australia and stabilise grocery prices.

5. Ongoing Consultation Necessary to Develop Sound Recommendations

Continuous consultation and engagement with stakeholders as the ACCC Supermarket Inquiry progresses is essential to delivering valuable outcomes. Ongoing dialogue will ensure that the views of fresh produce growers, retailers, input suppliers, and consumers are fully considered, leading to well-rounded and effective recommendations.

The risk of making uninformed or rushed decisions without proper consultation could lead to unintended consequences that may further strain relationships within the supply chain or exacerbate current market inefficiencies. For example, several parties and inquiries have called for/recommended greater price transparency across the grocery supply-chain, including farmgate price monitoring and public price reporting. Farmgate price reporting is being viewed as a means to provide *"a fairer go for farmers, consumers and everyone in the supply chain"*⁷ and is being progressed by some governments already, i.e. Queensland State Government.

While this may appear beneficial, the AFPA has significant concerns around such measures for two main reasons. First, due to the diversity and seasonal nature of products, and the complexity of the fresh produce supply chain, it is nearly impossible to consistently and accurately monitor farmgate prices. Any attempts at monitoring could yield

⁷ [Queensland State Government – Media Release - Miles Doing What Matters: Interim Food Farmers' Commissioner appointed](#)

inaccurate data, misrepresenting the true value of supermarket-grade produce. Second, public reporting of farmgate prices could distort the market, weaken suppliers' bargaining positions, influence buyer behaviour, and ultimately mislead consumers, resulting in increased challenges for Australian food producers.

To avoid recommendations and outcomes that result in unintended consequences, such as the previous example, it is crucial that the ACCC maintain open communication channels and seek feedback on proposed recommendations. To this end, the AFPA recommends that the ACCC release a draft of its final report for additional stakeholder feedback before finalising any recommendations. This would allow stakeholders to evaluate the potential real-world implications of proposed measures and ensure that they contribute to an effective, sustainable, and competitive grocery market in Australia. By fostering an ongoing dialogue with stakeholders, the ACCC can help avoid missteps that could hinder the long-term viability of Australia's fresh produce sector and others, ensuring that future regulations enhance competition and support fair outcomes across the supply chain.

In addition, careful consideration should be given to how any published information (as part of the final report or otherwise) relating to price, margins, and trading arrangements could inadvertently impact suppliers. Public disclosures of sensitive pricing and margin information may have far-reaching consequences, potentially altering competitive dynamics and eroding trust between suppliers and retailers. Such outcomes could hamper the supply chain's overall stability, reduce the flexibility needed by suppliers, and even dampen the long-term growth prospects of small and medium-sized producers who are especially vulnerable to external pressures. This is particularly acute in the fresh produce industry, whereby there is limited (often no) distinction between products based on brands.

Finally, any recommendations that seek to specifically regulate price and product margins should be avoided. This is because price regulation risks creating distortions in the market and could undermine the competitiveness of the fresh produce sector. Attempting to enforce specific margins or price controls could limit the flexibility growers and suppliers need to respond to dynamic market conditions and consumer demands. Such interventions may also reduce incentives for investment and innovation in the sector, ultimately harming both suppliers and consumers by reducing the availability of high-quality, diverse, and affordable fresh produce.

Any kind of cap on product margins will likely be strongly opposed by industry and the wider economy as an overreach and inappropriate intervention in the marketplace. Exposing unscrupulous behaviour, fostering competition and improving market dynamics through broader reforms—such as ensuring fair dealings between suppliers and retailers—is more likely to yield positive outcomes and be supported. Regulatory measures should focus on addressing market imbalances without stifling the natural pricing mechanisms that are critical to a well-functioning fresh produce market. Engaging with industry stakeholders throughout this process will help ensure that any proposed regulations are balanced, proportionate, and effective in supporting long-term sustainability and competitiveness within the sector.

The AFPA recommend that the ACCC remain committed to a collaborative and consultative approach, and release a draft final report and recommendations for feedback

6. Conclusion

Cost-of-living issues have been at the forefront of public attention and debate throughout 2024. Much of this focus has been on grocery prices, second only to housing affordability. Such close scrutiny on supermarket pricing has resulted in mixed consequences for fresh produce suppliers. On the one hand, it has promoted an environment in which suppliers have been encouraged to voice long-standing concerns and frustrations including the need for fairer trading terms. On the other hand, it has also created a wide-spread belief amongst households, often stoked by commentary from politicians and media outlets, that fresh fruit and vegetables should be cheaper, despite the financial pressures producers face to maintain viable operations.

As highlighted in the ACCC's Interim Report, prices for food and non-alcoholic beverages have risen significantly in recent years, but largely in line with other goods and services; and the increase of grocery prices in Australia is comparable to, but less than, the OECD and G7 average, and individual countries like US, UK, New Zealand and Canada. Concurrently, it confirms the rise in the cost of key inputs in Australia needed to produce fresh fruit and vegetables—such as labour, energy, fuel and transport—have increased sharply. These rising production costs have squeezed supplier profit margins, making it unviable to reduce prices without threatening their own business' financial stability.

Related supermarket inquiries and reviews have already determined that many fresh produce suppliers are not receiving adequate compensation. Governments, as outlined in this submission, are taking steps to address this issue and are likely to take further action based on the outcomes of this Inquiry. However, whatever the findings are related to supermarket margins, it is becoming increasingly evident that not reducing but maintaining or even increasing current consumer prices for fruits and vegetables will likely be necessary to ensure fair compensation for fresh producers.

Considering this likely outcome, policymakers must ensure that the long-term viability of Australia's fresh produce industry is not sacrificed in pursuit of short-term price reductions, thereby safeguarding both food security and the sustainability of the grocery market.

The ACCC, as it has historically done, should look to develop recommendations that support stability, certainty, and pragmatic outcomes that protect both the interests of consumers and the sustainability of the grocery supply chain. A well-considered approach will require continued consultation and collaboration with all relevant stakeholders, ensuring that any recommendations or reforms are practical and do not lead to unintended consequences for either consumers or producers.