Comments to National Farmers' Federation National Congress "Modern Farmers: responding and adapting to change?"

New wave consumerism - From bottlenecks to traffic lights

Melbourne
5 September 2010

1. I would like to thank the National Farmers Federation for the invitation to be here today. I have long held the view

that farmers and consumers are on the same side which has only been reinforced by my recent meetings around the country. Consumers are passionate about doing the right thing by farmers.

2. So as head of Australia's largest independent consumer group, it is my duty as well as my pleasure to be here today.

Outline

3. There are three issues I will address, all of which are driving or are driven by consumer trends:

- Firstly, a food phenomenon that has swept Australia;
- Secondly, the challenges presented by a new wave of consumerism in the grocery market;

- Thirdly, consumer demands for better food labelling.

4. While the Federal Election was remarkably policy free, the CHOICE pre election poll saw consumers nominating food labelling and supermarket competition as the first and second most important consumer issues. The public's willingness to take action to bring about change is in my opinion a strong thread of new consumerism emerging in this country.

5. I am pleased to see that a fair go for farmers and consumers have been brought into sharp focus over the last few days by the three independents – I hope the formation of a new government will better reflect the priorities of consumers and farmers.

Current trends

6. There is plenty of social trend data that excellent research houses like IPSOS Mackay produce almost weekly, but there is one phenomenon that I think is particularly worthy of mention for the incredible impact it has had on all of us – MasterChef.

7. MasterChef has swept the nation, it became compulsive viewing, and will have a lasting impact in family kitchens across the country.

8. It was much more compelling viewing than the original British version of MasterChef which I am sure had something to do with the format of the programme but also:

a. That Australians love a contest – from the cricket pitch to the kitchen sink – us poms are losing out across the board;

b. But also the incredible diversity of cultures and cuisines in Australia as a result of the wave of immigration over many years.

9. Whatever the reasons I think all of this is good news for Australian farmers particularly those open to two driving influences behind the MasterChef phenomenon:

a. fresh, often organic produce and

b. new varieties.

10. What has been particularly interesting and perhaps transformational is how the 'MasterChef' phenomenon is having a positive impact on kids.

11. I know my seven year old was addicted to MasterChef; in fact 20 per cent of the audience for MasterChef was under 15.

12. The fascination that kids have with cooking lies in turning real produce into their own creations.

13. Both here and overseas we are seeing a movement towards schools implementing rules about more nutritious food in tuck shops and even lunch boxes.

14. There are also programs to support school vegetable gardens. These programs not only encourage children to eat more fresh food, but also to teach them about how food is grown and to value freshness.

15. I would encourage farmers to build partnerships with schools and young peoples organisations in the same way as supermarkets and fast food retailers. If you want a

window on tomorrow's consumers, work with children today.

16. Of course children are also great influencers today. As parents we all know that children bring their habits home (good and bad!) and this can make a real difference to the food choices parents make for the whole family.

17. And the enormous growth in farmers markets seeking alternatives to buying food from supermarkets and the sudden growth in organics are consequences of a nation with heightened awareness about freshness and quality.

Competition bottlenecks

18. Awareness of freshness, knowing and caring about where food comes from, and understanding better the link between the farm gate and the food plate is reconnecting farmers with consumers. With that comes a

better understanding and empathy for the issues farmers face as well as genuine agitation among consumers about the need for the market in groceries to change.

19. Over the last few weeks I have been speaking at town-hall style meetings across the country (something I will now do every month) and I can tell you that people are passionate about where their food comes from and the inequity created by the market structure in Australia.

20. But before I comment on the groceries sector today I want to cast back to the 1940's where Thurman Arnold, the head of the Federal Trade Commission in the US made a number of poignant observations. He said:

    a. "A farmer gets thirty cents for his potatoes and the consumer pays a dollar. The farmer sells his milk for three cents a quart and the consumer pays from

twelve to fourteen cents. The fruit that nets the farmer twenty to thirty cents costs the consumer a dollar…"

b. Arnold suggested the essential problem was that farmers earned only "what was left" after retailers had taken their margin, distributors had been paid, merchants had taken their commission, fertilizer and suppliers were paid and so on.

c. He concluded that "We, of course, should not forget the obvious fact that the farmer is…one of the most important of the consumer groups. If we can break up the toll bridges between him and the consumers we shall have the strange case of having our cake and eating it too."

21. In truth we face similar problems in Australia today to those faced in America in the 1940s: there is a high degree of concentration of key production and distribution channels often in foreign hands. Consolidation of the food sector has been going on for some time and if anything it has gained pace recently.

22. Over the last few months I have spent time with farmers who tell me that the wholesale market doesn't work for them. In fact they go further. Many farmers fear that if they speak up they will be bullied into submission or their livelihoods threatened.

23. And consumers are saying the retail market doesn't work for them because:

    a. they pay some of the highest prices for groceries in the developed world;

b. and they have less choice on where they shop with two supermarkets controlling 80 per cent of the market.

24. And rural consumers in particular pay high prices. Our supermarket price survey in 2009 showed that there can be extraordinary differences in the prices consumers pay in the cities and the prices paid in regional areas:

25. For example:

- chicken breasts ranged from $7.99/kg in outer Sydney to $12.98/kg in Wagga Wagga
- tomatoes from $1.78/kg in Tuggerah on the central coast of NSW to $3.98/kg in Dubbo

26. The reason often given by the supermarkets is transport costs and I know this is a reason that people in the bush are used to hearing.

27. But both our research and the Australian Competition and Consumer Commission's 2008 report into groceries showed that the most important factor was competition.

28. And of course it must be all the more frustrating for farmers in regional and rural areas because the products being sold come from their farms.

29. For years we have been saying that consumers are getting a raw deal, but they are not alone in paying a high price for the way the groceries sector works. Many farmers also pay a high price for a market that needs reform.

30. One of the key recommendations that we are making to whichever party forms a Government is for the establishment of a Supermarket Ombudsman championing fair rules and fair play, driving an agenda of greater competition right across the groceries sector.

31. Farmers deserve a fair deal, so do consumers. The increasing concentration of production, distribution and retail is hurting farmers and hurting consumers. We need a powerful body to deal with this.

32. The Ombudsman would also beef up the Produce and Grocery Industry Ombudsman scheme that according to many farmers is pretty useless largely because it has a low profile, with limited powers to do anything.

33. What we want to see instead is an Ombudsman that not only has the dispute resolution function but also has the powers to investigate industry-problems, can refer matters to the ACCC and other regulators for enforcement action and can provide national leadership on these issues, so that they receive more than lip-service from politicians.

34. We think such a scheme will not only bring benefits for consumers from increased competition but will improve the bargaining power of farmers.

35. Competition in the groceries sector is not some dry economic theory; for farmers and consumers across Australia it is an everyday story of being squeezed at one end and milked at the other.

36. Having just returned from a series of town-hall style meetings from around the country, I can tell you that consumers have had enough and I know farmers have too.

Food labelling and regulation

37. Finally, food labelling.

38. A quarter of respondents to our election survey rated food labelling as one of their top three consumer concerns. It regularly tops our list of the most important

issues for consumers and it is a staple of evening current affairs shows too – perhaps the ultimate test.

39. I believe farmers and consumers have a common interest in ensuring accurate and useful nutrition information – basically, this is what tells consumers how much of your produce survives processing to actually reach their plate.

40. CHOICE is proud to have been instrumental in lobbying for some of the food labelling information that many consumers now take for granted – things like 'use by' dates, ingredients lists and mandatory nutrition information panels.

41. CHOICE has also been campaigning for the introduction of a traffic light labelling system that highlights how high or low a product is in fats, sugars and salt using universally recognised traffic light colours. We also want to see

regulation introduced to put an end to spurious claims about nutrition content and health benefits on unhealthy foods.

42. And while it is important to consumers that they have the information they need to make healthy choices, we're hearing that consumers want more information about how and where their favourite products have been produced.

43. The last few weeks I have been hearing directly from consumers how passionate they are to buy Australian. Australians care about country-of-origin for three main reasons:

- First because they are concerned about Australian jobs and Australian farmers;

- Second, because they know Australian produce is safe and the best in the world;
- Third because they recognise flying food around the world is not environmentally sustainable.

44. So more informative country of origin labelling is another thing we'd like to see.

45. Consumers are also asking more questions about farming practices – the boom in the organic market shows that an increasing number of consumers are looking for products that contain fewer pesticide residues or those that come from free range animals.

46. CHOICE was involved in the development of the new Standards Australia Standard on Organic and Biodynamic

Products and which will give consumers more confidence when purchasing organic foods.

47. Having investigated the schemes behind food endorsement logos such as organic and free-range schemes we are now more convinced than ever that Australia needs a 'free range' standard to provide a degree of consistence and confidence that consumers are getting a truly 'free range' product.

48. Underlying concerns about country-of-origin, nutrition and environmental labelling is a recognition by the great majority of consumers that Australian produce is really the best in the world and that Australian farmers will deliver healthy, sustainable food if they get a fair go.

Conclusion

49. Consumers feel strongly about getting a better deal for farmers and themselves, they also want better information to make more informed choices.

50. Consumer trends will come and go but the important thing is that consumers are listened to and the market responds. A lack of competition tends to remove consumers from the driving seat of change. If consumers had their way:

    a. There would be more choice of products not less. There is no question that supermarket home brands are squeezing out much loved brands while strengthening the power of the supermarkets;

    b. Store layouts would be less Soviet style in their starkness and more consumer friendly;

c. Online prices would be available for people to compare and internet shopping would grow massively;

d. And food labelling would have gone further.

51. The lack of competition at a retail level means that market signals are jammed or distorted by the time they reach farmers. And the whole market is worse off as a result.

52. Healthy competition can allow for diversity of supply, unleashing innovation at every level.

53. So I came here today to put the record straight.

a. To show you that there is much more that unites consumers and farmers than divides us;

b. To argue that a more competitive groceries sector at all levels would benefit consumers and farmers alike;

c. To hope that farmers and consumers will continue to have a very constructive and productive engagement in the months and years ahead.

54. I believe there is a remarkable consensus emerging around the country for the need for change and one that serves the interests of consumers as well as farmers.

55. There is a new wave of consumerism and it is one that wants to create a new order that will not only benefit themselves but will benefit farmers as well. This is perhaps the newest wave of consumerism to sweep Australia, where people are willing to vote with their

wallets and purses to bring about a better groceries sector.

56. I look forward to working with you to achieve a fairer and more economically sustainable model for the groceries sector.

57. Thank you.