

**EMBARGO: Sunday 6<sup>th</sup> March 12.00 noon**

## **DEATH OF THE SALEYARDS – AND THE WHOLESALE FRUIT AND VEGETABLE MARKETS.**

The progressive development of managed demand chains linking farmers with manufacturers and retailers is resulting in the accelerated demise of livestock saleyards and wholesale fruit and vegetable markets, according to the latest edition of the Australian Farm Institute's *Farm Policy Journal*.

The February edition of the *Farm Policy Journal* contains a series of articles by Australian and international experts analysing the development of managed demand chains between farmers and downstream sectors such as Food Processors and Retailers.

One consequence of these developments has been the drift away from livestock auctions and traditional marketing systems. Statistics reveal that since 1990, saleyard marketing of cattle in Australia has declined from 65 to 45% of sales, and a similar trend is evident in the prime lamb industry. In the pork industry, it is now estimated that more than 95% of sales are 'non-saleyard' transactions. For fruit and vegetables, statistics are less clear but the suggestion is that major food retailers now source between 50 and 70% of produce direct from growers, bypassing the traditional wholesale markets.

"The change to managed demand systems and away from traditional markets is in response to a range of factors. These include a desire by processors and retailers to reduce risks and supply chain costs and to target highly specific consumer demands. Farmers also want market systems that allow them to differentiate superior produce and increase their margins." according to Mick Keogh, Executive Director of the Australian Farm Institute and author of one of the papers in the *Journal*.

"Accelerating these trends is the development of foods with specific characteristics of interest to consumers – for example organic produce, or produce with specific health benefits. Traditional marketing systems are a poor way to deliver such specialised produce to consumers."

A number of challenging issues emerge as a consequence of these trends. Foremost for farmers are the competition issues that emerge when relatively small-scale farm enterprises have to negotiate in markets consisting of just one or two major buyers. "Lack of market transparency is an increasing challenge for farmers, and also for competition regulators such as the ACCC" said Mr. Keogh.

"An emerging challenge is the rapid growth of modern food retail chains in developing countries such as China. Access to wealthy consumers in these countries will increasingly be via major retail chains, which are already developing managed supply systems. Unfortunately, Australia's major retailers do not have a presence in these markets.

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*Abstracts of Journal articles follow. For media contact with journal authors, please contact the Australian Farm Institute.*

### **Contract Farming: The Future of Agriculture?**

**Mark Barber, Senior Consultant ACIL Tasman  
Greg Cutbush, Principal Analyst ACIL Tasman**

Contract marketing is increasing in some sectors of agriculture because in many situations spot markets are not in farmers' or buyers' interests. Consumer and environmentalist demands for variety, traceability, and assured quality are requiring greater specialisation, precision and asset specificity on the part of food sellers. Raw and semi-processed material buyers sign contracts with farmers to encourage investments in specialised production facilities and technology and farmers sign them with buyers to be assured that, having made the investment, they have an outlet for their products. In these matters Australia seems to be following trends observed in North America and Europe, but there are many reasons for not copying their experience blindly, either commercially or in a policy sense.

### **The Industrialisation of Australian Farming**

**Mick Keogh, Executive Director, Australian Farm Institute**

Sectors of Australian agriculture are undergoing a transformation from being supply-driven, to becoming much more closely integrated with consumer demand. The catalyst for this change has been the dramatic consolidation that occurred globally in the food processing sector during the last fifty years, and more recently amongst food retailers. The dominance of food markets by a small number of major retail chains has enabled them to place very exact quality requirements on their processor and farmer suppliers, and move away from more traditional marketing systems. One response in the farm sector has been the emergence of large-scale, corporate-owned farm enterprises that have production closely integrated with the needs of retailers. Another trend to emerge has been the growth in contract-supply arrangements between farmers and food processors and retailers. Issues arising from these developments include a reduction in market transparency in commodity markets, a decline in the number of alternative markets available to farmers, and a concern about competition and socio-economic issues. Ultimately, a shift to more industrialised agricultural industries appears inexorable, and the challenge lies in developing policy responses that ensure all participants in food chains are treated fairly and equitably.

### **Fresh Food Retailing: A Growth Story**

**Michael O'Keeffe Adjunct Professor of Food Chain Management, The University of Queensland**

Significant growth opportunities are available to agile fresh food companies as a result of structural changes in the meat, seafood and fresh fruit and vegetable industries. These changes are occurring in the UK and companies such as Tesco, ASDA and Waitrose and their suppliers are taking advantage of them and leading the way. Similar changes and opportunities have developed in Australia as fresh food industries evolve from a supply and production-push orientation to a demand and market-pull orientation. Three distinguishing characteristics of the fresh food industries make this evolution complex: the need to create fresh food value; volatility of supply and demand in fresh food; and the perishable nature of products. The creation of fresh food value requires the involvement of the whole chain to be effective, and both ends of the chain have to be able to deal with volatile supply and demand. Achieving a successful fresh food chain also requires the retailer to work with producers to find ways to shift production peaks, and also to develop strategies to market additional produce. Retailers and their suppliers who develop systems to address these challenges will successfully align fresh food chains to the needs of the consumer.

## **Understanding Customer Wants: The Starting Point for Farmers when Adding Value and Innovating**

**David Hughes, Emeritus Professor of Food Marketing, Imperial College London**

Relatively strong commodity returns over recent years could make Australian farmers complacent, however, the emergence of new low-cost agricultural exporting nations is a significant threat that necessitates significant change. Finding ways to differentiate farm produce and better integrate into food and fibre chains is a way to protect farm profitability, but the task is not easy. It requires better understanding of consumer mega-trends such as demographic change; and consumer demands for health and wellbeing, convenience and indulgence attributes. It also requires that farmers get closer to final consumers, even to the point of regular visits to food markets and other parts of the supply chain. Other strategies include farmers with similar enterprise mixes, scale and agronomic conditions collaborating and pursuing collective buying opportunities to reduce costs and improve efficiency. Similarly, collaborative selling and marketing beyond the farm gate could also deliver producers significant cost savings and added value. Australian farmers also need to measure their performance and focus attention on areas for improvement that offer the best commercial return. They need to ensure that they are integral members of the highest integrity supply chains and should position themselves as 'the food providers that are the most trusted'.

## **Supermarket Challenges and Opportunities for Producers and Shippers: US Experience**

**Roberta Cook, Extension Marketing Economist, Department of Agricultural and Resource Economics**

The United States fresh fruit and vegetable market place has undergone consolidation in recent years, the result being fewer, larger buyers who cater for large retailers. A large proportion of fresh produce is now sold directly by shippers to retailers, bypassing intermediaries and wholesale markets. Transactions in this consolidated market place involve more complex sales arrangements which can include off-invoice fees and also quality, packaging and food safety requirements. More buyers in the food retail industry are moving to seasonal and annual contracts which vary considerably for any given commodity. The foodservice industry is also increasingly purchasing directly from shippers based in production regions. Consolidation of food retail grocery stores has induced consolidation of shippers as firms attempt to match the scale of the few, larger buyers. Shippers are now more market orientated and seek growers willing to make changes necessary to be part of a more tightly controlled, yet geographically dispersed supply chain. Contracts between shippers and producers are typically not fix-priced contracts, and focus on meeting year-round consumer demand. Shippers reduce seasonal supply variation using imported products which has implications for early and late season producers who may permanently face lower average prices. Ultimately producers benefit by marketing through a shipper who can accurately reflect both short and longer-term market signals and can also assemble larger supplies of consistent quality products.

## **Competition Law Developments in Australia Affecting Primary Producers**

**John Martin, Commissioner, Australian Competition and Consumer Commission**

All members of the food supply chain have increasingly been forced to make changes to the way they run their businesses. Pressures arising from rapid changes in electronic and other technology, logistic systems and financial/commercial practices, have led to major changes within supply chains. This has occurred against the backdrop of deregulation of agricultural production and marketing arrangement, more competition in the food supply chain and, in some instances, aggregation of market power. The Australian Trade Practices Act (TPA) and the Australian Competition and Consumer Commission (ACCC) have important roles in these processes. The ACCC encourages farmers and other small businesses to consider the TPA as an important management tool, and to regard compliance with the Act as part of good business practice that leads to success and profitability. The challenge for the ACCC is how, in this deregulated environment, to facilitate fair competition in the marketplace and avoid abuse of inequalities in bargaining power between participants in the supply chain. This paper provides an overview of contemporary competition issues that affect rural industries including proposed legislative reforms following major inquiries into the TPA which will lead to important changes including the treatment of collective bargaining. The paper also refers to ACCC investigations following grower complaints and the ACCC approach to industry codes of conduct.