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30 June 2020

Committee Secretary  
House of Representatives Standing Committee on Indigenous Affairs  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Via email: [IndigenousAffairs.reps@aph.gov.au](mailto:IndigenousAffairs.reps@aph.gov.au)

Dear Committee Secretary

**Inquiry into food pricing and food security in remote Indigenous communities**

I refer to the inquiry into food pricing and food security in remote Indigenous communities. Community Enterprise Queensland (CEQ) is an essential services provider to remote Indigenous communities and welcomes the inquiry. Please find attached CEQ's response to the various terms of reference points.

Should the committee require any further information, CEQ is available to provide further dialogue in a deeper dive into its response and the environment that the essential services are provided within.

[Redacted]

Yours faithfully

[Redacted signature]

Mr Ian Copeland  
Chief Executive Officer  
Community Enterprise Queensland

CORPORATE SERVICE OFFICE FOR:



## **Executive Summary**

CEQ welcomes the recent announcement of an inquiry into food prices and food security in remote Indigenous communities. CEQ as an essential services provider to remote Indigenous communities is at the forefront of providing quality goods and services at an affordable price. CEQ is submitting the below to the Indigenous Affairs Committee for review. Key points are:

- CEQ does operate in remote Indigenous communities, currently with 27 stores;
- CEQ has a strong compliance regime in place;
- CEQ believes that when factors such as freight and other economic and social initiatives are taken into account, pricing is comparable with other non-Indigenous remote communities;
- CEQ undertakes benchmarking against both rural, regional and major retailers;
- CEQ cross subsidises fresh and healthy food with other foods that are not as nutritious;
- CEQ welcomes and supports local production of food – though finds that often these producers struggle with appropriate certification programs;
- CEQ has a supply chain in place to mitigate against wet season impacts, though this does come at a price – up to 5 times road freight rates;
- Any review of prices (and associated alleged gouging) should be holistic in nature taking into account the business, its strategic goals and community service obligations associated with labour.

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## The environment in which Remote Community retailers operate

CEQ provides essential services to some of the most remote and isolated Aboriginal and Torres Strait Islander communities within Australia. CEQ currently provides services through 27 stores from the Torres Strait to Western Queensland to Palm Island east of Townsville.

### *Torres Strait and NPA*

The Torres Strait is a body of water that lies between Australia and Papua New Guinea. It is approximately 150 kilometres wide at its narrowest point. To the south is Cape York Peninsula (the northernmost continental extremity of the Australian state of Queensland) whilst to the north is Papua New Guinea. The Torres Strait links the Coral Sea to the east with the Arafura Sea in the west.

Several clusters of islands lie in the Strait, collectively called the Torres Strait Islands. There are at least 274 islands which are grouped into five distinct clusters, 18 of which have present-day permanent settlements. All permanent settlements bar one, have access to a store. The communities mentioned have a treaty that enables trade practices with Papua New Guinea nationals. CEQ has a store on 15 of the 18 islands.



These clusters exhibit differences in geology and formation, as well as having individual cultural characteristics and language.

Thirteen of the inhabited islands are located within the protected zone, as outlined in the Torres Strait Treaty. The Treaty allows for a cooperative approach to managing the traditional movements of traditional inhabitants across the Torres Strait protected area.

### *Remote Cape and North Queensland Communities*

Like the Torres Strait and Northern Peninsula Area (NPA) region the stores in remote mainland Queensland and Palm Island exhibit differences in geology, cultural characteristics and language.



### *Essential service provision*

All CEQ outlets provide a general range of consumer goods including:

- dry grocery
- chilled grocery
- frozen grocery
- fresh fruit and vegetables
- large and small electrical appliances
- variety and seasonal goods
- fuel (available at 8 sites)
- special orders to meet individual needs.

Note: additional services on Thursday Island include a Mitre 10 (Hardware) Franchise and a major electrical and homewares outlet branded 'Col Jones'.

### *Supply chain*

The supply of goods and services to the channels incorporates a supply chain in excess of 3,000 kilometres with multiple touch (handling) points. This in itself presents significant challenges which are compounded considerably when those services include the supply of fresh, chilled and frozen food.

The supply chain generally involves multiple freight handlers and is quite involved with goods generally travelling first from Brisbane to Cairns by rail (approximately 1,750 kilometres). Goods are then re-palleted or containerised in Cairns.

### *Island Stores*

Pallets and container are shipped to Horn Island (in excess of 1,000 kilometres), where they are reloaded and shipped to landing barges that finally transport the goods to the island stores (up to 300 kilometres). Note – Napranum Store is direct shipping from Cairns and stock is not unloaded at Thursday Island.

Many significant issues further compound the cost of supplying this service, and ensuring that:

- all food products are safe;
- the cold chain for all temperature sensitive products is unbroken;
- the goods arrive in good condition - undamaged by mishandling and uncontaminated by other products that are co-shipped with them and/or by seawater;
- all food products are reasonably date coded to allow for the extended shipping period; and
- fresh food products are reasonably date coded to ensure a supply of fresh product to the communities for the duration between deliveries.

### *Mainland stores*

For mainland stores (excluding Bamaga), there are different supply runs and different challenges than the island stores. In particular, during the wet season the stores at Doomadgee, Kowanyama and Pormpuraaw require essential goods to be freighted in by aircraft. Other stores are by rail and then palletised for trucking to their final destinations. Palm Island is slightly different as the goods are palletised, transported over land and barged (sea freight) to store.

In all instances, Cairns operates as central hub for goods into all stores – excluding any local within community purchases.

Associated freight costs incurred in the transportation are subsequently reflected in product pricing.

In many cases, the CEQ store is the only provider of food on an island or Community. The result of a supply chain failure can be catastrophic as food cannot be delivered to communities. Failure in the supply chain can be caused by such issues as natural disasters – cyclones and floods, breakdowns, king or very low tides preventing supply barges from docking at the islands. Poor port access to some communities further compounds the supply of goods to some communities.

### *Weekly delivery of fresh produce*

CEQ manages the supply chain to ensure that communities receive their fresh produce weekly regardless of any supply chain disruption. Supply chains are established to deliver weekly fresh produce via air freight.

## **The licensing and regulation requirements and administration of Remote Community stores.**

CEQ has in place rigorous process to meet licencing and regulation requirements. This regime includes a compliance program wrapped around:

- Food Safety;
- Workplace Health and Safety; and
- Risk and Audit.

### Food Safety

CEQ has a food safety program designed to ensure that CEQ complies with the requirements of the Safe Food Act 2006 and the Food Safety Standards of the Australia New Zealand Food Standards Code. The program is continually refined and updated as per legislative requirements. Skilled safety professionals (employed by CEQ) provide guidance, support and mentoring to store staff in meeting the Safe Food Act.

All CEQ stores have the same compliance requirements integrated into their operations where appropriate.

### Workplace Health and Safety

As with Food Safety, CEQ takes a very serious approach to Workplace Health and Safety with the appointment of skilled staff within the organisation. These staff are active in the communities providing advice, mentoring and support as well as undertaking audits of both equipment and processes.

### Risk and Audit

The Board of CEQ sets many of the governance requirements of the organisation. It uses a mix of internal and external audit as one tool to inform itself on how risks are being managed in the organisation. Strategic Internal Audit Plans and External Audit Plans are adopted by the Board and such plans and projects are reported on in a systematic manner.

CEQ's function and operations are audited annually by the Queensland Audit Office due to being a statutory body.

## The governance arrangements for Remote Community stores

CEQ is a statutory body established by the Queensland Government. On 1 September 2016, the Governor-in-Council approved amendments to the Aboriginal and Torres Strait Islander Communities (Justice, Land and Other Matters) Act 1984 (the Act). Amendments to the Act included a name change from Island Industries Board (IIB) to Community Enterprise Queensland (CEQ).

CEQ has retained the Islanders Board of Industry and Service (IBIS) as a registered trading name of CEQ. In the marketplace, especially the Torres Strait and Northern Peninsula Area (NPA), CEQ is more commonly known by its trading name 'IBIS'. On 1 May 2017, the State Government transferred management of its operating stores to CEQ. CEQ has rebranded the previous Government / Department stores in consultation with Community with relevant local names under the Aboriginal Business Industry and Service (ABIS) banner.

CEQ has an appointed Board that delivers on the functions as directed by the Act. The Board currently has a membership of 10 persons whom oversee the strategic development of the organisation. CEQ is a registered charity and not for profit with the Australian Charities and Not for Profit Commission and the Queensland Government. The Board is responsible for selecting a Chief Executive Officer whom in turn is responsible for administering the organisation.

The functions of CEQ are:

- (a) *to act as a commercial enterprise for the general convenience or benefit of the residents of the communities in which Community Enterprise Queensland performs its functions;*
- (b) *to provide the communities mentioned in paragraph (a) with access to a range of food, drinks and household items essential for a healthy life at a fair price;*
- (c) *to apply its operating surplus or assets to promote, support and improve its services and the general welfare, including the knowledge and skills, of the Aboriginal and Torres Strait Islander residents of the communities mentioned in paragraph (a).*

*Examples of supporting residents—*

- *encouraging the development of trade, commerce and businesses in the communities*
- *supporting trade, commerce and businesses carried out by residents of the communities*
- *providing support for educational or health initiatives, local organisations and community programs or activities*

Source: *Aboriginal and Torres Strait Islander Communities (Justice, Land and Other Matters) Act 1984*

The Board currently has three sub-Committees with responsibility for Finance, Audit, Risk and Governance, Employment Training and Safety and Community, Public Relations and Marketing.



## **Comparative pricing in other non-Indigenous remote communities and regional centres**

### Benchmarking

CEQ benchmarks its pricing against remote retailers where it can. Benchmarking pricing is generally difficult to undertake due to a number of factors, these being:

- Online pricing information is sporadic at best; and
- Mystery shopping is difficult to undertake in a cost effective manner.

Metcash (a major supplier to CEQ) are providing weekly fresh produce competitive price checks on Coles, Woolworths and IGA. This is through an internal program MYIGA. Pricing is based on the mainstream sites. CEQ uses this information to help inform pricing for its stores.

A regional retailer based in Cloncurry, Queensland does online pricing which CEQ uses to benchmark against. A recent exercise (May 2020) indicates that on a general basket of goods, CEQ is 1.3% cheaper than the same basket in Cloncurry. This same basket benchmarked against Coles indicates that CEQ is 15% more expensive. CEQ undertakes this external benchmarking on a regular basis with all product assessed against recommended retail pricing (RRP).

CEQ offers specials and other incentives in store to help with the cost of living burden in remote communities. These specials equate to approximately \$2M of lost revenue to the business based upon standard price files. This is a genuine saving to the community that shop in CEQ stores.

### Strategic pricing

CEQ is of the view that any review of pricing should be holistic in nature and take into account the strategy and culture of the organisations delivering essential services. For instance from an internal CEQ perspective, pricing is undertaken in a manner which meets CEQ strategic objectives and not-for-profit status.

CEQ's Strategic Plan references a vision which is:

*To be the leader in delivering quality retail and essential services at best value and support economic and social opportunities within Aboriginal and Torres Strait Communities.*

CEQ will deliver this by acting on its mission of:

*Providing essential goods and services to communities through sustainable business practices.*

Key goals of CEQ are to:

- Be sustainable;

- Provide goods and services at affordable prices;
- Promote healthy food choices;
- Ensure culturally appropriate practices;
- Build capacity in communities; and
- Provide local employment opportunities.

CEQ as a registered charity with the Australian Charities and Not-for-Profit Commission has a stated charitable purpose of providing support for educational or health initiatives, local organisations and community programs or activities.

CEQ accepts that other business will price goods according to their own charters and corporate culture.

CEQ through its enabling legislation and as a registered charity has an important role to play in providing fresh healthy products. CEQ can and does use pricing signals to consumers to make healthy options (for example, fresh fruit, vegetables, water) more attractive. CEQ offers these types of goods (fresh fruit, vegetables, water) at reduced margins. In order to remain sustainable other goods need to cover lost revenue within the business.

## **Barriers facing residents in Remote Communities from having reliable access to affordable fresh and healthy food, groceries and other essential supplies**

CEQ delivers fresh food, groceries and essential supplies on a weekly basis in to remote communities. As provided for in the operating environment, it does this through a mixture of rail, road, sea and airfreight. Distance and terrain are key barriers facing residents when seeking to access affordable, fresh and healthy food, groceries and other essential supplies.

At an extreme level, distance and terrain has a flow-on to pricing from a costing perspective. For instance, CEQ operate stores where access is severely restricted often necessitating the use of helicopters in order to continue to maintain a level of service. An example of such is the recent use of this transportation (costing the organisation \$6K for a return trip) to deliver a relief manager to site. Often this mode of transportation is used for maintenance purposes especially associated with freezer repairs. There is no other means of moving staff and resources to site quickly as there is a reliance on monthly high tides for delivery purposes. CEQ's model ensures affordability even in these small stores.

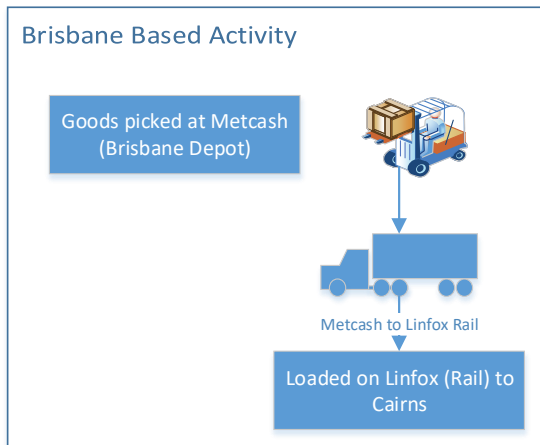
Distance and terrain significantly affect CEQ's ability to improve affordability of goods. A simple flow chart identifies the many touchpoints that are occurred in the delivery of weekly fresh food delivery to CEQ communities. As an example, Metcash (Brisbane) is a major supplier to CEQ and it has been used to illustrate the many different touchpoints (up to 14 in this instance) in moving stock to Thursday Island. Note this example is a simplified view of the delivery to Thursday Island.

The distance involved can have an effect on the freshness of product received in remote locations. For instance, in the example below to Thursday Island, the goods in question can travel for up to 10 days during which they are required to remain at specific temperatures (colloquially known as the 'cold chain') to ensure optimum produce viability. Any deviations in the cold chain can have a disastrous effect on the goods leading to spoiling effectively making the goods not fit for human consumption.

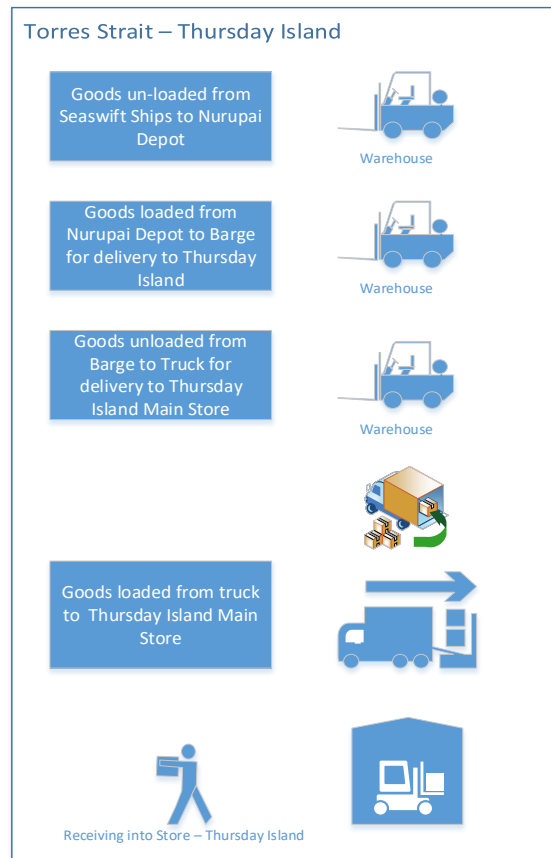
In some instances, CEQ is able to procure fresh produce, dairy and meat from regional centres which are closer to community than major urban centres. This does help with quality and shelf life.

Please see below for an illustration of the supply chain to move goods to Thursday Island.

Each store in the CEQ network has a unique supply chain which is managed individually to ensure that the fresh food is delivered on a weekly basis.



14 material handling points between 1 supplier and a store on Thursday Island.



## **The availability and demand for locally produced food in Remote Communities**

CEQ is an active supporter of locally produced food in its communities. CEQ has a high level strategic outcome of:

*Social and economic responsibility within community*

With a strategic objective of:

*Developing business opportunities with communities for local sustainable enterprise.*

CEQ currently utilises local bakeries for bread where available and has in the past purchased locally grown taro and sweet potato from small sole traders. CEQ did for a time purchase bulk supplies of locally grown hydroponic produce on Nurupai for island resident consumption until that business closed down.

CEQ has met with fishermen from Erub and Ugar Islands with a view to delivering their stock to market.

CEQ's preference is to purchase locally produced food either farmed or wild caught from local business. Difficulties that CEQ has faced in the past dealing with local business include:

- No formal certifications for example Hazard and Critical Control Point (HACCP) certifications on food stuffs;
- Business structures of vendors not being suited commercial trading terms, for example not registered for GST;
- Small business and adherence to labelling requirements; and
- Quantity and quality of supply, for example small quantities and uneven quality.

Note: *CEQ due to its social framework will deal with local sole traders in uneconomic volumes to support local business.*

From an organisation perspective, CEQ is of the firm belief that there is demand for locally produced food in remote communities and CEQ has the ability to provide a channel to market for such goods.

**The role of Australia's food and grocery manufacturers and suppliers in ensuring adequate supply to Remote Communities, including:**

- a. *identifying pathways towards greater cooperation in the sector to improve supply;*
- b. *the volume of production needed for Remote Communities;*
- c. *challenges presented by the wet season in Northern Australia as well as any locational disadvantages and transport infrastructure issues that might be relevant;*
- d. *geographic distance from major centres;*

*Improve supply and volume of production*

Prior to the 'panic' buying that was experienced during the first wave of COVID-19 CEQ had not experienced any lengthy delay in procuring food and grocery items from manufactures and suppliers. CEQ's procurement model uses a mix of major suppliers (e.g. Metcash) and 'direct' suppliers – smaller more locally based supply. During the initial COVID-19 pandemic shortages, CEQ was able to maintain range within its stores as substitutable goods were able to be procured. This mix of supply generally ensures that CEQ is in position to maintain range at its stores.

However, the shortages and out of stocks that were experienced highlighted the effect that major retailers in Australia can have in distorting allocations of goods in regional economies. Whilst CEQ did experience out of stocks on some lines it was able to procure substitutable goods – for example:

- no CEQ store ran out of toilet paper;
- no CEQ store ran out of flour (albeit different lines were introduced e.g. 10kg food service lines); and
- no CEQ store ran out of rice or pasta – alternative brands were available.

In order to achieve the above, CEQ was required to be flexible in its procurement approach. This involved review of suppliers both within the network and utilising new or external suppliers. An example being purchasing direct at retail cost from a major retailer some items and also moving items within the CEQ network (at great cost) to stores in the greatest need, without increasing the sell price.

During the recent pandemic event, it became evident to CEQ that major retailers had distorted the allocation of goods within the economy to large urbanised centres. Rural, remote and regional stores were unable to procure goods that urbanised centres were for a number of reasons. CEQ 'weathered' the initial effects of the recent pandemic event due to its supply chain being up to 18 days in length. CEQ stores generally carry around 4 weeks of stock of staple consumables.

CEQ due to its logistics model is only able to 'pick' goods from major suppliers on a weekly basis – this is due to freight costs. Different bundles of goods picked on different days and freighted accordingly is simply not an economic option for CEQ. Multiple freight runs would significantly impact on the price and affordability of food and substantially affect CEQ's financial sustainability.

### *Challenges presented by the wet season*

In 2018-19, CEQ experienced cyclonic event(s) which affected the remote communities of Lockhart River, Kowanyama and Pormpuraaw. CEQ had the established supply runs that ensured that the communities were not without essential goods and services in the time after the event. Townsville also experienced a catastrophic flood event during the financial year which could have affected supply into Palm Island had CEQ's supply chain not been robust enough to accommodate the event.

During the wet season, CEQ is active in ensuring that communities receive their fresh produce in general flood affected communities. Supply chains are established to deliver weekly fresh goods via air freight. CEQ does not levy increased prices during this time. Therefore, no single community experiences an increase in prices due to cyclones or floods.

The supply chain is maintained in two ways for flood locked communities. During September to December CEQ aggressively procures long lived grocery items for storage on site. CEQ actively maintains at the start of flood season a grocery holding of four (4) to six (6) months onsite at each of its flood prone locations. Trucks continue to supply grocery items for as long as the roads allow for. CEQ also has in place a contract for freight services with a major aviation company. This contract allows for the airfreight of perishable goods on a weekly basis into flood locked communities. Airfreight is approximately five (5) times the cost of road or rail freight.

CEQ does not alter prices during significant events rather budgeting for such and smoothing costs over a financial year. From a pricing perspective, CEQ targets a net return of 1.5% - 2.5% per annum.

### *Geographic distance from major centres*

CEQ's supply chain is in excess of 3,000 kilometres. The distance involved and the number of types of transportation means (rail, road, ship, air) create excessive difficulty in delivering fresh goods to communities with adequate best before or use by dates.

Distribution Centres closer to regional centres (in CEQ's case) northern and far northern would significantly improve quality of goods. However, this in itself would not have a large effect on supply matters unless the entire network is reviewed including the road (flood proofing) and sea network.

**The effectiveness of federal, state and territory consumer protection laws and regulators in:**

- a. supporting affordable food prices in Remote Communities particularly for essential fresh and healthy foods;*
- b. addressing instances of price gouging in Remote Communities; and*
- c. providing oversight and avenues for redress;*

*Price Gouging*

CEQ notes the inquiry is to address instances of price gouging in remote communities. CEQ welcomes this review. From a pricing perspective CEQ prices to remain sustainable. CEQ currently prices to earn a social return in the order of 1.5% to 2.5%. This level of return allows CEQ to manage its balance sheet and fund capital requirements over a 10 year term. CEQ receives no operational subsidy from government. All operating surplus is reinvested back into the community.

CEQ actively works to ensure that prices are smoothed within its business model for a number of reasons including:

- Customers can walk into any CEQ store and be assured that they are paying the same as other customers in other like communities;
- Smaller non-economic stores can provide the same goods and services as other larger stores;

As an organisation CEQ works with local communities and also receives feedback through a variety of mechanisms, not the least being customer surveys on pricing. CEQ has found that there is a lack of understanding amongst the general population on supply side issues and pricing. Due to this CEQ mitigates against risk of media sensationalism on pricing by:

- Not stocking end of season or out of season lines, for example blueberries and raspberries out of season – the price CEQ needs to charge is not considered affordable;
- Not stocking fresh items that may have been affected by seasonal matters – for example, apples and oranges come from bushfire affected communities which significantly affects their 'buy' price;
- Ensuring pack sizes are available which reduce overall freight and handling costs – for example, providing smaller fresh meat packs and small / medium boxes of cereal for customers with smaller families.

Holistic business views

CEQ considers that any review on price gouging should be holistic in nature with a view towards looking at the business as a whole. As previously mentioned CEQ has functional objectives and strategies to provide employment pathways for community.



Retailing in remote communities is much more than just the price of goods. CEQ is embedded in the fabric of community. CEQ is committed to promoting Indigenous employment and at 30 June 2019 had an Indigenous representation figure of 72% based on head count. CEQ actively works with local Indigenous people to view retail as a career and assume senior management roles. This is achieved through investing in staff through training and development, and associated mentoring programs.

Training and education form part of the most significant strategic imperatives of the organisation. This investment, however, does come at a cost due to the remote nature of the communities and the availability of certified trainers prepared to work in these locations. Regardless, CEQ has been successful in promoting local staff to store management and regional management positions.

One of the imperatives of CEQ is for store managers to be able to assume a management role in any organisation. The practices that have been adopted at a store level are those that will be accepted in mainstream retail outlets. This also forms the basis of the mentoring program that has continued to be enacted during the year as part of the succession plan for CEQ.

CEQ invests heavily in training with the current training strategy encompassing Food and Safety Compliance, Risk Mitigation, Employment Compliance and Business Acumen.

CEQ has a unique model of delivery of service. The unique management model implemented in its retail operations at its stores has been in existence for more than ten (10) years. The uniqueness of this model lies not only in local community members managing the grocery outlets but also ensures majority Indigenous staff comprise the staffing mix.

The CEQ model not only guarantees employment opportunities and a subsequent clearly defined career, it also provides a voice for Indigenous people regarding the operations of the business. CEQ provides clearly defined career paths for Indigenous people living in the remote central and northern parts of this country. CEQ's mentoring, training and development model provides existing managers with business acumen and the ability to role model standards and practices for future aspiring store managers.

CEQ had a total 363 staff at the end of the financial year. Permanent staff totalled 128 staff. From an FTE perspective CEQ currently has 222 FTE's.

## Financial Performance

CEQ is a not-for-profit organisation where all surplus is returned to the Community via investment in infrastructure. From a business ratio perspective, CEQ had the following performance at June 2019.

Financial Statement Line	30 June 2019 \$M	% to Turnover
Revenue (sales)	98,132	
Cost of Goods Sold	66,767	68.0%
Employee Expenses	16,062	16.4%
Supplies, Services and Other Expenses	9,313	9.5%
Depreciation, Finance, Impairment Costs	3,532	3.6%
Operating Result	3,521	3.6%
Total Assets – Return on Asset	80,722	4.4%

Note: *Freight accounts for approximately 13% of Cost of Goods Sold.*

From the table, 68% of CEQ's revenue is consumed by Cost of Goods Sold. The next largest consumer of resources in the organisation is labour at 16.4%. This labour figure includes:

- Store staff;
- Mentoring initiatives;
- Training;
- Store quality management; and
- Centralised administration (including procurement).

As can be seen from the table CEQ's pricing delivers a social return to the organisation. This return is used to fund CEQ's capital program which is budgeted at \$69M over the next 10 years (to 2029/2030). In the previous 10 years, CEQ / IBIS has invested \$30M to build new supermarkets increasing capacity and employment.